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Swedish Match®

# 2015 Annual Report



Making  
strides in  
smokeless

# CONTENT

iii	<b>This is Swedish Match</b>
2	<b>CEO comment</b>
4	<b>Swedish Match's business model</b>
6	<b>Global market overview</b>
10	<b>Risks and risk management</b>
12	<b>Swedish Match's business</b>
12	Snus and moist snuff
19	Other tobacco products
22	Lights
24	Scandinavian Tobacco Group
26	<b>Corporate Sustainability</b>
26	Our approach to Corporate Sustainability
35	Regulatory engagement
36	Employer of choice
38	<b>Shareholder information</b>
38	Shareholder communication
40	The share
42	Five year summary 2011–2015
44	Quarterly data 2014–2015
45	Definitions used in financial tables
46	<b>Financial reports</b>
47	Content
48	Report of the Board of Directors
54	Consolidated financial statements
85	Parent Company financial statements
96	Proposed distribution of earnings
97	Auditor's report
98	<b>Corporate Governance</b>
99	Governance report
105	Risk management and internal control over financial reporting
106	Board of Directors
108	Group Management

The formal audited part of this document is on pages 47–97.

# 2015 IN BRIEF

- Sales for the full year increased by 9 percent to 14,486 MSEK (13,305) and by 2 percent in local currencies.
- Operating profit from product areas<sup>1)</sup> for the full year increased by 7 percent to 3,690 MSEK (3,446). In local currencies, operating profit from product areas<sup>1)</sup> declined by 2 percent for the full year.
- From the reporting period ending December 31, 2015, Swedish Match has started to report its share in STG's net profit with a one quarter lag due to differences in reporting schedules between Swedish Match and STG. Due to this, no net profit from STG was recognized for the October–December 2015 period.
- EPS (basic) for the full year amounted to 14.48 SEK (13.23).<sup>2)</sup>

<sup>1)</sup> Operating profit for Swedish Match product areas, which excludes share of net profit in STG.

<sup>2)</sup> Including larger one-time items and share of net profit in STG. The full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. Swedish Match's share of net profit in STG for the first nine months of 2015 includes an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets.

## “ Making strides in smokeless

Much has changed since Swedish Match was listed as a publicly traded company in 1996. Back then, our smokeless tobacco business consisted of chewing tobacco and moist snuff in the US, and snus in Scandinavia. Snus and moist snuff combined were about as big as chewing tobacco in terms of sales, and together, snus and moist snuff accounted for about one-eighth of company sales. Today, Swedish Match is truly a different company with a truly different vision. Dramatically higher sales for snus and moist snuff, an emerging snus business in the US, and opportunities for the introduction and development of traditional and modern forms of smokeless tobacco worldwide are only a few of the phenomenal changes over the years. ”

Lars Dahlgren, President and CEO

### Annual General Meeting 2016

Information regarding the Annual General Meeting, the dividend and the Group's financial calendar for 2016 is presented on page 39.

### Annual Report distribution policy

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

### FOR MORE INFORMATION



Swedish Match Annual Report 2015 is also available as downloadable PDF file at [www.swedishmatch.com/annual-reports](http://www.swedishmatch.com/annual-reports)

For more information on sustainability, please refer to the Company's website at [www.swedishmatch.com/sustainability](http://www.swedishmatch.com/sustainability)



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

# THIS IS

Swedish Match has a vision of a world without cigarettes. The Company develops, manufactures, and sells quality products with market-leading brands in the product areas Snus and moist snuff, Other tobacco products (cigars and chewing tobacco), and Lights (matches, lighters, and complementary products).

Swedish Match provides consumers with the best quality products with well-known brands and works to behave in a responsible way in everything the Company does. Some of Swedish Match's brands include: *General*, *Longhorn*, *White Owl*, *Red Man*, *Fiat Lux*, and *Cricket*.

Production is located in six countries with the majority of Company sales coming from Scandinavia and the US. In Sweden, the Group has an independent distribu-

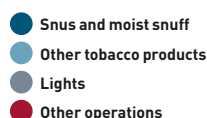
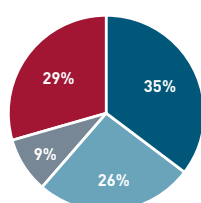
tion company. Swedish Match also has an ownership stake in Scandinavian Tobacco Group (STG).

Sales for 2015 amounted to 14,486 MSEK and the average number of employees was 4,488.

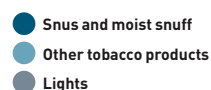
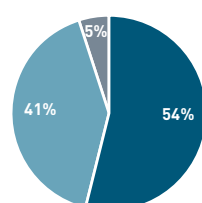
Swedish Match's head office is located in Stockholm, Sweden. The Swedish Match share is listed on Nasdaq Stockholm (SWMA).

## FINANCIALS IN BRIEF

SALES BY PRODUCT AREA



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



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

Key data, MSEK	2015 <sup>1)</sup>	2014	2013
Sales	14,486	13,305	12,610
Operating profit from product areas <sup>2)</sup>	3,690	3,446	3,375
Operating profit <sup>3)</sup>	4,008	3,780	3,855
Operating margin from product areas, % <sup>2)</sup>	25.5	25.9	26.8
Operating margin, % <sup>3)</sup>	27.7	28.4	29.3
EBITDA from product areas <sup>1)</sup>	4,008	3,749	3,650
EBITDA <sup>3)</sup>	4,368	4,083	3,968
Profit for the year	2,803	2,626	2,711
Earnings per share, basic, SEK <sup>3)</sup>	14.48	13.23	13.63
Earnings per share, adjusted, basic, SEK <sup>1)</sup>	14.36	13.23	12.82
Ordinary dividend per share, SEK	8.00 <sup>4)</sup>	7.50	7.30
Special dividend per share, SEK	12.00 <sup>4)</sup>	–	–

<sup>1)</sup> Full year 2015 (excluding share of STG's net profit for the fourth quarter 2015 due to changed reporting) is adjusted for a Swedish Match larger one-time item of negative 42 MSEK (negative 33 MSEK after tax) and STG reassessment of useful lives.

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

<sup>3)</sup> Including larger one-time items and share of net profit in STG. The full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. Swedish Match's share of net profit in STG for the first nine months of 2015 includes an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets.

<sup>4)</sup> Board proposal.

# SWEDISH MATCH

## VISION A WORLD WITHOUT CIGARETTES

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



PASSION



OWNERSHIP

### CORE VALUES



INNOVATION



QUALITY

Swedish Match's core values *Passion, Ownership, Innovation and Quality* are a natural part of the way the Company conducts business and are demonstrated in all relations with stakeholders, both internally and externally.

## STRATEGY

### OPERATIONAL STRATEGY

#### Snus and moist snuff businesses

To achieve our vision we leverage our unique snus and moist snuff platforms of consumer insights, innovation and product quality.

- In Scandinavia, we will continue to develop the snus category. We will defend and strengthen our leading market positions and brands by focusing on product development and consumer satisfaction.
- In the US, we will target the faster growing market segments within moist snuff while further supporting the expansion of the snus category and the *General* brand.
- Outside our core markets, we will continue our efforts to establish Swedish snus and other innovative smokefree products in selected markets.

#### Other businesses

To support our vision and to maximize long term value, we leverage our strong market positions and brands by capitalizing on synergies and operational efficiencies.

- In our cigars business, we will selectively invest in growth segments with an objective to maximize long term profitability and cash generation.
- In our chewing tobacco businesses, we focus on the US market where we will protect profitability by mitigating the impact of volume declines through cost focus and price leadership.
- In our lights businesses, we will continue to focus on operational excellence while selectively investing in profitable growth markets and product segments.
- For STG, we will realize the potential of our holding through active ownership.

### FINANCIAL STRATEGY

- Optimize the balance sheet with a view to maintain a financial leverage consistent with a credit rating similar to S&P's BBB or Moody's Baa2 long term ratings.
- Return excess funds to shareholders through dividends and share repurchases.
- Annually distribute ordinary dividends of 40 to 60 percent of the net profit, subject to adjustments for larger one-time items.

## GOTHIATEK® – THE QUALITY GUARANTOR FOR SNUS

The GOTHIATEK® quality standard for Swedish Match's snus products is a guarantee to consumers that new technology, new methods for analytical testing and other scientific advances are continuously incorporated into manufacturing processes.

The overarching aim is to reduce or eliminate any adverse health effects among consumers of snus by setting and adhering to strict limits for unwanted constituents in finished products.

GOTHIATEK® includes a set of requirements for maximum permissible limits of selected undesired constituents, specific and non-specific to tobacco, in finished products.

>> Read more on page 18.



## PRODUCTS AND BRANDS

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



### SNUS AND MOIST SNUFF

Swedish Match has a market leading position in the Scandinavian snus market. In the US, Swedish Match is well positioned as the third largest snus and moist snuff company. Production units are located in Sweden (snus) and the US (moist snuff).

>> Read more on page 12.



### OTHER TOBACCO PRODUCTS

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

>> Read more on page 19.



### LIGHTS

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

>> Read more on page 22.



## STRONG MARKET POSITIONS

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

#### Snus and moist snuff

Snus Sweden

#1

Share of market



Snus Norway

#1

Share of market



Moist snuff The US

#3

Share of market



#### Other tobacco products

Cigars The US

#3

Share of market



Chewing tobacco The US

#1

Share of market



# Significant steps toward our vision

Swedish Match develops, manufactures, markets and sells high quality products under leading brands, with an aim to deliver sustainable and growing profits to the Company's shareholders. Our vision of a world without cigarettes spells out our long term ambition of how we will achieve this.

By emphasizing products recognized as safer alternatives to cigarettes, we can contribute significantly to improved public health. Our core values of passion, ownership, innovation, and quality help in guiding our behavior and decision making as we work toward our vision, benefiting both shareholders and society.

## Making strides in smokeless

Much has changed since Swedish Match was listed as a publicly traded company in 1996. Back then, our smokeless tobacco business consisted of chewing tobacco and moist snuff in the US, and snus in Scandinavia. Snus and moist snuff combined were about as big as chewing tobacco in terms of sales, and together, snus and moist snuff accounted for about one-eighth of company sales. Today, Swedish Match is truly a different company with a truly different vision. Dramatically higher sales for snus and moist snuff, an emerging snus business in the US, and opportunities for the introduction and development of traditional and modern forms of smokeless tobacco worldwide are only a few of the phenomenal changes over the years. Snus and moist snuff have become increasingly important, now accounting for more than 50 percent of the operating profit of the Company. Competition is fierce, regulations are ever present and ever changing, and consumer and customer demands shift. Swedish Match adapts and thrives. Today, in line with our strategic focus and vision, we are working diligently and enthusiastically to facilitate the trend and goal of a world without cigarettes. Our application to the US Food and Drug Administration (FDA) for a Modified Risk Tobacco Product classification for snus is a clear example of current work towards our vision. Another example is our long term investment in our quality standard, GOTHIA TEK®.

The transformation of the Group continues and in January of this year we took the decision to reduce our shareholding in Scandinavian Tobacco Group (STG) – a world leading cigar manufacturer formed in 2010 in which Swedish Match until recently owned 49 percent. On February 10, 2016, STG was listed on the Nasdaq Copenhagen stock exchange, and Swedish Match ownership was reduced to 31.2 percent. I am convinced that the public offering of STG will be for the benefit of both the new shareholders of STG as well as the existing shareholders of Swedish Match. While we face challenges through product taxation, regulation, and

even the efforts of anti-tobacco organizations, we firmly believe that our vision and path forward are right, with benefits to society, to employees, and to our shareholders.

## A look back at 2015

**For snus in Scandinavia**, both the Swedish and Norwegian markets continued to show good volume growth. While Swedish Match faced intense competition in both Sweden and Norway, company volumes grew in both countries on an underlying basis. One of our objectives this past year was to halt our market share decline in Scandinavia, and I am pleased to note that we have made significant strides in this area. Despite continued share declines in Norway at recent historical levels, our overall share decline in Scandinavia as a whole slowed dramatically. In Sweden, we succeeded in taking market share from competitors in the fast growing value segment, while maintaining our leading position in the premium segment.<sup>1)</sup> By the end of the year, our year on year volume share decline within the total Swedish market was minimal.

**For snus and moist snuff in the US**, the *General* snus brand had good growth in both consumption volumes and market share of the US snus market, and the overall snus market experienced more rapid growth. While distribution during the course of the year remained stable, our market share growth demonstrates the attractiveness of this product – for its taste, its quality, and its benefits versus smoking. We want to build on the growth, and our marketing activities this year have emphasized programs tied to consumer awareness and engagement. Effort has been made also to obtain approval for *General* snus to be classified by the FDA as a Modified Risk Tobacco Product. While we are still awaiting an FDA decision on this, we were very pleased to see that Swedish Match this past year was the first and so far only tobacco company to have received product approvals under the premarket approval process of the FDA. For moist snuff we exhibited solid growth in the fast growing pouch and large pack (tub) segments. We also recorded an improved operating profit from both snus and moist snuff in local currency, aided by both good volumes and higher realized pricing. We are on the right track, and continue to invest behind those areas where we see growth potential for snus and moist snuff.

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

## HIGHLIGHTS

### Q1

- Tax hikes in Sweden and destocking at retail reduced Scandinavian shipment volumes, but underlying consumption was up.
- Cigar volumes rose, driven by natural leaf machine made cigars. Swedish Match gained market share for US cigars.

### Q2

- April launch of *XRANGE*, an innovative snus series within the premium brands, at an attractive price.
- Swedish Match gained market share versus Q1 on the Swedish snus market, and the Company's volume share in Sweden showed more year on year stability.

### Q3

- US cigar volumes up 14 percent year on year, and 9 percent year to date. Volumes on track to be at a record level for the year.
- Swedish Match and Phillip Morris International mutually agree to dissolve joint venture company for international snus. Swedish Match will continue its international efforts.

### Q4

- US cigars achieved record year in volumes, reaching more than 1.2 billion sticks.
- Scandinavian snus shipment volumes increased by more than 4 percent when adjusting for hoarding effects.

**Our US cigar and chewing tobacco businesses**, making up Other tobacco products, had a very good year, with solid growth in local currency. The strengthening of the US dollar further added to the growth in sales and profits in Swedish kronor. Cigars had another record year. During 2015 our cigar volumes grew by 12 percent, to more than 1.2 billion sticks – surpassing the 2014 record. We continued to experience rapid growth in both volumes and share in the growing natural leaf segment. Our *Jackpot* value brand also grew. For chewing tobacco, volume declines were in line with long term trends, and our business performed well. Swedish Match has the market leading premium brand, *Red Man*, and continues to build on its presence in the large size (big bag) segment.

**Our Lights product area** faced challenging conditions, most notably attributable to weak currencies in several key markets, putting pressure on volumes, marketing spending, and profitability. Despite currency and geopolitical pressures, sales for the year were flat, with some sales growth in local currencies for both matches and complementary products offsetting declines for lighters. Operating profit for the product area declined as profit growth for matches could only partially offset a weaker performance for lighters, mainly as a consequence of weaker performance in Eastern Europe.

**On the regulatory front**, there were a number of notable events. Besides the FDA premarket approval of our *General* snus products, we are still awaiting a final decision on our application for Modified Risk Tobacco Product status. The FDA takes into account relative risk of different tobacco products. While we do not know the final outcome of the application, an approval would enable proper communication of information to consumers about the significantly lower health risks of snus compared to cigarettes. The FDA as of this writing has yet to begin regulating cigars. In Europe, with the new European Tobacco Products Directive, the perplexing ban on the sale of snus products within the EU remains in place while chewing tobacco remains allowed. In Sweden and in Norway, where the sale of snus is allowed based on the EU/EEA accession treaties there are advanced discussions with regard to further restrictions on tobacco – including standardized packaging. Swedish Match believes that regulation that fails to take into account the relative risk of different tobacco products is likely to be counter-productive to public health. The tobacco consumption pattern in Sweden, where hundreds of thousands have opted to use snus instead of cigarettes has made a significant contribution

to improved public health as evidenced in a large number of epidemiological studies and scientific reports.

**Sustainability** work for Swedish Match is concentrated in those areas which are most important for the company and our stakeholders. Last year, the Group Management Team spent several sessions with a focus on sustainability issues. In the spring we launched a new Code of Conduct (available on our website) with communication and training throughout the organization. The Code of Conduct defines our standards across several sustainability related topics. We also made good progress in other specific areas like energy saving projects and responsible leaf tobacco purchasing.

**Our financial performance during 2015** recorded growth in sales, and in operating profit. Basic EPS for the year amounted to 14.48 SEK, versus 13.23 SEK previous year. Basic EPS in 2015 did not include earnings for STG in the fourth quarter, due to changes in reporting. For 2015 the proposed dividend is 20.00 SEK per share which consists of an ordinary dividend of 8.00 SEK per share plus a special dividend of 12.00 SEK per share relating to the IPO of STG.

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

Stockholm, March, 2016

Lars Dahlgren  
President and CEO



## Swedish Match adapts and thrives.

Today, in line with our strategic focus and vision, we are working diligently and enthusiastically to facilitate the trend and goal of a world without cigarettes. //





# Right strategy, right people, right products

## ORGANIZATION

With a flexible and innovative approach, Swedish Match always works to have the right strategy, people, competencies, products, and structure in place in order to rapidly meet changing market conditions.

Swedish Match's organization consists of five operating units and the Corporate functions.

**Scandinavia Division** is responsible for the snus business in Sweden and Norway, including development, manufacturing, marketing, and sales. The division is also responsible for expanding into certain new export markets. The Scandinavia Division also manages the supply for the Group's smokeless products outside of Scandinavia, which

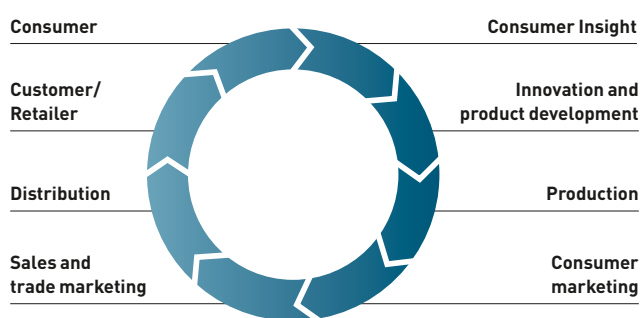
also includes snus, moist snuff, and chewing tobacco sold in the US. In addition, Scandinavia Division is responsible for developing new smokeless products and improving the current product portfolio. Focus is on strengthening the position in the smokeless category and growing the category in Scandinavia through efficient sales processes, marketing activities, and product development as well as expansion into certain new export markets.

**US Division** manages the sales and marketing of snus, moist snuff, and chewing tobacco in the US. The US Division also has the full responsibility for US mass market cigars, including sales and marketing, as well as the supply chain. US Division's

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

**Lights Latin America** manufactures matches and lighters in Latin America and markets the products through its own sales force. The operating unit also sells complementary products sourced from other manufacturers including razors, batteries, high efficiency light bulbs, and tooth picks.

## VALUE CHAIN



**Consumer Insight:** Swedish Match uses a structured consumer insight approach, bringing increased understanding of brands and brand values, consumers, customers/retailers, trends, and competitors. Through consumer engagement, Swedish Match can work to deliver products that meet consumer needs. Consumer insights are most often generated in the various operating units by marketing departments, business development departments, and from customer/retailer and consumer engagement.

**Innovation and product development:** During the product development and innovation processes, factors considered include costs, ingredients, packaging, regulatory issues, time to market, product life cycles, market and volume potential, technological feasibility, and environmental impact. Suppliers and materials to produce the finished product must be readily available, quality levels must be

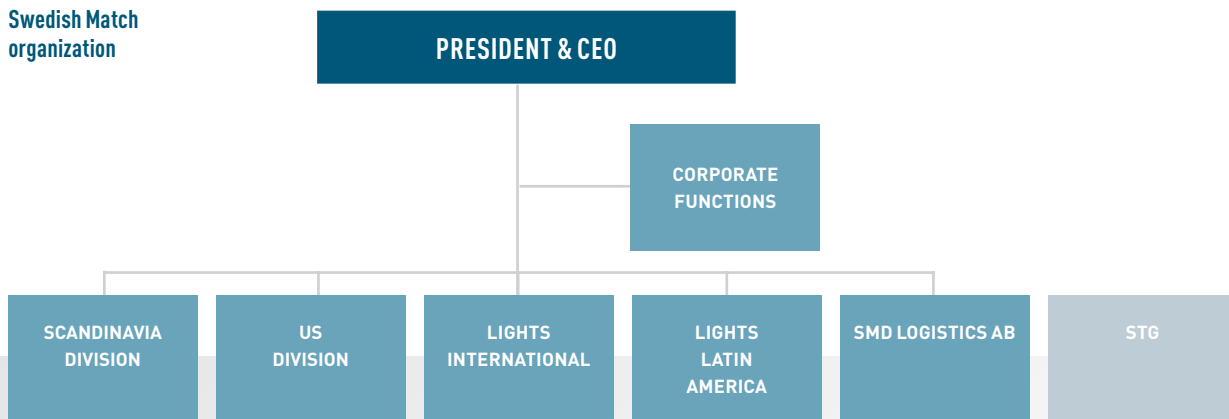
assured and quality standards must be met, throughout the value chain. Suppliers are also expected to maintain high ethical standards. Swedish Match has extensive R&D facilities for snus that work to develop new products and to monitor and improve existing products in line with the Company's GOTHIA TEK® standard<sup>1)</sup>. R&D for all smokeless tobacco products is handled by the Scandinavia Division, in facilities in both Sweden and the US. For lights products and cigars, R&D is generally conducted at the factory level.

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

**Consumer marketing:** Swedish Match is committed to maintaining high standards when marketing with procedures to ensure that the Company meets requirements of all local laws, rules, and regulations. 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



## Swedish Match organization



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

**SMD Logistics AB** distributes mainly tobacco products in the Swedish market. Distribution has taken place from two distribution centers (Stockholm and Gothenburg) to approximately 10,000 stores, offering extensive coverage to the Swedish retail sector. During 2015, the distribu-

tion centers were consolidated into one facility, in Kungsängen. All major tobacco companies in the market are customers of SMD Logistics AB. SMD Logistics AB also distributes Swedish Match's snus products in Norway as well as other products (such as prescription free pharmaceuticals, among others) to the Swedish trade.

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

Swedish Match has an ownership stake in **Scandinavian Tobacco Group** (STG). STG has market leading positions in cigars, pipe tobacco and fine cut tobacco, and Swedish Match aims to realize the full potential of STG through an active ownership.

In mid-2015, Swedish Match and Philip Morris International announced the dissolution of the joint venture company, **SMPM International**, but will continue cooperation during a transition period.

sold, and how to communicate with consumers. Marketing is generally handled at the local or national level, except for international brands, such as for *General* snus or *Cricket* lighters, where some marketing is carried out on a pan-geographic basis.

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

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

**Customer/retailer:** The primary sales channels for Swedish Match products are supermarkets, convenience stores, tobacconists, and gasoline stations. Other channels include bars, restaurants, airports,

and ferries. Consumer prices are typically set by retailers. Swedish Match's sales representatives work closely with customers/retailers to optimize their business in selling Swedish Match's products to consumers. Snus is typically merchandised from coolers, and all of the Company's tobacco products have attributes and packaging that provide long lasting freshness. Customers/retailers are responsible for ensuring that all tobacco products are only sold to those who can legally purchase them. Swedish Match believes that no one under the age of 18 should be allowed to purchase tobacco, and supports retailers' efforts to demonstrate their endorsement of the Swedish Match *Under 18, No Tobacco* principle and in Sweden, this principle is strengthened through its *Under 18, No Snus* communication.<sup>2)</sup>

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

<sup>1)</sup> For more information about GOTHIA TEK®, see [www.swedishmatch.com/GOTHIA TEK](http://www.swedishmatch.com/GOTHIA TEK).

<sup>2)</sup> For more information about the *Under 18, No Tobacco* principle, see page 33.

# Snus and moist snuff – drivers of smokeless growth

**Swedish Match actively develops and sells smokeless tobacco products in supporting its vision of a world without cigarettes.**

Smokeless tobacco products primarily include snus, moist snuff, various forms of chewing tobacco, as well as niche products, such as dissolvables and nasal tobacco. Smokeless tobacco is a small but growing tobacco category compared to cigarettes, and is consumed in many parts of the world in different types and formats.

In Scandinavia, the dominant form of smokeless tobacco is snus. In Sweden, for example, the number of snus users has been growing and has surpassed the number of cigarette users.<sup>1)</sup> In the US, snus is a small but growing segment, while the dominant forms of smokeless tobacco are moist snuff and chewing tobacco. In other parts of the world, such as in India and certain countries in Africa and Asia, local variants of oral and nasal smokeless tobacco products are consumed in relatively large volumes. In the European Union (EU) and certain other countries, snus and other oral tobacco products not intended to be chewed or smoked are prohibited, while chewing tobacco products are allowed to be sold.

Large global tobacco companies rely on cigarettes for the bulk of their revenues and profits, and cigarettes account for roughly 90 percent of all tobacco consumed globally.<sup>2)</sup> Swedish Match does not produce cigarettes, however. Generally, cigarette consumption has been declining over the past decade in most developed countries, while in many emerging markets, cigarette consumption has continued to increase.<sup>2)</sup> Other smoking products sold globally include

fine-cut and roll-your-own tobaccos, cigars, and pipe tobacco. Recently, there has been an emergence of the e-cigarette category in certain markets which generally contain nicotine but no tobacco.

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, production, product availability, packaging and labeling, consumer pricing, and location of use.

## SHORT FACTS

- The global tobacco market is composed of smoking tobacco products, such as cigarettes, cigars, and pipe tobacco, and smokeless tobacco products, such as, snus, moist snuff, and chewing tobacco.
- The largest segment is cigarettes, accounting for roughly 90 percent of all tobacco consumed globally.
- Smokeless tobacco is a small but growing category compared to cigarettes.
- In Scandinavia, the dominant form of smokeless tobacco is snus. In Sweden, for example, snus consumption has continued to grow which to a large extent explains the decline in the use of cigarettes. Medical consensus recognizes Swedish snus manufactured according to the GOTHIA TEK® standard as a safer alternative to cigarettes.

<sup>1)</sup> Source: Ipsos Sweden, Market Report, 2015.

<sup>2)</sup> Source: Euromonitor.

## TRENDS

The global tobacco market is undergoing a significant shift in consumption trends, most notably away from cigarettes. Tobacco restrictions and regulatory oversight are becoming more widespread for products beyond cigarettes. Adjacent product categories to cigarettes have grown in focus and importance to meet consumer needs. Many of these product categories deliver nicotine without inhaled and combusted tobacco. Examples in these categories include snus, moist snuff, e-cigarettes and other vaping products, “heat-not-burn” tobacco products, and non-pharmaceutical nicotine containing products.



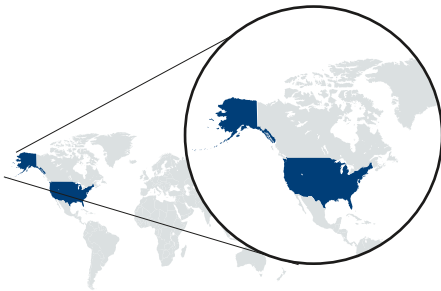
*Educating consumers about snus and its less harmful health characteristics compared to cigarettes is key to help build category awareness and brand loyalty in both the US and Sweden. One example is Swedish Match's snus stores in Sweden where consumers can learn about Swedish Match's snus manufactured according to the GOTHIA TEK® quality standard.*

## SNUS IN 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 smokeless tobacco products, including Asian/African types, chewing tobacco and nasal snuff can all be legally sold within the EU.

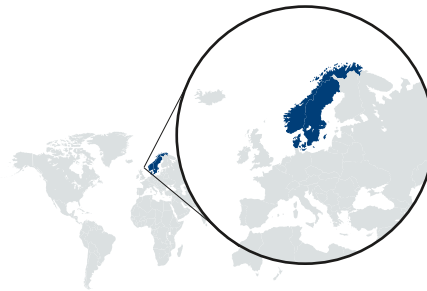


## Regional differences for smokeless products



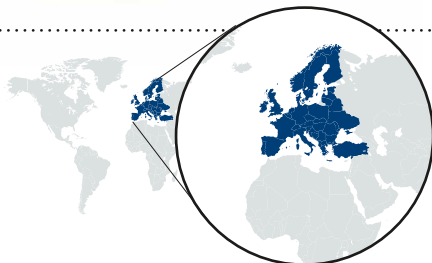
### The US

In the US, the dominant form of smokeless tobacco is moist snuff. Moist snuff has its origins from Scandinavian products brought over by immigrants. The majority of moist snuff is consumed in the traditional loose format, although consumption of moist snuff in pouch format has increased rapidly in recent years. Snus is a small and relatively new product category. Chewing tobacco consumption is in a long term state of decline but this category nevertheless remains a significant segment of the US smokeless tobacco market.



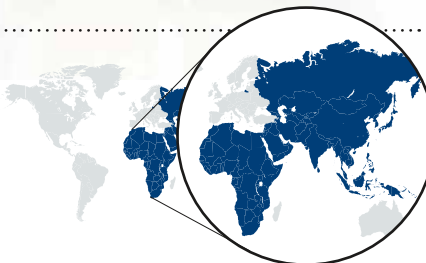
### Scandinavia

In Sweden, smokeless tobacco consumption has a long tradition, with snus being the dominant form. Today, there are more snus users than cigarette users in the country. In Norway, the transformation from a small traditional market to a well-known market with a high level of penetration has been rapid, occurring over the past 15 years. Snus is banned in Denmark as in the rest of the EU (with Sweden exempted). In certain North European markets, such as in Denmark and Finland, there are historical ties to snus.



### Europe

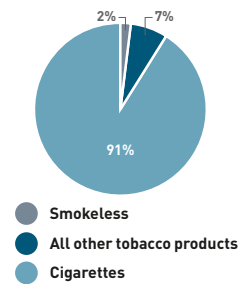
In Europe, smokeless tobacco traditionally has been consumed as a chewing tobacco product or as nasal snuff. Today, these smokeless product categories are very small. Tobacco products for oral use except those intended to be smoked or chewed are banned within the EU (such as snus) while chewing tobacco, nasal snuff, and certain other smokeless tobacco products are still allowed to be sold. In certain European countries, most particularly in central Europe and in the alpine regions, smokeless products enjoy greater use.



### Asia and Africa

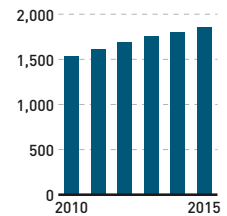
Swedish Match is generally not present in this region. Local variants of other oral and nasal smokeless tobacco products are consumed in relatively large volumes in certain countries. In Asia, local chewing products include products such as gutkha and zarda in India, and tobacco mixed with betel, for example in Indonesia. In North Africa, chemma is a widely used product. These types of products in Asia and Africa, unlike snus, often contain significantly higher levels of certain undesired compounds.

GLOBAL TOBACCO MARKET (VALUE)



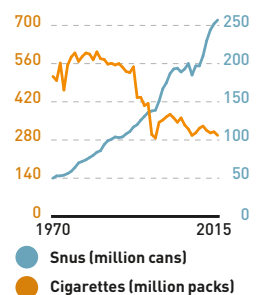
Smokeless tobacco is a small tobacco category compared to cigarettes.

SNUS AND MOIST SNUFF IN SCANDINAVIA AND THE US 2010-2015 (VOLUME, MILLION CANS)



Consumption of snus in Scandinavia as well as snus and moist snuff in the US has been growing in recent years.

TOBACCO CONSUMPTION IN SWEDEN 1970-2015 (VOLUME)



In Sweden, snus consumption has been growing rapidly while cigarette consumption has been declining.



# Swedish Match's markets

## Snus in Scandinavia

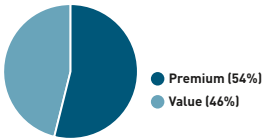
The Scandinavian snus market is estimated to have amounted to slightly more than 360 million cans in 2015, up by approximately 5 percent from previous year.<sup>1)</sup> Over the past several years, consumption has been moving from traditional loose products to pouch products, which at the end of 2015 accounted for nearly 80 percent of volumes in Scandinavia.<sup>2)</sup>

**Market position**  
Number 1 in Scandinavia

# #1

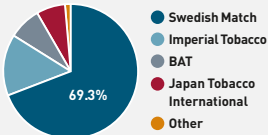
### Segment

SNUS CONSUMPTION BY PRICE SEGMENT - SWEDEN<sup>1)</sup>

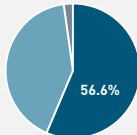


### Competition

SWEDEN<sup>1)</sup>



NORWAY<sup>1)</sup>

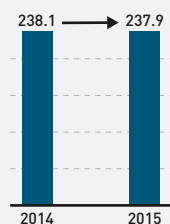


### Main brands

Sweden: *General, Göteborgs Rapé, Ettan, Grov, Catch, Kaliber, Kronan, XRANGE snus series*  
Norway: *General, General G.3, Nick & Johnny, The Lab*

### Shipment volumes (million cans)

SNUS



<sup>1)</sup> Swedish Match estimates of can volume using Nielsen data (excluding tobacconists), 1 January – 27 December, 2015.  
<sup>2)</sup> Swedish Match estimates.

## Snus and moist snuff in the US

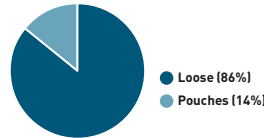
The moist snuff market in the US is highly competitive and volumes are concentrated in the southern and mid-Atlantic states. In 2015, the market is estimated by Swedish Match to have grown by 2–3 percent, to nearly 1.5 billion cans, with the pouch segment growing more rapidly than the overall market and now accounting for more than 14 percent of this market segment. The snus market segment is relatively new and still accounts for a very small proportion of the overall snus and moist snuff market.

**Market position**  
Number 3 in the US

# #3

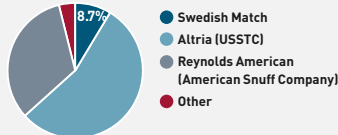
### Segment

MOIST SNUFF CONSUMPTION BY FORMAT<sup>1)</sup>



### Competition

MOIST SNUFF IN THE US<sup>1)</sup>

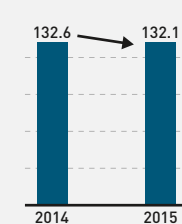


### Main brands

Moist snuff: *Longhorn, Timber Wolf*  
Snus: *General*

### Shipment volumes (million cans)

MOIST SNUFF



<sup>1)</sup> Swedish Match and industry estimates, full year 2015, on a can equivalent basis.

## Snus in other markets

Through the joint venture company SMPM International, Swedish Match has test marketed snus in a number of markets, including Canada, Malaysia, Israel, and Russia. Following the dissolution of SMPM International, Swedish Match continues its market testing internationally.



General is the world's largest brand for snus.

## Cigars in the US

Swedish Match estimates that the US mass market cigar market grew by more than 5 percent in volume terms in 2015 and is equal to or slightly more than 6 billion cigars excluding little cigars<sup>1)</sup> (a segment in which Swedish Match does not participate). The market is highly competitive with extensive activity for lower priced and promotional products. In addition to participating in the homogenized tobacco leaf segment, Swedish Match participates in the natural leaf segment, a smaller but growing segment in which the Company holds the leading position.

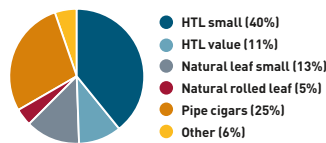
### Market position

Number 3 in the US market for mass market cigars

# #3

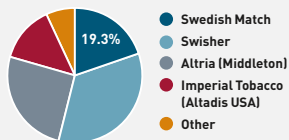
### Segment

CIGAR SEGMENTS<sup>2)</sup>



### Competition

US MASS MARKET CIGARS<sup>2)</sup> (EXCLUDING LITTLE CIGARS)

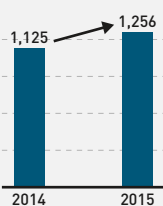


### Main brands

*Garcia y Vega, Game by Garcia y Vega, 1882, White Owl, Jackpot*

### Shipment volumes (million sticks)

CIGARS



<sup>1)</sup> Little cigars are typically filter tipped and packaged in packs of 20 (similar to cigarette packaging).  
<sup>2)</sup> Swedish Match and industry estimates, full year 2015.

## Chewing tobacco in the US

The US chewing tobacco market is in a long term state of volume decline. It is estimated that the market declined by approximately 7 percent in 2015. The industry must continuously strive to reduce costs and address pricing in order to maintain profitability in this market. One area of growth however has been for products sold in a larger bulk pack format, often called 'big bags'.

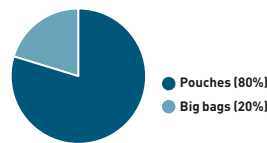
### Market position

Number 1 in the US

# #1

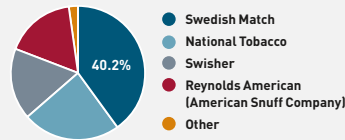
### Segment

CHEWING TOBACCO SEGMENTS<sup>1)</sup>



### Competition

CHEWING TOBACCO<sup>1)</sup>

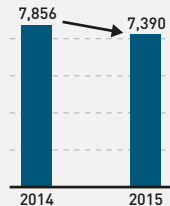


### Main brand

*Red Man*

### Shipment volumes (thousand pounds)<sup>2)</sup>

CHEWING TOBACCO



<sup>1)</sup> Swedish Match and industry estimates, full year 2015.  
<sup>2)</sup> Excluding contract manufacturing.

## Lights worldwide

Traditionally, match products have been used for a variety of occasions, including for stoves, ovens, candles, and smoking products, while lighters are generally used in conjunction with cigarette smoking. More recently, these match and lighter categories have expanded their assortments to include such items as utility lighters and fire logs. The market for traditional match products has been declining in most markets over the past decade while lighter use has shown growth in some markets, most notably in Asia.

### Market position

Strong presence in Africa, Australia, Brazil, Europe, New Zealand, and parts of Asia



### Competition

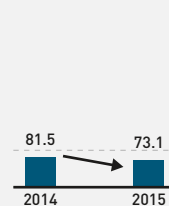
Match competition varies widely between markets. Lighter competitors include Bic, Tokai, Flamagas, and a number of other smaller manufacturers.

### Main brands

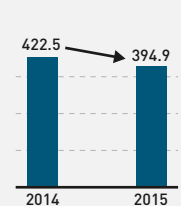
Matches: *Solstickan* (Sweden), *Swan Vestas* (UK), *Tres Estrellas* (Spain), *Fiat Lux* (Brazil), *Feodor* (France), *Redheads* (Australia).  
 Lighters: *Cricket* (globally).

### Shipment volumes

MATCHES<sup>1)</sup>



LIGHTERS<sup>2)</sup>



<sup>1)</sup> Billion sticks.  
<sup>2)</sup> Million units.

# Managing risks

## – an important part of conducting business

**Swedish Match focuses on understanding the risks to which the business is exposed. To create the highest shareholder value and be a sustainable and socially responsible company, Swedish Match needs to manage risks efficiently.**

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

Swedish Match applies a systematic risk management model, which includes risk reviews as well as loss prevention, continuity planning, crisis management and insurance programs.

The Swedish Match Board of Directors determines the Company's strategic plans and associated risks based on recommendations from the Group Management Team. The Board of Directors oversees the Company's risk management processes, and is on a recurring basis informed about the existing and emerging risks as well as on related mitigation activities. Each unit is responsible for managing the risks associated with their plans, and if required, coordinating risk management activities with other units. Appropriate competencies in the organization and governance structure with clear responsibilities set the prerequisites for risk management at the local level. The Code of Conduct further ensures an organizational culture that helps to prevent taking those risks deemed to be unacceptable.

To efficiently manage risks, existing and potential risks need to be known, and Swedish Match strives to establish a broad understanding among its employees of the concepts and importance of risk management. Employees in all parts of the organization are encouraged to identify and report events and circumstances which are indications of risks. Existing and potential risks are regularly discussed within different operating unit management teams and the Group Management Team.

Annually, as part of the strategic planning process, a review is conducted to assess the major risks to which the Company is exposed. This review and assessment helps to ensure that appropriate actions are taken, thereby helping to reduce and prevent undesired risks. These risks are closely monitored. Strategies are developed to manage new or changed risks. Risk responses are either risk avoidance, risk reduction, risk sharing or risk acceptance.

### **RISK AREAS**

**Important risks to address arise in the areas of production, competition, and regulation among other areas.<sup>1)</sup>**

#### **Production**

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

reduce risk. The purpose of the continuity planning is to minimize any negative impact of an incident.

A loss of a key supplier or a supplier's non-compliance with regulations or unethical behavior could be harmful to the Company. Certain major suppliers of production inputs are reviewed by the procurement departments with many, such as for tobacco sourcing, on an annual basis. The suppliers' own financial stability and risk management systems are an important consideration for Swedish Match. As a complement to the internal reviews, an independent third party conducts risk inspections at critical suppliers. In order to

<sup>1)</sup> More information on risks can also be found in the Report of the Board of Directors and financial risks are presented in Note 25 Financial Instruments and financial risks to the Group Consolidated Financial Statements.





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

help to ensure that suppliers have high ethical standards, a specific Supplier Code of Conduct has been developed which Swedish Match strives to include in contractual agreements with significant suppliers.

#### **Competition**

Swedish Match operates in highly competitive markets, which requires an agile organization in an ever changing environment. Swedish Match continuously monitors the competitive environment and assesses changing consumer needs. To meet these consumer needs, the Company conducts extensive consumer and market

research. This research forms the basis for product development and ensures consumers are offered high quality products that meet their needs.

#### **Regulation**

Swedish Match is exposed to a high degree of regulation from different authorities. Regulations, many related to the Company's involvement in the tobacco industry, concern among other issues, tobacco excise taxes, marketing, warning label requirements, ingredients, reporting to authorities, and introduction of new products. Many authorities have and continue to implement various forms

of restrictions on sales and usage of tobacco products. Swedish Match closely monitors the development of tobacco regulation and regularly shares information and opinions with governments and other regulatory agencies on issues that affect the Company's operations.

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

# Higher volumes in growing markets

In both Scandinavia and the US, the markets for snus and moist snuff are growing, and Swedish Match participates in that growth by offering a broad range of high quality products with well-known brands. With underlying volume increases of 5 percent or more in Scandinavia, and 2–3 percent in the US, the snus and moist snuff markets provide solid growth potential. In Sweden, market growth for snus was driven by value priced products. In the US, Swedish Match primarily sells moist snuff but has expanded rapidly in the snus category – both of which have demonstrated market growth.<sup>1)</sup>

## Strategy

One way to help achieve the vision of a world without cigarettes is to provide consumers enjoyable alternatives that are both satisfying and less dangerous. Both Sweden and Norway have demonstrated that over time, as snus consumption grows, cigarette consumption declines. This migration from cigarettes to snus, which is recognized as a less dangerous alternative to smoking, has been dramatic in both countries. Swedish Match is dedicated to further developing the growing snus category and thereby contributing significantly to improved public health.

One of the Company's major competitive strengths is its ability to quickly adapt to evolving consumer needs, offering new and innovative high quality products with both well established and new brands, analyzing the needs of consumers, conducting research, and servicing customers.

Swedish Match will leverage its unique Snus and moist snuff platform, and continue to innovate and develop new and improved products with outstanding quality and value. Swedish Match will endeavor to drive category growth and maintain its leading position in Scandinavia. It will also work to develop the snus category in the US and establish a strong presence in the market, to build on the Company's position in the US moist snuff market, and to explore opportunities for Swedish snus and smokeless products in markets outside of Scandinavia and the US.

## Financial development

Sales for the product area during the year increased to 5,090 MSEK (5,001). Operating profit for the year declined by 6 percent to 2,071 MSEK (2,207). In the Scandinavian market, Swedish Match's sales declined, negatively impacted by trade destocking in the beginning of the year following trade hoarding in December 2014 as well as negative price/mix effects. In the US, Swedish Match's snus and moist snuff sales increased in local currency.

The operating margin was 40.7 percent (44.1) for the year. The operating margin was impacted by, among other things, geographic mix changes, currency movements, and spending behind Swedish snus expansion projects in both the US and internationally.



Snus product news in 2015:  
The new innovative snus series XRANGE within the premium brands in Sweden has quickly established a significant market presence. Mustang was a new product in the value price segment on the Swedish market and Nick & Johnny Green Ice was launched in Norway.

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





## Consumer oriented product development at Swedish Match.

Swedish Match's product development starts with extensive and continuous surveying of consumer preferences. These preferences can be shown through statements or being unspoken, even through passive responses, and differ between geographical areas and between different consumer segments. New insights into consumers' needs are used in actively creating ideas; ideas for potential technical solutions that can bring our products closer to the consumer's ideal product. Development paths such as increased discretion and better snus experience are two typical areas for our development. Snus is not yet a fully developed mature product despite its longstanding presence. There is still great potential to develop further. For this reason we are gradually increasing our focus on innovation. //

Joakim Tilly,  
President Scandinavia Division

### SNUS IN SCANDINAVIA

Swedish Match is the leading snus company in Scandinavia and enjoys strong market positions in both Sweden and Norway. In Sweden, *General* is the largest brand in the premium priced segment, while *Kronan* and *Kaliber* are among the leading brands in the value priced segment.<sup>1)</sup> In Norway, *General* is the largest

Swedish Match brand on the market. In addition to its traditional snus products, Swedish Match offers the number one brand in the non-tobacco segment in both Sweden and Norway with *Onico*, providing consumers with a high quality nicotine free alternative.

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



## Market

The Scandinavian snus market is estimated to have amounted to slightly more than 360 million cans in 2015, up by approximately 5 percent from previous year.<sup>1)</sup> Over the past several years, consumption has been moving from traditional loose products to pouch products, which at the end of 2015 accounted for nearly 80 percent of volumes in Scandinavia.<sup>2)</sup>

Swedish Match's Scandinavian shipment volumes measured in number of cans, were flat, while underlying volumes (excluding hoarding and year-end calendar effects) are estimated to have increased by more than 2 percent. Volumes increased in both Sweden and in Norway.

Sweden is the largest snus market in Scandinavia with approximately one million consumers.<sup>3)</sup> It is estimated that some 20 percent of Swedish men use snus on a regular basis. The overall percentage of women using snus is lower than for men.<sup>3)</sup>

The Swedish snus market is estimated by Swedish Match to have grown by close to 5 percent in volume terms in 2015 versus prior year. The growth of the Swedish snus market was driven by the value priced segment which for the full year represented approximately 46 percent of the market. The premium segment of the Swedish market demonstrated improved volume trends during 2015 following years of more substantial declines, with support coming from the new *XRANGE* snus series introduced by Swedish Match during the spring.

In Sweden, Swedish Match's market position is strongest in the premium priced segment. This segment has declined as a share of the total market but the volume decline has mitigated considerably in 2015. Within the value priced segment of the Swedish market, competition remained intense during the year, but Swedish Match strengthened its position in this segment and increased its market share to slightly more than 41 percent by year-end.

In Norway, the snus market volume has grown by more than 20 percent over the past three years and by approximately 7 percent in 2015 versus the prior year.<sup>1)</sup> Swedish Match's market share in volume terms in this market is estimated to have declined by somewhat more than 3 percentage points.<sup>1)</sup>

## Highlights in Scandinavia

During 2015, Swedish Match made significant progress in improving its market share trends in the Swedish market while taking steps to address market share declines in Norway.

In Sweden, Swedish Match successfully defended its strong position in the premium segment, despite efforts by competition with new products. Swedish Match's well-known brands and quality were once again highlighted with improved new line extensions and packaging. The launch of *XRANGE*, a snus series of innovative products offering premium brands at an attractive price, has performed well, drawing consumers from both higher and lower priced products, and has helped to stabilize volumes for premium brands. In the highly competitive value priced segment for pouches, the *Kaliber* brand maintained a strong position during the year, while the *Kronan* brand, following a price repositioning in 2014, increased its share and volumes within the segment. In September, Swedish Match further supported its position in the value segment by offering a new range of products under the *Mustang* brand.

In Norway, Swedish Match introduced new products and extended its product assortment to address a challenging competitive situation. The Company launched line extensions under the *General G.3* range, with functional properties such as a soft fit,

minimal drip and a long-lasting snus experience. In addition, new products under the *Nick & Johnny* and *The Lab* brands were introduced. Volumes for loose snus in Norway, a segment in which Swedish Match has a particularly strong position, declined, which contributed to overall share declines for Swedish Match.

During the year, Swedish Match also expanded its snus store concept in Sweden. The Swedish Match snus stores provide a unique consumer experience, where snus users can learn more about snus and the Swedish Match range of products. Starting with a shop in the center of Stockholm at the end of 2012, the concept was expanded to include Swedish Match snus stores in Strömstad and Gothenburg.

## Tobacco taxes

In January, 2015, Swedish excise taxes on snus were raised by 12 percent, with a higher percent increase on snus than for cigarettes. In January, 2016, Swedish snus excise taxes were virtually unchanged. In Norway, the excise tax on snus was raised by 2 percent in January, 2015, and by 2 percent on January 1, 2016.

## NOTABLE ACHIEVEMENTS 2015

### • FDA

The US FDA issued orders allowing Swedish Match to market new tobacco products under the *General* snus brand through the pre-market tobacco application (PMTA) pathway – the first PMTA approval by the FDA for any tobacco company.

### • Full range assortment of snus products on the Swedish market enhanced by new product lines

Swedish Match launched the *XRANGE* and *Mustang* lines of products on the Swedish market, helping to both stabilize the premium segment of the market, and to further strengthen the Company's market position in the value segment.

### • Dedicated efforts supporting the vision of a world without cigarettes

Swedish Match further strengthened its presence in the small but growing snus category in the US with its *General* brand, and has continued to test and market snus in markets outside of Scandinavia and the US following the dissolution of the SMPM International joint venture.

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

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

<sup>3)</sup> Ipsos Sweden, Market Report, 2015.

## SNUS AND MOIST SNUFF IN THE US

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

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

### Market

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

In 2015, the US moist snuff market is estimated by Swedish Match to have grown by 2–3 percent, and amounted to nearly 1.5 billion cans, with the pouch segment accounting for more than 14 percent of this market. Swedish Match's volume measured in number of can equivalents was flat compared to last year, but experienced solid volume growth for pouch and tub (large pack) products. For the full year 2015, Swedish Match estimates its market share by volume to have declined slightly from 2014.

The US snus market is growing but is still quite small and amounted to approximately 50 million cans in 2015. This segment's potential for growth is strong, as snus which is primarily a pouch category, may appeal to a wider segment of the adult tobacco consuming population. Snus is a discrete, spitless alternative to cigarettes and other tobacco products.

### Highlights in the US

The premium priced segment of the moist snuff market declined in 2015, while the value priced segment grew.<sup>1)</sup> There was continued intensive competitive activity among large competitors, especially in the value segment. While Swedish Match's volume and market share declined for its higher priced brands in the value segment, the Company has strengthened its position in the growing value priced segment with its *Longhorn* brand, as well as for its pouch products in that rapidly growing segment.

While more than 85 percent of moist snuff in the US is sold in the traditional loose format<sup>1)</sup>, over the past several years, the percentage of moist snuff sold in pouches has increased. Swedish Match estimates the growth in the pouch segment to have been approximately 10 percent in volume terms in 2015. The Company experienced growth in both volume and market share for its pouch assortment, and its percentage volume growth for both its pouch and tub products outpaced those segments of the market.

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

*Moist snuff products Longhorn and Timber Wolf, are Swedish Match's brands in the rapidly growing pouch and tub product (large pack) segments. Awareness of Swedish snus and the snus brand General has increased in the US market.*



Swedish Match continued its efforts behind Swedish snus in the US market and there were significant investments during the year to support the expansion of snus. In the US, the Company markets the *General* snus brand – an authentic Swedish snus, available in tobacconists, convenience, and other select stores. The trends for *General* snus are encouraging and in 2015 investments have been increasingly directed toward brand development and consumer engagement activities.

During 2014, Swedish Match submitted a Modified Risk Tobacco Product (MRTP) application to the US Food and Drug Administration (FDA) for products within the *General* snus portfolio. The MRTP application seeks a risk modification order permitting the use of warning label statements on the Company's snus tobacco products that differ from those carried by other commercially marketed smokeless tobacco products. A decision by the FDA is expected during 2016.

In 2015, the Company continued its test of a non-tobacco nicotine pouch product under the brand name ZYN<sup>NT</sup>.



Production of General snus at the Kungälv factory in Sweden.

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## SNUS OUTSIDE SCANDINAVIA AND THE US

The joint venture company, SMPM International, test marketed snus in a selected number of stores in Canada using the *General* snus brand. SMPM International also test marketed snus in Malaysia, Israel and Russia.

On July 16, 2015, Swedish Match and Phillip Morris International announced the dissolution of the joint venture company. The companies continue cooperation during a transition period. Swedish Match sees good opportunities for its snus products over the longer term and will continue its market testing internationally using its own brands.



## FACTS AND FIGURES

### SNUS AND MOIST SNUFF HIGHLIGHTS

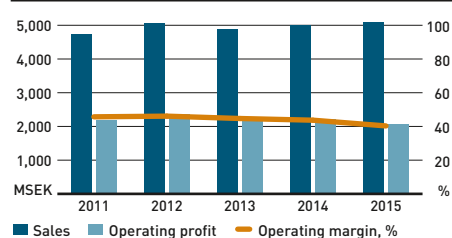
- Scandinavia underlying shipment volumes increased by 2 percent, adjusted for prior year hoarding effects.<sup>1)</sup>
- Swedish Match's share of the Swedish snus market ended 2015 only slightly below the year earlier level.
- Solid volume growth for Swedish value priced product range.
- Volume growth for the largest Swedish premium brands – General and Göteborgs Rapé.
- US moist snuff sales increased, driven by higher average price per can.
- General snus further strengthened its number two position in the US with volume growth well above the market growth rate.<sup>1)</sup>

<sup>1)</sup> Versus full year 2014.

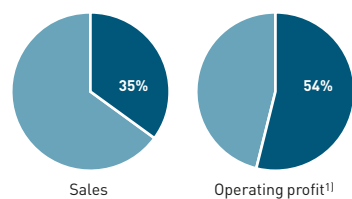
Key data, MSEK <sup>1)</sup>	2015	2014	2013
Sales	5,090	5,001	4,868
Operating profit	2,071	2,207	2,195
Operating margin, %	40.7	44.1	45.1
Investments in property, plant and equipment	164	127	169
Average number of employees	1,087	1,050	1,091

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

#### Sales and operating profit



#### Share of Group total



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

### SNUS IN SCANDINAVIA

#### Main brands:

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

**Norway:** General, General G.3, Nick & Johnny, The Lab

#### Swedish Match shipment volumes and market shares

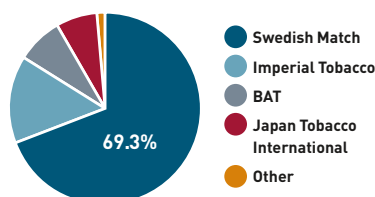
Shipment volumes (millions of cans)	2015	2014	Change, %
Snus, Scandinavia	237.9	238.1	0

Market shares (percent) <sup>1)</sup>	2015	2014	Change, pts
Snus, Sweden, total	69.3	70.5	-1.2
Snus, Sweden, premium	94.2	94.9	-0.7
Snus, Sweden, value	39.1	36.3	2.8
Snus, Norway, total	56.6	60.1	-3.5

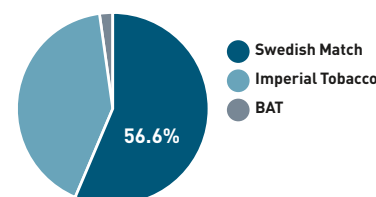
<sup>1)</sup> Source: Swedish Match estimates of can volume using Nielsen data (excluding tobaccoconists), 1 January – 27 December, 2015.

#### COMPETITION – SNUS IN SWEDEN



Source: Swedish Match estimates of can volume, using Nielsen data (excluding tobaccoconists) 1 January – 27 December, 2015.

#### COMPETITION – SNUS IN NORWAY



Source: Swedish Match estimates of can volume, using Nielsen data (excluding tobaccoconists) 1 January – 27 December, 2015.

### SNUS AND MOIST SNUFF IN THE US

#### Main brands:

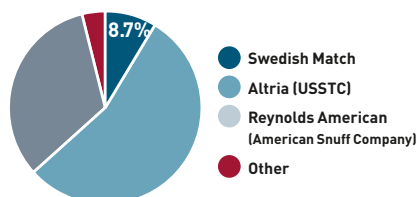
**Moist snuff:** Longhorn, Timber Wolf

**Snus:** General

#### Swedish Match shipment volumes

Shipment volumes (millions of cans)	2015	2014	Change, %
Moist snuff, US	132.1	132.6	0

#### COMPETITION – MOIST SNUFF IN THE US



Source: Swedish Match and industry estimates, full year 2015, on a can equivalent basis.

# SWEDISH MATCH SNUS AND HARM REDUCTION

## SNUS AND HEALTH

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

The scientific findings conclude among other things:

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

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

“ Cigarette smoke is the most hazardous form of nicotine intake and medicinal nicotine is the least hazardous. Among the smokeless tobacco products on the market, products with low levels of nitrosamines, such as Swedish snus, are considerably less hazardous than cigarettes, while the risks associated with some products used in Africa and Asia approach those of smoking.”<sup>1)</sup> ”

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



## M RTP — A MAJOR STEP TOWARDS HARM REDUCTION

**Cigarette smokers are actively seeking viable alternative products for health reasons. In Sweden and Norway, smokers have switched from cigarettes to snus to an extent that it can be considered a public health success.**

Many public health advocates are questioning whether the experiences for Sweden and Norway can occur in other markets where the knowledge of snus is low or even absent, as knowledge of its relative risk is almost considered a prerequisite for smokers to consider snus as an alternative.

Tobacco regulations generally ban tobacco harm reduction claims, which is also the case in the US. But in 2009 the US Food and Drug Administration (FDA) took the important and historical decision to encompass a more pragmatic approach towards tobacco harm reduction and allow companies to seek a Modified Risk Tobacco Product (MRTP) order for a specific tobacco product. For FDA to issue an MRTP order, the applicant must prove that the product reduces individual risk as well as benefits the overall population. Swedish Match's MRTP application, submitted in June 2014, includes epidemiological evidence, clinical trials and scientific data comprising some 130,000 pages. The application addresses whether there could be a "US experience" with snus, like the "Swedish experience," resulting in a similar public health success as in Sweden and Norway. The application seeks, for instance, to change the existing mandatory warning label "Causes mouth cancer" to a label that more accurately reflects the available science about snus from Swedish Match. A decision by the FDA is expected during 2016.

## GOTHIA TEK® — QUALITY ASSURANCE BACKED BY SCIENCE

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

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

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

A few years ago the World Health Organization's Tobacco Regulatory Committee (WHO/TobReg) recommended: "Smokeless tobacco products should be regulated by controlling the contents of the products. The metric for measuring toxicants in smokeless tobacco should be the amount per gram of dry weight of tobacco".<sup>1)</sup> WHO/TobReg also proposed maximum permissible levels on specific constituents. The selected constituents and the maximum levels of these constituents were in line with the GOTHIA TEK® quality standard.

In an international comparison, Swedish snus is acknowledged as the cleanest and most well-controlled smokeless tobacco product. It places

Swedish snus in a category of its own and it is therefore misleading to draw conclusions that apply to other tobacco products.

The health impacts of Swedish snus should not be equated with cigarettes. Research clearly shows that it is harmful to smoke cigarettes. But research results also vary between different smokeless tobacco products, as smokeless tobacco is available in so many different forms in different parts of the world. Indian and African chewing tobacco has very little in common with snus manufactured in Sweden and according to the GOTHIA TEK® standard.

Already in 2001, the EU decided to replace the mandatory cancer warning on packages with a more general warning. The decision was based on the fact that the cancer claim had not been scientifically proven.

The high quality of Swedish Match's snus and the effectiveness of using snus as an alternative to the traditional cigarette have had an unprecedented impact on the tobacco consumption pattern in Sweden. Even though Swedish snus is not marketed or sold as a smoking cessation product, switching to Swedish snus remains the most common way to stop smoking in Sweden among smokers who opt for a product to aid in quitting cigarettes. A similar trend is taking place in Norway – the use of snus is growing at the expense of cigarette smoking.

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

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

<sup>2)</sup> Ramstrom, L.M. and J. Foulds, Role of snus in initiation and cessation of tobacco smoking in Sweden. *Tob Control*, 2006. 15(3): p. 210-4  
Lund, K.E., A. McNeill, and J. Scheffels, The use of snus for quitting smoking compared with medicinal products. *Nicotine Tob Res*, 2010. 12(8): p. 817-22.  
Lund, K.E., J. Scheffels, and A. McNeill, The association between use of snus and quit rates for smoking: results from seven Norwegian cross-sectional studies. *Addiction*, 2011. 106(1): p. 162-7.



## OTHER TOBACCO PRODUCTS: CIGARS AND CHEWING TOBACCO

# Another banner year for US cigars

Other tobacco products, which include cigars and chewing tobacco for the US market, had another outstanding year in both local sales and operating profit, led by double digit volume growth for its US mass market cigars to a record level. Mass market cigars is a highly competitive segment, requiring a proactive approach, with high quality products and very good value. Swedish Match is the leader in the natural leaf segment<sup>1)</sup> for machine made cigars and maintains a strong presence within the homogenized tobacco leaf segment<sup>2)</sup>. Swedish Match also holds the number one position for chewing tobacco.

## Strategy

In the product area Other tobacco products, Swedish Match works to maximize long term profitability, leveraging its strong market presence and trusted brands.

For cigars, the Company will drive profitable growth through consumer-driven innovation and strong sales execution. The Company continues to adapt its assortment in order to maintain its leadership in offering high quality products with outstanding value.

For chewing tobacco, Swedish Match will capitalize on its leading position in the category and continuously drive productivity improvements. By mitigating the impact of volume declines through cost focus and price leadership Swedish Match can maintain profitability in this declining category.

## Financial development

Sales for the product area for the year increased by 35 percent to 3,829 MSEK (2,832), while operating profit increased by 40 percent to 1,554 MSEK (1,109). In local currency, sales for the year were 10 percent higher with growth led by cigars. Operating profit in local currency increased by 14 percent compared to the prior year. The operating margin for the product area was 40.6 percent (39.2), positively impacted by the absence of tobacco buy-out fees, which ended in late 2014.



*Game Leaf is an example of Swedish Match's cigars within the natural rolled leaf segment.*

<sup>1)</sup> Natural leaf cigars: cigars which have binders and wrappers made of parts of selected tobacco leaves cut specifically to form the binders and/or wrappers. The main distinctions between natural leaf cigars and hand rolled cigars are that they contain short filler tobacco versus long filler tobacco and that machines are utilized in the latter steps of the manufacturing process.

<sup>2)</sup> Homogenized tobacco leaf (HTL) cigars: Cigars which have binders and wrappers made of tobacco leaves that have been ground, mixed with water, homogenized and rolled into sheets to ensure a consistency of look, feel, and quality.





A new design of the White Owl cigar brand has recently been launched.

## CIGARS

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

### Market and highlights

It is estimated by Swedish Match that the US mass market cigar market grew by more than 5 percent in volume terms in 2015 and is equal to or slightly more than 6 billion cigars excluding little cigars<sup>1)</sup> (a segment in which Swedish Match does not participate). Swedish Match's cigar volumes increased by 12 percent. During 2015, the market remained highly competitive with extensive activity for lower priced and promotional products. Swedish Match estimates that the Company's share of market was approximately 19 percent in 2015. Swedish Match participates in both the homogenized tobacco leaf segment, which is the largest segment, and the natural leaf segment, a smaller but growing segment in which Swedish Match estimates that it now holds the leading market position.

During 2015, Swedish Match launched and/or expanded distribution for a number of new cigar products under brands such as *Game*, *Garcia y Vega*, *1882*, and *White Owl*. The volume growth for *Game* and *Garcia y Vega* natural leaf cigars was particularly strong, and were a major contributing factor for Swedish Match's solid volume growth. This rapid growth stems both from successful new product launches and competitive pricing. Swedish Match's natural leaf cigars offer exceptional quality at an attractive price point.

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

## CHEWING TOBACCO

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 volume decline. For Swedish Match it is an important and profitable part of the Other tobacco products portfolio with solid cash flow generation. Swedish Match's chewing tobacco shipments (excluding contract manufacturing volumes) declined in line with the market, by 6 percent in 2015 versus prior year.

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

<sup>1)</sup> Source: Swedish Match and industry estimates, full year, 2015.

In the face of declining consumption, Swedish Match works to reduce costs and maintain operating efficiency while also addressing pricing in order to maintain profitability. An example of an efficiency measure 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.

Swedish Match's strong market share allows this business to remain highly cash generative. Also, as the market declines, Swedish Match is well positioned to maintain or strengthen its share position in all pricing segments and packaging formats.



Swedish Match's brand, *Red Man*, is by far the largest chewing tobacco brand in the US.



## FACTS AND FIGURES

### OTHER TOBACCO PRODUCTS HIGHLIGHTS

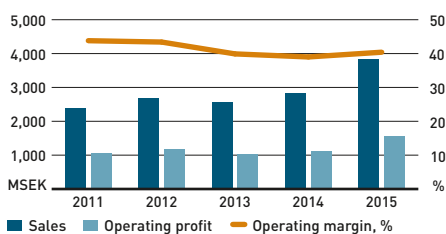
- Strong growth for cigars, with volumes up by 12 percent to more than 1.2 billion sticks.<sup>1)</sup>
- Higher sales and operating profit in local currency, led by cigars.<sup>1)</sup>
- Improved pricing substantially compensated for declines for chewing tobacco.

<sup>1)</sup> Versus full year 2014.

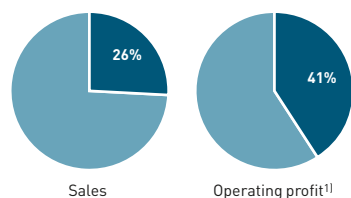
Key data, MSEK <sup>1)</sup>	2015	2014	2013
Sales	3,829	2,832	2,564
Operating profit	1,554	1,109	1,029
Operating margin, %	40.6	39.2	40.1
Investments in property, plant and equipment	95	33	62
Average number of employees	1,975	1,848	1,737

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

#### Sales and operating profit



#### Share of Group total



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

### CIGARS

#### Main brands:

*Garcia y Vega, Game by Garcia y Vega, 1882, White Owl, Jackpot*

### CHEWING TOBACCO

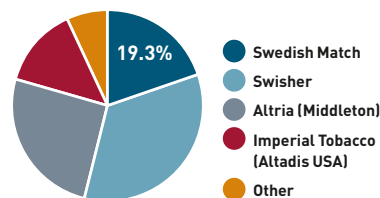
#### Main brand:

*Red Man*

#### Swedish Match US shipment volumes

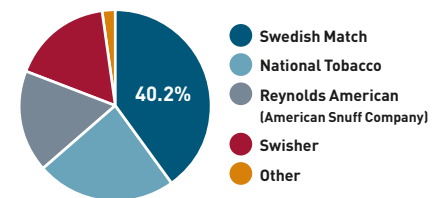
	2015	2014	Change, %
Cigars, millions of sticks	1,256	1,125	12
Chewing tobacco, thousands of pounds (excluding contract manufacturing volume)	7,390	7,856	-6

#### COMPETITION - US MASS MARKET CIGARS (EXCLUDING LITTLE CIGARS)



Source: Swedish Match and industry estimates, full year, 2015.

#### COMPETITION - US CHEWING TOBACCO



Source: Swedish Match and industry estimates, full year, 2015.



Production of White Owl cigars at the Dothan factory, the US.

# Good performance despite difficult conditions

*Swedish Match's matches and lighters can be found in many markets across the globe. Match brands tend to be local, with one brand being iconic in its own country.*



Swedish Match's matches and lighters are sold across the globe and the most important markets are in Europe and Asia, as well as in Brazil in Latin America. For lighters, Swedish Match manufactures and sells the Cricket brand, with its range of disposable lighters and specialty products for both household and outdoor lighting needs. Cricket lighters are well known for their quality, unique design and a number of safety features, such as a fixed flame technology, child safety mechanisms, and fire resistant lighter bodies. Match brands tend to be local, with one brand being iconic in its own country. The Company's match assortment includes products for a wide variety of uses, in sizes and formats that fit every fire lighting need. Swedish Match also sells complementary products, such as razors, high efficiency light bulbs, and toothpicks mainly for the Brazilian market, as well as tests e-cigarettes in Russia.

## Strategy

With its portfolio of well-known brands and strong market positions, Swedish Match works for continuous operational excellence in the Lights product area. The Company is committed to maintaining and improving

its already efficient manufacturing operations as well as capitalizing on its market positions. With its high and demanding quality standards, fast and flexible production, and ongoing customer feedback, Swedish Match is able to provide consumers and customers with the quality products they demand at attractive prices. The Company will work to maintain sales and profitability for both matches and lighters by tightly controlling costs and managing its price/mix and by growing its overall presence for its premium disposable lighters and utility lighters as well as maintaining high quality standards for matches. Swedish Match will also focus on further developing its business for complementary products sold mainly on the Brazilian market.

## Financial development

Sales for the Lights product area for the year were unchanged at 1,295 MSEK (1,295). Operating profit declined by 13 percent to 190 MSEK (218). Excluding currency translation effects, sales were flat and operating profit declined by 17 percent. The operating margin was 14.7 percent (16.8).

## Market

Consumption of matches in developed markets declined during the year, consistent with long term market declines. During 2015, Swedish Match's lighter volumes in certain European countries were down versus 2014, while in a number of Asian markets, lighter volumes grew. In Eastern Europe volumes were negatively impacted by both the macro economic situation as well as currency movements, requiring a strong marketing response by Swedish Match. In Brazil, the market for matches and lighters was weak which affected Swedish Match's performance. The weakness in large part results from both economic conditions and the substantial depreciation of the Brazilian real during the year against most major currencies.

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

## MATCHES

### Main brands:

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

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

*Hjelpetikker, and Tordenskjold*), and Brazil (*Fiat Lux*). Volumes generally declined following long term market trends in most markets. Sales of matches declined compared to the prior year as a result of lower volumes and negative currency translation effects, partly offset by improved pricing. Operating profit declined during the year.

## LIGHTERS

### Main brand:

*Cricket (globally)*

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

reliability, design, and innovation. Lighter sales grew despite volume declines during the year. The lighter business faced challenging market conditions in parts of Europe, including rapid and steep currency impacts in Russia and Ukraine. Volume declines and higher market support negatively impacted operating profit compared to the prior year.



## COMPLEMENTARY PRODUCTS

Swedish Match offers a portfolio of complementary products mainly on the Brazilian market, including disposable razors, batteries, high efficiency light bulbs and tooth picks under the *Fiat Lux* brand. Sales of complementary products increased in 2015 compared to the prior year.

## FACTS AND FIGURES

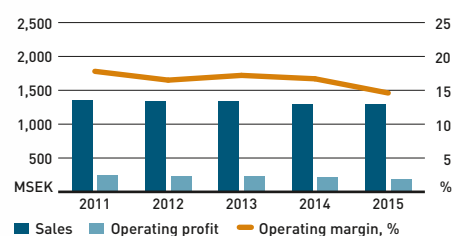
### LIGHTS HIGHLIGHTS

- Sales remained at prior year levels despite difficult market conditions.
- Steep currency depreciation of certain Eastern Europe currencies negatively impacted lighter volumes and required additional marketing support.
- Sales declines for matches on lower volumes, partially offset by improved pricing.

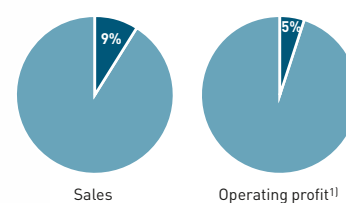
Key data, MSEK <sup>1)</sup>	2015	2014	2013
Sales	1,295	1,295	1,332
Operating profit	190	218	230
Operating margin, %	14.7	16.8	17.3
Investments in property, plant and equipment	54	49	64
Average number of employees	1,154	1,234	1,320

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

### Sales and operating profit



### Share of Group total



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

Swedish Match shipment volumes globally	2015	2014	Change, %
Matches, billion sticks	73.1	81.5	-10
Lighters, million units	394.9	422.5	-7

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



# Continued to grow – another good period<sup>1)</sup> for handmade cigars

**Scandinavian Tobacco Group (STG), owned 49 percent by Swedish Match during 2015, is a world leading producer of cigars and traditional pipe tobacco with strong positions within fine-cut tobacco. STG believes it is the only company globally with a core strategic focus on production and distribution in all of these product categories.**

STG operates in attractive sub-segments of the global tobacco industry. The Company has market leading positions in many markets. STG holds market leading positions in the machine-made cigar market in Europe, the handmade cigar market in the US as well as online and catalogue retail sales of handmade cigars in the US. More than 70 percent of STG's net sales for 2014 were derived from markets in which it held a number one or number two market position within the segment, measured by sales volumes.

STG has a brand portfolio that includes more than 200 international, regional and locally established brands. The highly recognized brand portfolio is underpinned by several leading brands with extensive heritage. The brands provide a comprehensive offering across categories and price points. The brand portfolio is actively managed and STG has strong innovation capabilities. STG has during recent years launched several successful initiatives, including product variants and concepts and line extensions. The brand portfolio is also optimized by leveraging brands across product categories and internationalizing strong local brands. These initiatives are aimed at meeting consumer trends and support STG's leading market positions, pricing terms and organic growth.

STG's production includes 14 facilities in eight countries with a local presence in many of the significant tobacco growing regions. Over the course of the last years,

STG has improved its manufacturing with consolidation of its production resulting in efficient processes and a well-invested asset base.

Competition within the sub-segments in which STG operates are typically fragmented and STG with its geographic width and size is one of the major players. Size is becoming increasingly important to compete and STG has a scale advantage. With scale and spare capacity, STG has a strong platform to act as an industry consolidator.

## Initial Public Listing at Nasdaq Copenhagen

STG was created in 2010 when Swedish Match contributed assets to create a global leader within cigars and pipe tobacco as well as a strong position within fine-cut tobacco. Since then, STG has worked to grow net sales, integrated a number of acquisitions and implemented production efficiency initiatives to create a robust platform for profitability and strong cash generation.

During 2015, Swedish Match and the other shareholders of STG assessed strategic alternatives for STG with the conclusion to list STG on Nasdaq Copenhagen. A prospectus was published on January 28, 2016, and admission to trading and official listing of the STG shares on Nasdaq Copenhagen took place on February 10, 2016.

The final offer price of 100 DKK per share corresponds to a market capitalisation of 10 billion DKK. Swedish Match's reduced its ownership to 31.2 percent in the IPO. There is also an overallotment option outstanding and if exercised, Swedish Match's ownership will be further reduced to 29 percent.

Swedish Match expects that the capital gain from the reduction of share ownership will exceed 500 MSEK, not subject to taxation, and will be

recognized in the financial statement for the first quarter of 2016.

Swedish Match has announced that substantially all of the proceeds from the partial sale of STG in connection with the IPO are intended to be transferred to shareholders. The Board of Directors of Swedish Match intends to propose to the 2016 Swedish Match Annual General Meeting a special dividend of 12.00 SEK per share in addition to an ordinary dividend of 8.00 SEK, in total 20.00 SEK.



*Macanudo is the largest premium handmade cigar brand in the US in terms of sales volumes with a market share of approximately 5–6 percent.*

<sup>1)</sup> For 2015 referencing the first nine months due to changed reporting.

Lars Dahlgren, President and CEO of Swedish Match notes, *“This IPO provides many benefits to the Scandinavian Tobacco Group, helping to not only diversify the shareholder base, but also to increase the visibility of the company and enable the company to further develop its businesses and remain a strong and attractive employer. For Swedish Match, the IPO provides tangible benefits to our shareholders in terms of both return of shareholder value and enhanced focus on our core business.”*

### Financial development

Due to the listing of STG on Nasdaq Copenhagen and in anticipation of differences in the financial calendars for Swedish Match and STG, Swedish Match commenced, from the reporting period ending December 31, 2015, to report its share of results from STG with a one quarter lag. As a consequence of transitioning to a one quarter lag reporting, Swedish Match has not included in its financial statements for the fourth quarter 2015 any result from its ownership in STG. The comments on financial development therefore reference the first nine months of 2015 in comparison to the first nine months of 2014.

STG's net sales increased by 10 percent for the first nine months of 2015 to 4,965 MDKK (4,496) and net sales in constant currencies increased by 2 percent. Reported net sales were positively impacted by the appreciation of the US dollar. The increase in net sales in constant currencies were

driven by the acquisition of Verellen, strong volume development in the handmade cigar segment and positive price/mix impacts across all main product segments. This more than compensated for decreased sales volumes in the machine-made cigars and pipe tobacco segments.

Reported EBITDA increased to 946 MDKK (871) affected by positive currency effects, but negatively affected by restructuring costs. Underlying EBITDA showed a marked improvement, driven by increased productivity and realized synergies from the Verellen acquisition. The restructuring costs included rationalization of the product portfolio and the number of stock keeping units coupled with the announcement of a sizeable reduction of the workforce in the supply chain, all designed to increase productivity and build a stronger company. STG expects these measures to result in approximately 140 MDKK annual gross operating cost savings and 500 MDKK in working capital efficiency as compared to the 2014 level, by the end of 2018.

### Financial policy

STG is strongly cash flow generative and its financial policy is to target a leverage ratio of 2.5 (measured as interest-bearing debt divided by adjusted EBITDA) and to annually pay its shareholders at least 70 percent of the consolidated net profit in dividend. During 2015, Swedish Match received 816 MSEK in dividend from its ownership in STG.

## FACTS AND FIGURES

### SCANDINAVIAN TOBACCO GROUP HIGHLIGHTS

- Marked improvement of underlying EBITDA for the period.
- Successfully realized synergies from the 2014 Verellen acquisition.
- Concrete steps taken and several actions implemented to build a stronger company for the future. Initiatives expected to deliver tangible EBITDA and working capital improvements.
- Strong cash flow generation and return to shareholders in the form of dividend. Swedish Match's share of dividends paid during 2015 amounted to 816 MSEK.
- Listing of STG on Nasdaq Copenhagen on February 10, 2016.

### Facts in brief:

- A world leading producer of cigars and traditional pipe tobacco.
- Produces approximately 3 billion cigars and 5,000 tons of pipe and fine-cut tobacco annually.
- More than 70 percent of sales in markets with number 1 or 2 position.
- 18 sales offices in North America, Europe, Australia and New Zealand and exports to more than 100 countries globally.
- Production units are located in Belgium, Denmark, the Dominican Republic, Honduras, Indonesia, the Netherlands, Nicaragua, and the US.
- More than 200 global, regional and local tobacco brands.
- About 8,100 employees world-wide.

### Has number 1 positions in the

- market for machine-made cigars in Europe
- global market for traditional pipe tobacco
- US market for handmade cigars (General Cigar)
- US market for online retailing of handmade cigars (Cigars International)
- US market for traditional pipe tobacco
- US and Danish markets for fine-cut tobacco

### Leading brands:

#### Handmade cigars:

*Macanudo, CAO, 5 Vegas, Diesel, Punch, La Gloria Cubana, and Cohiba which are owned and marketed in the US only*

#### Machine-made cigars:

*Café Crème, La Paz, Mercator, Colts, Captain Black, Break.*

#### Pipe tobacco:

*Erinmore, Borkum Riff, W.Ø. Larsen, Clan, Captain Black.*

#### Fine-cut tobacco:

*Bugler, Break, Escort, Bali Shag, Tiedemanns.*

# Our approach to Corporate Sustainability

Swedish Match believes that its sustainability efforts will provide tangible benefits to the environment, society, and a sustainable business. The Company's vision of a world without cigarettes demonstrates the commitment to contributing to improved public health by providing products that are recognized as safer alternatives to cigarettes. Beyond this, Swedish Match looks forward to further developing and communicating its sustainability activities in a clear and consistent manner.

## A sustainable and responsible business

Sustainability efforts benefit the environment and the Company's stakeholders, helping to generate long term value for the Company. It helps Swedish Match to be more competitive, to identify and reduce costs and risks, to strengthen its reputation and to be an employer of choice.

Swedish Match's sustainability activities aim to provide value and includes, for example, a reduced negative environmental impact, adherence to high standards of conduct within the supply chain, an improved working environment for employees, and helping to improve the general welfare of local communities.

The Company is impacted by and impacts a broad area of sustainability related factors, including issues related to its role as a tobacco company, addressing, for example, relative risks of tobacco on health as well as providing less harmful alternatives to cigarette smoking. It also entails sustainable sourcing practices for tobacco, human rights issues, and community initiatives (such as education and training).

## Sustainability, core values, and Code of Conduct

The Swedish Match Code of Conduct is the foundation for the Company's position in areas related to Corporate Sustainability and incorporates the Company's core values – passion, ownership, innovation, and quality. The Code of Conduct applies to all employees within the Swedish Match Group and covers such areas as workplace practices, business ethics, and communication; relationships with suppliers (including supplier contracts); customers and marketplace interaction (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). The Code of Conduct is consistent with international conventions and guide-

## SUSTAINABILITY HIGHLIGHTS



### PEOPLE

- A new and improved Code of Conduct, available in four languages, was launched.
- In Sweden, the Company has set milestones and goals to secure the future conditions for an equal workplace.
- Swedish Match's US headquarters was named as one of the top workplaces in Richmond for 2015 by Richmond SHRM, a network of human resource professionals and community leaders in Richmond, the US.
- Swedish Match donated funding to Gula båtarna (The yellow boats) to support the rescue boats and crews on the Greek coastal waters to save lives of people fleeing across the Mediterranean.



lines on human rights and labor conditions.<sup>1)</sup> For more information about the Code of Conduct, please refer to page 28.

### Sustainability organization

The Swedish Match Board of Directors has the overall responsibility for overseeing the Company's sustainability efforts and reviews these issues annually. The SVP Investor Relations and Corporate Sustainability guides and communicates sustainability issues and the sustainability process internally and externally, and reports to the CEO and presents findings and updates to the Group Management Team (GMT) as well as to the Board of Directors on a periodic basis.

### The engagement process

Swedish Match maintains an active dialogue with its prioritized stakeholder groups (consumers, customers, employees, regulators, the financial community, the scientific health community, and suppliers). For the past several years, the Company has surveyed its stakeholders in helping to identify key areas relating to sustainability issues.

### Sustainability reporting – People, Product, Planet

Swedish Match is in the midst of a transition from reporting according to the Global Reporting Initiative (GRI) G3 guidelines toward reporting in a manner that is based

on GRI G4. One aim of this new reporting is to provide more in depth information for those areas that the Company considers to be of greater importance, and a clearly defined strategic direction and approach. Swedish Match's focus and approach emphasizes issues most impactful to **People, Product, and Planet**.

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



## PRODUCT

- The US FDA issued orders allowing Swedish Match to market new tobacco products under the *General* snus brand through the premarket tobacco application (PMTA) pathway.
- To prevent the underage use of tobacco, Swedish Match continued to work with retailers, distributors, and public officials with regard to increased awareness and communication.
- Swedish Match further strengthened the GOTHIA TEK® standard for snus.



## PLANET

- The Company significantly improved its disclosure score in CDP's<sup>1)</sup> global annual review of companies' efforts within the area of climate change, from 84 for the reporting year 2013 to 91 for the reporting year 2014. The disclosure score reflects the comprehensiveness of a company's response to CDP in terms of the depth and breadth.
- Swedish Match consolidated and moved its offices in Stockholm to a new energy efficient facility which has been granted BREEAM certification.

<sup>1)</sup> CDP was formerly known as the Carbon Disclosure Project.

# People

**The success of Swedish Match depends on the commitment, dedication, competencies, and passion of its employees, as well as being a responsible corporate citizen in the communities in which it operates.**

Swedish Match is dedicated to working with efforts that can help to improve the conditions for the people within the Company's value chain. This implies continuous focus on ethical business practices, supply chain management, human rights and child labor, as well as promoting training and education opportunities in the communities where the Company operates. Swedish Match will also continue to work on attracting engaged and highly competent employees, assuring a safe and healthy workplace, providing for diversity and equal opportunity at all levels in the organization, as well as having a focus on training and development.



## ETHICAL BUSINESS PRACTICES

Swedish Match's Code of Conduct drives and communicates the main principles for how the Company conducts its business, and, along with related principles and procedures, puts in place steps for addressing and guiding activities and behavior.

### Code of Conduct

A further developed Code of Conduct was introduced in 2015 and incorporates policies and procedures related to all aspects of the business, appropriate conduct, and areas related to social and environmental issues. Swedish Match and its managers/supervisors have a responsibility to take necessary steps to ensure that each employee is aware of, and understand the standards of conduct outlined in the Code of Conduct. 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.

The Code of Conduct is reviewed internally and approved by the Swedish Match

Board of Directors. In addition, monitoring of the availability and knowledge of the Code of Conduct is conducted by the external partner who visits the Group's operating units at the factory level at least once every two years. Swedish Match also engaged an external auditor to track adherence to the Code of Conduct.

For more information and detail, Swedish Match's Code of Conduct in its entirety is available on the Company's website.

### Supplier commitment

The Supplier Code of Conduct, launched in 2013, reflects Swedish Match's own Code of Conduct and specifies what the Company expects and requires from its suppliers. The Company has systems in place to follow up on the adherence of the Supplier Code of Conduct and suppliers shall when required supply Swedish Match, or a party appointed by Swedish Match, with relevant information concerning the requirements set in the document.

For more information and detail, Swedish Match's Supplier Code of Conduct is available on the Company's website.



## SUPPLY CHAIN MANAGEMENT

Swedish Match has in recent years implemented systems to follow up on adherence to its Supplier Code of Conduct, while also working to develop processes and procedures that may help in providing for improved growing conditions, most importantly in the area of tobacco growing, and in the wider perspective, livelihoods in local communities in areas related to tobacco growing.

### Tobacco leaf suppliers

Swedish Match's largest suppliers are in the areas of purchase and supply of tobacco leaf and processed tobacco. All tobacco leaf suppliers are audited by third party companies. The Company buys well below one percent of the world's total tobacco supply and does not grow tobacco or buy tobacco directly from farmers. For its production of smokeless products and cigars, Swedish Match buys tobacco 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 source tobacco from farmers in countries such as Brazil, the Dominican Republic, Spain, and the US, and process the tobacco according to Swedish Match's requirements.

The Company's tobacco purchasers visit suppliers and tobacco markets on a yearly basis to proactively discuss social issues, good agricultural practices, quality, and the environment. Swedish Match also partners with suppliers in its efforts toward the elimination of child labor in the supply chain.

In 2015, Swedish Match continued to engage AB Sustain, an independent and experienced third party auditor, in order to enhance the supplier responsibility process within the Company's tobacco leaf supply chain.

### Other suppliers

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).

Certain suppliers of tobacco and non-tobacco materials operate and/or source from higher risk geographies<sup>1)</sup>. As Swedish Match deems these suppliers to have a higher risk of non-compliance with social,

environmental, and ethical requirements, the Company further screens and follows up with these suppliers.

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

### Sustainable agriculture

Significant tobacco suppliers must be able to provide Swedish Match with documentation of their own regulatory framework and activities related to social and environmental issues, including their policies with regard to farming practices. These suppliers are also encouraged to source tobacco grown according to Good Agricultural Practice (GAP) guidelines which aim at ensuring responsible and economically viable production of usable tobacco.

Swedish Match sources wood and maintains its own poplar and pine plantations for use in its match production in Brazil. All sourcing must be from timber that meets or exceeds the minimum requirements of government regulations. 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. In Sweden, Swedish Match sources its aspen from suppliers for its match production and the matches are manufactured according to the European match standard, EN 1783:1997, a standard that covers safety, functionality and environmental performance.



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



## HUMAN RIGHTS AND CHILD LABOR

Swedish Match's Code of Conduct includes sections specifically addressing human rights and child labor, and are based on international laws and accepted practices and guidelines.<sup>1)</sup> For certain parts of the tobacco supply chain, these issues have been addressed and monitored as part of the engagement with AB Sustain. In addition, Swedish Match works through industry collaboration regarding child labor issues.

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



<sup>1)</sup>The international conventions and guidelines referred to here are the UN Universal Declaration of Human Rights, the UN Convention on the Rights of the Child article 32.1, the eight ILO Core Conventions (Nos. 87, 98, 29, 105, 100, 111, 138, and 182), and the OECD Guidelines for Multinational Enterprises.

## COMMUNITY INVOLVEMENT

Swedish Match has a long history of social investments and community involvement, with most of the efforts originating at the local level. The Company's approach is to dedicate its community involvement efforts primarily for projects that have direct ties to local business operations and to the geographies in which they are present. These efforts include, among others, providing training and educational support or support for youth, the disabled, and people in need such as in the event of disasters. One example is The Solstickan Foundation, which is funded by Swedish Match's sales of matches and lighters on the Swedish market, which has been supporting projects for the elderly and youth for 80 years.

For information on Swedish Match's current social investments and community involvement, please refer to the sustainability report or the Company's website.

## EMPLOYEES

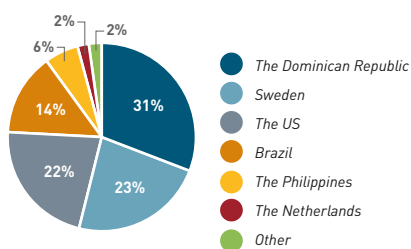
Swedish Match wants to be an active and engaged employer, attracting talented and motivated people with opportunities to grow and develop, maintaining a long term commitment in line with the core values of the Company. The Company will continue to maintain high levels of engagement and promote awareness of employee related issues, and will work to further strengthen its efforts in focus areas, such as workforce diversity and gender equality, health and safety, and employee education.

Swedish Match focuses on assuring a safe and healthy workplace, promoting diversity and equal opportunity, while also placing high emphasis on training and development. The HR Council, with representation from all significant units of operation, works on a global level to exchange knowledge, practice and ideas, and to find a common ground to make way for group common goals and targets.

### Diversity and gender equality

The area of gender equality is an important focus area for Swedish Match. The Company maintains, however that diversity goes beyond the subject of gender equality and will make no distinctions in its employment practices for individuals with regard to origin, religion, sexual orientation or other irrelevant parameters.

EMPLOYEES PER COUNTRY, PERCENT



### Workplace health and safety

Swedish Match works to ensure that all employees work in a safe work environment. The Company is dedicated to providing ergonomically sound workplaces, free from health and safety hazards.

Potential safety and health concerns are a priority with regard to the work environment. At the production level, factory audits are conducted both internally and by an external party to identify potential risks and highlight areas for potential improvements. In 2015, Swedish Match upgraded several production lines in the Brazilian operations in order to improve labour safety.

Swedish Match supports the International Labour Organization (ILO) Core Conventions, which also addresses the right for employees to work in a safe and healthy workplace.

### Developing competence

The Company continuously evaluates its training and development efforts to promote professional growth and career enhancement. Managers and employees have ongoing 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.

Annual performance evaluations help to identify individual goals, targets, and development needs. Swedish Match encourages continual feedback and recognition helping to reinforce and reward positive, desired achievements and actions.



### 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.

**In Sweden**, within Swedish Match's Corporate Functions, Scandinavia Division, and SMD Logistics, the special gender equality project initialized in 2014, continued in 2015 to further improve conditions that promote gender equality in the workplace. This is an important initiative to ensure that Swedish Match is a modern, competitive, and successful company that attract the best talents and retain the best employees, regardless of the person's gender.

# Product

**Swedish Match is dedicated to providing quality products in a responsible manner – recognizing that product responsibility goes beyond delivering products that consumers desire.**

Product quality and safety is a central factor incorporated in all of the Company's work, including the development of both new and updated products.

Along with Swedish Match's focus on product quality and safety, the Company

also works closely with customers/retailers to maintain high standards of corporate conduct in the marketplace – to market and sell tobacco to adults of legal tobacco age, as well as to market both tobacco and lights products responsibly.



## HARM REDUCTION

Swedish Match is committed to tobacco harm reduction which is an essential part of the Company's corporate sustainability approach. In practice this means that Swedish Match develops and markets high quality tobacco and nicotine containing alternatives to cigarettes. It also implies, among other things, that Swedish Match makes all relevant science and public health data available for its interested stakeholders.

The concept of harm reduction is about minimizing the negative health impact of a certain activity or a behavior, but without necessarily banning it completely. Even though the concept of harm reduction is not new, it is still rather controversial within certain areas including tobacco. But advocating tobacco harm reduction as the way forward for helping the 1.3 billion people worldwide who continue to smoke cigarettes despite the known health risks could significantly improve public health.

Swedish Match's painstaking filing of the first (and so far only) complete Modified Risk Tobacco Product application to the US Food and Drug Administration<sup>1)</sup> demonstrates the Company's belief in and commitment to harm reduction. Swedish Match's commercial strategies and its commitment to harm reduction support one another and ensure a sustainable business agenda. In light of the Company's harm reduction commitment and the medical consensus that Swedish snus is approximately 90–95 percent less harmful than smoking<sup>2)</sup>, Swedish



Match also actively promotes regulatory policies that do not treat snus and cigarettes as equally harmful.

The overall effect from Swedish snus on public health comes down to the balance between its beneficial effect on smoking prevalence and its adverse effects on the overall prevalence of tobacco use<sup>3)</sup>. This balance has clearly been met in Sweden, which is usually referred to as proof of concept.

The risk of a male dying from a tobacco-related disease is lower in Sweden than in any other European country, despite the fact that total tobacco consumption is

comparable to that of other countries in Europe. Swedish men smoke substantially less than their counterparts in other countries with comparable rates of tobacco consumption, and the use of snus among Swedish men is more common than smoking. Moreover, although snus use has increased as smoking has declined, the overall rate of tobacco consumption in Sweden has also steadily declined. The positive effect of this phenomenon is a very low frequency of tobacco-related illnesses among Swedish men and low smoking-related mortality rates.

<sup>1)</sup> See page 18; MRTP - A major step towards harm reduction.

<sup>2)</sup> Lund (2013), "Tobacco harm reduction in the real world: has the availability of snus in Norway increased smoking cessation?". *Drugs and alcohol today*, Vol 13 Iss 2 pp. 92–101.

<sup>3)</sup> Levy et al (2004), The relative risk of a low-nitrosamine smokeless tobacco product compared with smoking cigarettes: Estimates of a panel. *Cancer Epidemiology, Biomarkers & Prevention*, December 2004.

## PRODUCT QUALITY AND SAFETY

Swedish Match is committed to maintaining the highest quality products and to ensure that the Company's products meet or exceed both regulatory and its own standards for product safety. Through standards such as ISO 9001, the GOTHIA TEK<sup>®</sup> quality standard, product design (child resistant lighters and safety matches), and its own manufacturing processes, the Company can do much to ensure and improve product quality and safety.

### Snus

Swedish Match's production of snus is aligned with the World Health Organization's (WHO) Tobacco Regulatory Committee's (TobReg) scientific recommendations about permitted acceptable limits of undesired constituents in smokeless tobacco. The strict requirements that the GOTHIA TEK<sup>®</sup> quality standard imposes on the Company's snus products are based on decades of R&D, with product safety and consumer protection as the key targets. This includes requirements on maximum permitted levels of undesired constituents that occur naturally in tobacco, as well as requirements on raw material, the manufacturing process, and product information



to consumers. More information on the snus quality standard GOTHIA TEK<sup>®</sup> can be found on page 18.



### Moist snuff, Other tobacco products, matches, and lighters

For moist snuff and Other tobacco products (cigars and chewing tobacco) product quality is assured through rigorous adherence to production and quality standards supported by its ISO 9001 certified systems. Additionally, all lighter facilities, and a number of match production facilities, are ISO 9001 certified.

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

Regarding lighter safety, Swedish Match's *Cricket* lighters have safety attributes that include using self-extinguishing nylon, child resistance functions, fixed flame technology, and calibrated gas levels and gas flows.

### Responsible marketing communication and product labeling

Swedish Match markets its products responsibly and in accordance with laws and regulations as well as the Company's Code of Conduct.

Swedish Match has an *Under 18 No Tobacco* principle and believes that all tobacco products should only be sold to adults of legal tobacco age, and to those who are 18 years of age or over. Swedish Match believes that no one should use cigarettes, regardless of age. Swedish Match promotes its view through its *Under 18 No Snus* communication. To prevent the underage use of its tobacco products, 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.

Swedish Match believes that it has a responsibility to be 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.

# Planet

**Swedish Match considers that it is the Company's responsibility to actively work to map and reduce the negative environmental impact of the business throughout the entire value chain.**

Swedish Match's environmental responsibility extends across the value chain, from sustainable tobacco sourcing and forest management to efficient environmental management in manufacturing. The Company has identified that for its operations, areas such as climate change (including energy use), water use, materials use, recycling, and littering are important areas to address.

Swedish Match works with environmental issues in its own operations, with measurement and reporting systems in place as well as specific key performance indicators (KPIs). The Company's ten most significant manufacturing facilities have management systems certified according to the environmental management standard ISO 14001 as well as the quality management systems standard ISO 9001. In addition to Swedish Match's own operations, the Company also has in-depth requirements upstream in the value chain, within tobacco growing, covering a broad spectrum of sustainability aspects including agronomy and other important environmental issues.

### The Group Principles on Environmental Management and KPIs

The Group Principles on Environmental Management have been established to make sure that Swedish Match commits to continuous environmental improvements, working diligently toward the reduction and prevention of negative environmental impacts in its activities.

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



## CLIMATE

Swedish Match believes that climate change will have an increasing impact on the world and Swedish Match in the future. Consequences such as extreme weather conditions or changes in the availability of natural resources must be considered.

Swedish Match monitors and reports its energy consumption and its emissions of greenhouse gases. The Company has also had specific targets in place for these areas.

### Energy consumption

In addition to helping to reduce greenhouse gas emissions, efficient use of energy is important as it leads to cost savings and financial benefits to Swedish Match. 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 electricity consumption specifically. In Sweden, Swedish Match's suppliers of electricity undertake to produce and supply the amount of electricity that Swedish Match purchases and consumes without the use of fossil fuels.

During 2015, Swedish Match consolidated and moved its offices in Stockholm to a new energy efficient facility which has been granted BREEAM certification.

### Greenhouse gas emissions

Swedish Match works persistently on improvement activities and projects in order to limit its emissions of greenhouse gases, specifically with regards to CO<sub>2</sub> emissions, and each factory has its own target and/or activities in order to limit its emissions per unit of output.

Swedish Match is participating in an annual review administrated by CDP<sup>11</sup>). On an aggregate factory level, Swedish Match's target is to stay at or below baseline for CDP Scope 1 (direct emissions) and Scope 2 (indirect emissions).

<sup>11</sup> CDP was formerly known as the Carbon Disclosure Project.

## WATER

Within Swedish Match's operations, its water footprint is low as the production processes require low water usage. The one area where the Company requires increased water supply is for its poplar farms in Brazil, where some dryer periods during spring and summer may lead to a higher necessity of irrigation.

Water scarcity in areas where tobacco is grown may have a negative impact on the Company's ability to secure sufficient supply of raw tobacco. Water shortages in the Company's production processes may also have a negative impact on its ability to supply markets with finished products. Swedish Match therefore strives to manage water resources efficiently and with respect for the environment.

Swedish Match monitors its water sourcing and emissions into sensitive water



bodies and the Company's current target for water use is to maintain a level of zero in

terms of the withdrawal or discharges of water affecting sensitive water bodies.

## MATERIALS, EFFLUENTS, AND WASTE

Swedish Match recognizes its responsibility throughout the entire product lifecycle and strives to deliver the best possible products with a minimum of waste. Swedish Match should also work to facilitate consumers' disposal of the Company's products after use.

### Environmentally adapted products and packaging

Swedish Match works to reduce or minimize packaging in production and transport while also reducing or eliminating the use of excess consumer packaging. The Company strives to use environmentally adapted materials for its product packaging. For matches, for example, post-consumer recycled fibers are being used for the vast majority of the production of inner and outer match boxes.

### Waste management

Swedish Match works systematically to reduce its production of waste, in total or per unit of output produced, as applicable. Several waste reduction projects have been initialized across the factories during recent years. 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.

# Regulatory engagement

**Swedish Match expects that for the foreseeable future, hundreds of millions of people around the world will continue to consume tobacco, the vast majority by smoking cigarettes. Swedish Match believes that smokers should have access to viable, non-combustible tobacco alternatives, such as Swedish snus, which is scientifically documented to have significantly lower negative health effects.**

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

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

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

Swedish Match is also committed to preventing the availability of tobacco products to minors. The Company is actively engaged with retailers to ensure that they properly understand the need to enforce required age-verification upon purchase of tobacco products. There is a mutual understanding between Swedish Match, leading retailers and

their trade organizations of the necessity for commercial stakeholders to actively work against underage purchases. Swedish Match also cooperates with retailers in order to reduce the growing volume of illicit products, which distort competition on the market.

## Regulatory developments in the US

The Family Smoking Prevention and Tobacco Control Act (the Act), signed into law June 2009, empowered the Food and Drug Administration (FDA) to regulate tobacco products such as cigarettes, roll-your-own tobacco and smokeless 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 be marketed in a way that better reflects the risk profile agreed to by the FDA and may allow a company to make appropriate harm reduction claims. In August, 2014, FDA accepted Swedish Match's Modified Risk Tobacco Product (MRTTP) application as complete. As of the publication of this annual report, Swedish Match still awaits the final decision from the FDA. In addition to MRTTP approval, the Company is seeking to have the warning labels for its Swedish snus products changed to better reflect that these products present substantially fewer risks to health than cigarettes.

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

## Regulatory developments in Scandinavia

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

In 2013, the Tobacco Products Directive 2001/37/EC underwent a process of revision. The new directive (2014/40/EU) was approved by the European parliament in February 2014 and by the European Council in April 2014. The sales ban on snus will remain in the EU. Changes that the revised EU legislation will bring are increased and amended warning labels on snus cans, and restrictions on product presentation, among other things.

EU member states shall nationally bring into force the laws, regulations and administrative provisions necessary to comply with the new directive by May 2016. Norway, associated with the European Union through its membership in the European Economic Area (EEA), in the context of being a European Free Trade Association (EFTA) member shall comply with the new directive once the directive is incorporated into the EEA Agreement. Probably this will happen during the second half of 2016. As of December 2015 no bills have been put forward to the national parliaments in regard to the transposition of the EU directive. However, in April 2015 the Danish parliament passed a law banning loose snus as a result of a lawsuit filed by the EU Commission claiming that Denmark had not fulfilled its obligation to fully implement the EU ban on snus. The new law went into effect as of January 1, 2016.

## SWEDISH MATCH IS OF THE OPINION THAT:

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





# Employer of choice

At Swedish Match, we believe that the success of the Company is largely impacted by the success of our employees. We believe that amazing things happen when great people work for a great company, and when those people are developed, retained, engaged and become true ambassadors for Swedish Match. Everything we do in Human Resources and every decision we make is based on those core beliefs.

## Human Resources: How HR works

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.

## Retaining and developing talent: Keeping the right people by meeting their needs

Recruitment is just the first phase of an employee's career at Swedish Match. Keeping that talent and momentum going is challenging but also very rewarding – for the employee, the manager, the department and for Swedish Match. We believe there are key areas requiring continual effort to ensure employee satisfaction and engagement.

### Communication

In order to be effective, communication must go two ways – both to and from the employee. Swedish Match believes that it is crucial to the success of the company that employees be allowed and encouraged to share ideas, observations and suggestions. Additionally, we conduct confidential employee opinion surveys globally through an outside agency that allows our employees the opportunity to rate their job and company satisfaction on a regular basis. Survey results are utilized by the company to follow up on and improve areas of opportunity within the organization.

## RECRUITMENT OF TALENT:

### GETTING THE RIGHT PEOPLE, IN THE RIGHT PLACES AT THE RIGHT TIME.

In order to obtain the best talent, Swedish Match focuses on being the best employer. Our goal is to attract and retain a diverse workforce of top talent, in which we all benefit from different perspectives, varying experiences and unique ideas that will drive our business. Swedish Match utilizes many methods to ensure that we are sourcing the best talent, including Employer Branding efforts and are confident that our efforts will continue to ensure a strong competence base to meet or exceed both short and long term challenges.



### *Feedback and recognition*

Clear expectations are set by managers, so that employees understand what they are working toward and what they need to do to meet those expectations. Performance discussions are held and can be initiated at any time by either the manager or the employee. Both managers and employees are expected to actively participate in this process by both giving and receiving feedback. At Swedish Match, recognition is regular, targeted to real successes and used to reinforce and reward positive, desired behaviors.

### *Support*

Employees are given the necessary tools to do their job well. We strive to ensure that workloads are manageable, obstacles to success are removed, supplies and equipment are readily available, and there are enough people to do the work. Support also comes in the form of personal and medical leaves when appropriate, health and retirement plans, employee assistance programs and commitment to work/life balance.

### *Empowerment*

Employees of Swedish Match are empowered to make decisions about and take responsibility for how they do their jobs. As long as employees work within the strategic framework (company vision, core values, Code of Conduct, etc.) they are allowed to control their choices and how they perform their core functions and progress toward their goals. Employees are encouraged to be involved in the company, make suggestions, be innovative, serve on committees and work teams and attend appropriate meetings and offer input on work processes that affect their job.

### *Leadership*

Swedish Match believes that all employees should believe in the Company's vision and its core values and understand how their daily work and embracing these values contribute to the Company's vision. It is equally important that employees see how leadership exemplifies the core values and Code of Conduct each and every day. Successful leadership continues to be a main focus. We remain committed to growing leaders at all levels of the organization to ensure current and future success.

### *Professional development*

Employees have access to training and development, through on-the-job training, internal training, external seminars and training programs, and/or tuition reimbursement. All members of the Swedish Match Group Management Team have been recruited internally. During this past year, nearly all management vacancies were also filled internally.

### *Teamwork*

Swedish Match believes that employees should be able to work in a supportive environment. At Swedish Match, we remain focused on issues and encourage employees to be proactive problem solvers. To do this, we recognize that employees must feel that it is acceptable to make mistakes with leadership support. We support team efforts and encourage teamwork. No one at Swedish Match works completely independently – from Boards to Management Teams, Departments, Cross-Functional Teams, Committees, and more. We all have the opportunity to not only “learn from” but also to “teach” each other new things every day.

## PRIDE

We believe that our core values not only shape our workplace, but also affect the way we interact with one another – both personally and professionally – inside and outside of work. Swedish Match is well-known for being a good corporate citizen and is firmly anchored to the communities in which we operate.



### *Compensation and benefits*

Swedish Match compensation philosophy and practice is to offer competitive salaries and flexible benefit programs that meet the needs of our most important assets – our employees. The benefit package includes internally equitable and externally competitive salaries, as well as such benefits as paid time off for holidays and vacations, insurances, retirement benefits and support to various other quality of life programs.

### *Work environment*

Swedish Match works diligently to ensure that all employees work in an inspiring work environment, free from any type of harassment or discrimination. The Company is likewise dedicated to providing ergonomically sound workplaces, free from health and safety hazards. Health and safety committees and structures are in place in all operating units and safety training and wellness programs are in place at the various workplaces. Potential safety and health concerns are of primary importance. Factory audits are conducted both internally and by external third parties. Additionally, Swedish Match supports the International Labour Organization (ILO) Core Conventions regarding labor rights and believes that all employees should be free to form associations and to engage in collective bargaining. According to the Company's Code of Conduct, all employees should be free to join or form (non-violent) assembly or associations.





# Shareholder communication

## SWEDISH MATCH'S INFORMATION CHANNELS:

### COMPANY WEBSITE

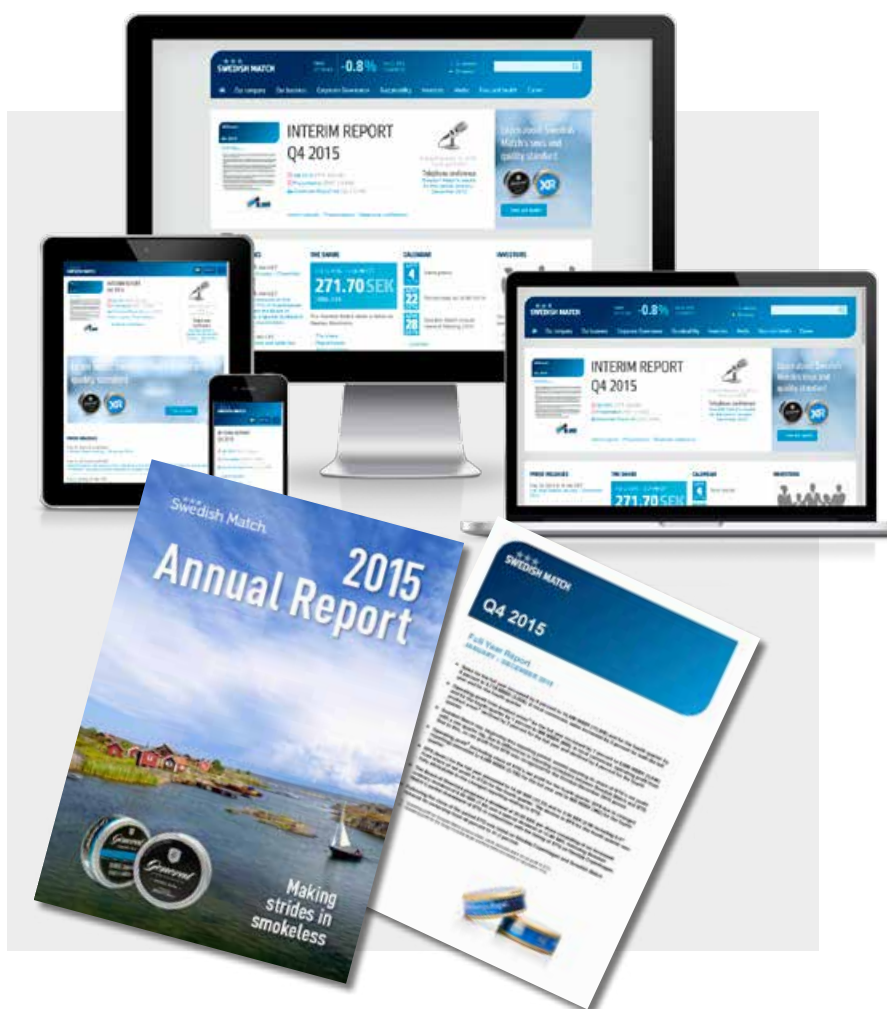
The Swedish Match Company website – [www.swedishmatch.com](http://www.swedishmatch.com) – is the principal source of information about the Company and provides a broad range of information which is relevant to both the financial community and other stakeholders. The website provides current and historical financial information as well as information about the Company's product areas and products, vision and strategy, corporate governance, sustainability efforts, and much more. The website also includes both historic and cur-

rent (15 minute delay) share price information. Telephone conferences, in English, are held in connection with Swedish Match's interim and year-end reports and can be accessed live on the website. Press releases, presentations, downloadable annual and interim reports, as well as information about the Annual General Meeting, can be found in the "Investors" section. The website has a subscription service for receiving press releases and financial reports by e-mail.

### FINANCIAL REPORTS

Swedish Match's financial reports are available on the Company's website. The website has an archive of interim reports dating back to 1997 and annual reports dating back to 1996. As of 2009, these PDF files are adapted for accessibility, allowing persons with functional disabilities, such as those who are visually impaired or those with reading difficulties, to interpret and access the information.

Shareholders can subscribe to financial reports via e-mail. Financial reports are available electronically, but if requested, annual reports may be received in print form. New shareholders automatically receive login credentials to access a personal user account with an option to request further financial information. Modifications to the user account can be made through the subscription service [www.swedishmatch.com/subscribe](http://www.swedishmatch.com/subscribe), or by e-mailing: [investorrelations@swedishmatch.com](mailto:investorrelations@swedishmatch.com).





## IR ACTIVITIES 2015

Swedish Match's Investor Relations department is responsible for providing relevant company and financial information to shareholders, investors, analysts and the financial media.

Regular analyst and investor meetings provide ongoing information about the Company, current events and operational changes. Presentations of Swedish Match's

results, operations and activities are made for analysts and investors in conferences, and on roadshows generally after the release of the interim report.

During 2015, in addition to quarterly reporting and telephone conferences, Swedish Match conducted a number of international roadshows, and presented in sector conferences, reaching a broad range

of investors and analysts who want to learn more about the Company. In 2015, in addition to the Annual General Meeting in Stockholm, presentations and meetings for investors and the financial community were held in, among other cities, London, Edinburgh, Paris, Frankfurt, Copenhagen, New York, Boston, and Stockholm.

## ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Swedish Match AB (publ) will be held on Thursday, April 28, 2016, at 3.30 p.m. CET at the Skandia cinema, Drottninggatan 52, in Stockholm, Sweden. Doors to the AGM will open at 2.30 p.m.

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

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



## DIVIDEND

The Board of Directors proposes that a total dividend of 20.00 SEK per share consisting of an increased ordinary dividend per share of 8.00 SEK and a special dividend of 12.00 SEK per share be paid to shareholders. The proposed record date for entitlement to receive a cash dividend is May 2, 2016. If the AGM approves the Board's proposal, the dividend will be paid through Euroclear Sweden AB on May 6, 2016.

## CONTACTS

### Investor Relations and Corporate Sustainability

Emmett Harrison

Tel: +46 (0)8-658 01 73

[investorrelations@swedishmatch.com](mailto: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 the Corporate Sustainability function.



## PUBLICATION CALENDAR

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

### May 4, 2016:

Interim report January–March

### July 22, 2016:

Half year report January–June

### October 28, 2016:

Interim report January–September

### February 17, 2017:

Full year report 2016

### April, 2017:

Annual report for 2016

## AGM 2016 CALENDAR

### April 22, 2016:

Record date for AGM

### April 28, 2016:

AGM

### April 29, 2016:

Ex-dividend date

### May 2, 2016:

Proposed record date for dividend

### May 6, 2016:

Proposed date for dividend payment

### External Communications

Djuli Holmgren

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

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

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



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

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



# The share

LISTING: NASDAQ STOCKHOLM, LARGE CAP SYMBOL: SWMA MARKET CAP AT YEAR END<sup>3)</sup>: 56.7 BILLION SEK NO. OF SHARES AT YEAR END: 196,500,000 ISIN CODE: SE0000310336

The Swedish Match share is listed on Nasdaq Stockholm. Total share capital on December 31, 2015 amounted to 390 MSEK, distributed among 196.5 million shares with a quotient value of 1.9823 SEK each. Each share carries one vote.

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

Total turnover in 2015 amounted to 193,697,982 Swedish Match shares on Nasdaq Stockholm, with an average daily volume of 0.8 million shares. The turnover velocity of the share on Nasdaq Stockholm, was 97 percent during the year, compared with the average turnover velocity of 73 percent for Nasdaq Stockholm.

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

Approximately 60 percent of total trading volume of Swedish Match was handled through the Nasdaq Stockholm trading platform, which was at the same level as during 2014. The distribution of trade between other exchanges in number of shares traded during the year was approximately: Chi-X of 25 percent, Turquoise of 11 percent and BATS of 3 percent.

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

The Company's market capitalization at year-end 2015 amounted to 56.7 billion

SEK, an increase of 8.8 billion compared with December 31, 2014.<sup>3)</sup> The share price rose by 23 percent during the year, while the OMXS30 Index increased by 1.2 percent. The lowest price paid during the year was 234.30 SEK on August, 24 and the highest price paid was 304.80 SEK on December, 3.

## Ownership structure<sup>3, 4)</sup>

At year-end, ownership outside of Sweden corresponded to 73.2 percent of total share capital, an increase of 2.1 percentage points compared with 2014. Swedish ownership interests, totaling 26.8 percent, were distributed among institutions, with 8.2 percent of the share capital, mutual funds, with 9.8 percent, and private individuals, with 8.8 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 total dividend of 20.00 SEK per share consisting of an increased ordinary dividend per share of 8.00 SEK (7.50) and a special dividend of 12.00 SEK. The proposed increased ordinary dividend

of 8.00 SEK (7.50) is equivalent to 55 percent (57) of the earnings per share for the year, excluding larger one-time items. The special dividend of 12.00 SEK is proposed in accordance with Swedish Match's financial policy of returning excess cash to its shareholders and following the partial divestment of STG in conjunction with the listing of STG on Nasdaq Copenhagen. The proposed ordinary and special dividend together amounts to 3,778 MSEK (1,464) based on the 188.9 million shares outstanding at the end of 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. The size and scope of the share buy-backs depend on Swedish Match's financial position, net profit, anticipated future profitability, cash flow, investments, and expansion plans. Other factors that influence buybacks are efficient availability of credit, the share price, the Group's interest and tax expenses as well as the earnings available for distribution. For more information about the Swedish Match share repurchase program, please refer to the *Report of the Board of Directors* on page 48.

## Largest shareholders

Largest shareholders <sup>1)</sup>	Number of shares	Holding in percent	Votes in percent
Standard Life Investment Funds	7,499,180	3.8	4.0
SEB Funds	5,727,754	2.9	3.0
Nordea Funds	4,606,110	2.3	2.4
Second Swedish National Pension Fund	4,225,190	2.2	2.2
First Swedish National Pension Fund	3,469,005	1.8	1.8
Invesco Funds	3,278,750	1.7	1.7
UBS Funds	2,168,391	1.1	1.1
SHB Funds	2,104,485	1.1	1.1
Vanguard Funds	1,834,939	0.9	1.0
Fourth Swedish National Pension Fund	1,791,617	0.9	0.9
<b>Subtotal 10 owners</b>	<b>36,705,421</b>	<b>18.7</b>	<b>19.4</b>
Other	152,210,370	77.5	80.6
<b>Subtotal</b>	<b>188,915,791</b>	<b>96.1</b>	<b>100.0</b>
Shares held by Swedish Match	7,584,209	3.9	0.0
<b>Total</b>	<b>196,500,000</b>	<b>100.0</b>	<b>100.0</b>

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

Source: Modular Finance AB, data derived from Euroclear Sweden AB, as of December 31, 2015. Totals may be affected by rounding.

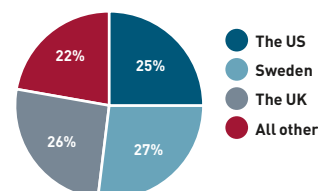
<sup>1)</sup> Source: Nasdaq Stockholm.

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

<sup>3)</sup> Excluding shares held in treasury by Swedish Match AB, which corresponded to 3.86 percent of the total number of shares as per December 31, 2015.

<sup>4)</sup> Source: Modular Finance AB, data derived from Euroclear Sweden AB. Certain shareholders may, through custodial accounts, have had different holdings than are apparent from the shareholders' register.

## OWNERSHIP STRUCTURE - SHARE CAPITAL BY COUNTRY



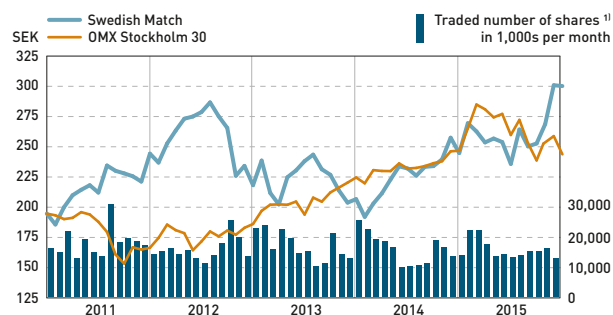
Source: Modular Finance AB, according to Euroclear Sweden AB and data known by Swedish Match, as of December 31, 2015. "All other" also includes shareholders with 500 shares or less in the US, UK, and Sweden. Note that shares held by Swedish Match in treasury are excluded.

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

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



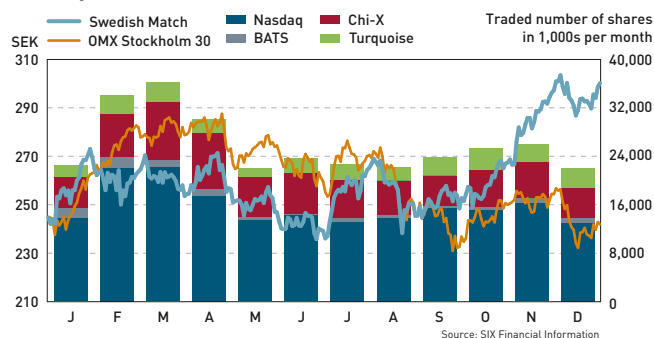
## Share price and turnover 2011–2015



<sup>1)</sup> Number of shares traded on Nasdaq Stockholm.

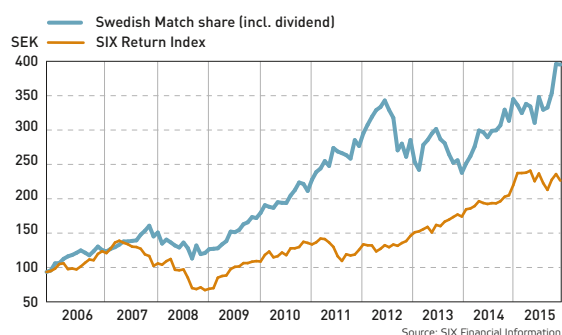
Source: SIX Financial Information

## Share price and turnover 2015



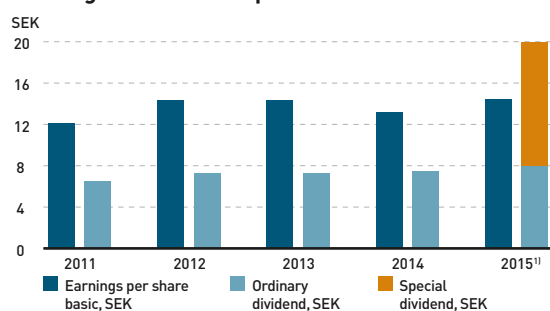
Source: SIX Financial Information

## Total return 2006–2015



Source: SIX Financial Information

## Earnings and dividend per share 2011–2015



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

## Transfer of capital to Swedish Match's shareholders

MSEK	2015	2014	2013	2012	2011	Total
Dividend paid	1,464	1,453	1,459	1,334	1,152	6,862
Repurchase of own shares, net	1,854	836	164	1,532	2,304	6,690
<b>Total</b>	<b>3,318</b>	<b>2,289</b>	<b>1,623</b>	<b>2,866</b>	<b>3,456</b>	<b>13,552</b>

Dividend proposed for calendar year 2015 to be paid in 2016 is 3,778 MSEK.

Share distribution<sup>1)</sup>

Size of holding	No. of owners	No. of owners, %	No. of shares	Holding, %	Votes, %
1 – 1,000	45,563	91.5	8,559,061	4.4	4.5
1,001 – 5,000	3,334	6.7	6,687,825	3.4	3.5
5,001 – 20,000	507	1.0	4,804,604	2.4	2.5
20,001 – 50,000	134	0.3	4,241,973	2.2	2.2
50,001 – 100,000	70	0.1	5,005,866	2.5	2.6
100,001 – 1,000,000	151	0.3	52,000,202	26.5	27.5
1,000,001 –	46	0.1	107,616,260	54.8	57.0
<b>Subtotal</b>	<b>49,805</b>	<b>100.0</b>	<b>188,915,791</b>	<b>96.1</b>	<b>100.0</b>
Shares held by Swedish Match	1	0.0	7,584,209	3.9	0.0
<b>Total</b>	<b>49,806</b>	<b>100.0</b>	<b>196,500,000</b>	<b>100.0</b>	<b>100.0</b>

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

Source: Modular Finance AB, data derived from Euroclear Sweden AB as of December 31, 2015. Totals may be affected by rounding.

## Share data

	2015	2014	2013	2012	2011
Earnings per share, basic, SEK					
Including larger one time items <sup>1)</sup>	14.48	13.23	13.63	14.33	12.14
Excluding larger one time items <sup>2)</sup>	14.36	13.23	12.82	14.18	12.14
Earnings per share, diluted, SEK					
Including larger one time items <sup>1)</sup>	14.48	13.22	13.61	14.25	12.07
Excluding larger one time items <sup>2)</sup>	14.36	13.22	12.80	14.10	12.07
Dividend per share, SEK	20.00 <sup>3)</sup>	7.50	7.30	7.30	6.50
Dividend yield at year-end, %	6.66 <sup>3)</sup>	3.06	3.53	3.35	2.66
Dividend pay-out ratio, excluding larger one time items, %	139 <sup>3)</sup>	57	57	51	54
Market price at year-end, SEK	300.20	244.80	206.70	218.20	244.30
Market capitalization at year-end, billion SEK <sup>4)</sup>	56.7	47.9	41.1	43.5	49.9
P/E ratio	20.7	18.5	15.2	15.3	20.2
EBIT multiple	16.1	14.8	12.8	13.0	15.9
Total return, %	26.2	22.4	-2.3	-8.5	28.8
Average number of shares, basic	193,506,546	198,475,824	198,930,422	202,888,955	209,001,190
Average number of shares, diluted	193,530,266	198,583,328	199,274,054	203,995,039	210,296,918
Number of shareholders	49,806	47,952	49,405	51,244	51,646

<sup>1)</sup> Profit for the full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. Swedish Match's share of net profit in STG for 2015 includes an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets.

<sup>2)</sup> Profit for the full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. Adjusted for a Swedish Match larger one-time item of negative 42 MSEK (negative 33 MSEK after tax) and the above-mentioned STG reassessment of useful lives.

<sup>3)</sup> Board proposal. Dividend includes ordinary dividend of 8.00 SEK and a special dividend of 12.00 SEK.

<sup>4)</sup> Excluding shares held by Swedish Match.



# Five year summary

Condensed consolidated income statement , MSEK	2015	2014	2013	2012	2011
<b>Sales</b>	<b>14,486</b>	<b>13,305</b>	<b>12,610</b>	<b>12,486</b>	<b>11,666</b>
<b>Gross profit</b>	<b>6,789</b>	<b>6,197</b>	<b>5,963</b>	<b>6,349</b>	<b>5,892</b>
Larger one time items	-42	-	161	30	-
<b>Operating profit</b>	<b>4,008</b>	<b>3,780</b>	<b>3,855</b>	<b>4,062</b>	<b>3,702</b>
Net finance cost	-463	-510	-544	-551	-523
<b>Profit before income tax</b>	<b>3,545</b>	<b>3,270</b>	<b>3,310</b>	<b>3,511</b>	<b>3,180</b>
<b>Profit for the year</b>	<b>2,803</b>	<b>2,626</b>	<b>2,711</b>	<b>2,907</b>	<b>2,538</b>
EBITDA	4,368	4,083	3,968	4,328	3,992

Condensed consolidated balance sheets, MSEK	2015	2014	2013	2012	2011
<b>Assets</b>					
Intangible assets	1,048	1,030	973	962	992
Property, plant and equipment <sup>1)</sup>	2,240	2,074	2,027	2,010	2,076
Investments in associated companies and joint ventures	4,845	5,233	4,506	4,354	4,481
Other non-current financial receivables <sup>2)</sup>	1,739	1,669	1,165	1,140	1,395
Current operating assets	3,220	4,255	3,038	3,080	3,031
Other current investments and current financial assets <sup>3)</sup>	-	-	8	-	0
Cash and cash equivalents	1,732	2,312	3,164	2,824	2,533
<b>Total assets</b>	<b>14,824</b>	<b>16,573</b>	<b>14,881</b>	<b>14,371</b>	<b>14,507</b>
<b>Equity and liabilities</b>					
Equity attributable to equity holders of the Parent	251	277	-786	-2,053	-1,602
Non-controlling interests	1	1	1	2	2
Non-current provisions	1,223	1,081	1,031	1,009	1,070
Non-current loans	7,613	7,803	9,420	9,238	8,535
Other non-current financial liabilities <sup>2)</sup>	1,882	2,063	1,440	1,870	1,787
Current provisions	147	98	103	102	84
Current loans	653	1,141	920	1,119	1,283
Other current liabilities <sup>3)</sup>	3,054	4,109	2,751	3,084	3,347
<b>Total equity and liabilities</b>	<b>14,824</b>	<b>16,573</b>	<b>14,881</b>	<b>14,371</b>	<b>14,507</b>

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

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

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

Condensed consolidated cash flow, MSEK	2015	2014	2013	2012	2011
Net cash from operating activities	3,768	3,276	2,500	2,805	2,608
Net cash used in/from investing activities	-513	-274	-240	-323	-151
Net cash transferred to shareholders	-3,318	-2,290	-1,623	-2,866	-3,456
Net cash used in/from other financing activities	-605	-1,798	-289	754	237
<b>Net decrease/increase in cash and cash equivalents</b>	<b>-669</b>	<b>-1,085</b>	<b>348</b>	<b>371</b>	<b>-763</b>
Cash and cash equivalents at beginning of the year	2,312	3,164	2,824	2,533	3,275
Effects of exchanges rate fluctuations on cash and cash equivalents	90	232	-8	-79	21
<b>Cash and cash equivalents at end of year</b>	<b>1,732</b>	<b>2,312</b>	<b>3,164</b>	<b>2,824</b>	<b>2,533</b>

Key data	2015	2014	2013	2012	2011
Operating capital at year-end, MSEK	8,030	8,314	7,729	7,253	7,224
Net debt, MSEK	7,922	8,126	8,388	9,289	8,886
Investments in property, plant and equipment, MSEK	491	223	306	251	245
Operating margin, %	28.0	28.4	29.3	32.3	31.7
Return on operating capital, %	49.6	47.1	49.3	55.7	51.7
EBITA interest cover	8.9	7.6	7.0	7.6	7.4
Net debt/EBITA	1.9	2.1	2.3	2.3	2.4
<i>Share data</i>					
Share capital, MSEK	390	390	390	390	390
Ordinary dividend per share, SEK	8.00 <sup>1)</sup>	7.50	7.30	7.30	6.50
Special dividend per share, SEK	12.00 <sup>1)</sup>	-	-	-	-
Earnings per share basic, SEK					
Including larger one time items <sup>2)</sup>	14.48	13.23	13.63	14.33	12.14
Excluding larger one time items <sup>3)</sup>	14.36	13.23	12.82	14.18	12.14
Earnings per share diluted, SEK					
Including larger one time items <sup>2)</sup>	14.48	13.22	13.61	14.25	12.07
Excluding larger one time items <sup>3)</sup>	14.36	13.22	12.80	14.10	12.07

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

<sup>2)</sup> Profit for the full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. Swedish Match's share of net profit in STG for 2015 includes an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets.

<sup>3)</sup> Profit for the full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. Adjusted for a Swedish Match larger one-time item of negative 42 MSEK (negative 33 MSEK after tax) and the above-mentioned STG reassessment of useful lives.

Sales by product area, MSEK	2015	2014	2013	2012	2011
Snus and moist snuff	5,090	5,001	4,868	5,049	4,726
Other tobacco products	3,829	2,832	2,564	2,661	2,388
Lights	1,295	1,295	1,332	1,339	1,346
Other operations	4,272	4,178	3,847	3,437	3,206
<b>Sales</b>	<b>14,486</b>	<b>13,305</b>	<b>12,610</b>	<b>12,486</b>	<b>11,666</b>

Operating profit/loss by product area, MSEK	2015	2014	2013	2012	2011
Snus and moist snuff	2,071	2,207	2,195	2,349	2,181
Other tobacco products	1,554	1,109	1,029	1,161	1,049
Lights	190	218	230	222	240
Other operations	-124	-88	-80	-65	-105
<b>Operating profit from product areas</b>	<b>3,690</b>	<b>3,446</b>	<b>3,375</b>	<b>3,666</b>	<b>3,365</b>
Share of net profit in STG	360	334	319	366	337
<b>Subtotal</b>	<b>4,050</b>	<b>3,780</b>	<b>3,693</b>	<b>4,032</b>	<b>3,702</b>
Capital gain from transfer of businesses to STG	-	-	-	30	-
Costs for relocation of distribution facilities	-42	-	-	-	-
Capital gain from sale of land	-	-	161	-	-
<b>Operating profit</b>	<b>4,008</b>	<b>3,780</b>	<b>3,855</b>	<b>4,062</b>	<b>3,702</b>

Operating margin by product area, % <sup>1)</sup>	2015	2014	2013	2012	2011
Snus and moist snuff	40.7	44.1	45.1	46.5	46.1
Other tobacco products	40.6	39.2	40.1	43.6	44.0
Lights	14.7	16.8	17.3	16.6	17.9
<b>Operating margin from product areas<sup>2)</sup></b>	<b>25.5</b>	<b>25.9</b>	<b>26.8</b>	<b>29.4</b>	<b>28.8</b>
<b>Operating margin<sup>3)</sup></b>	<b>28.0</b>	<b>28.4</b>	<b>29.3</b>	<b>32.3</b>	<b>31.7</b>

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

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

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

# Quarterly data 2014–2015

Condensed consolidated income statements, MSEK	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Sales</b>	<b>3,719</b>	<b>3,756</b>	<b>3,644</b>	<b>3,368</b>	<b>3,536</b>	<b>3,416</b>	<b>3,339</b>	<b>3,014</b>
<b>Gross profit</b>	<b>1,714</b>	<b>1,745</b>	<b>1,715</b>	<b>1,615</b>	<b>1,627</b>	<b>1,563</b>	<b>1,555</b>	<b>1,452</b>
<b>Operating profit</b>	<b>908</b>	<b>1,065</b>	<b>1,021</b>	<b>1,014</b>	<b>992</b>	<b>989</b>	<b>941</b>	<b>858</b>
Net financial cost	-128	-106	-115	-114	-132	-127	-125	-126
<b>Profit before income tax</b>	<b>780</b>	<b>960</b>	<b>906</b>	<b>900</b>	<b>861</b>	<b>862</b>	<b>816</b>	<b>732</b>
<b>Profit for the period</b>	<b>636</b>	<b>741</b>	<b>705</b>	<b>721</b>	<b>700</b>	<b>695</b>	<b>651</b>	<b>580</b>
<b>EBITDA excluding larger one time items</b>	<b>987</b>	<b>1,144</b>	<b>1,143</b>	<b>1,093</b>	<b>1,074</b>	<b>1,067</b>	<b>1,013</b>	<b>930</b>

Key data	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating margin, % <sup>1)3)</sup>	24.4	28.4	29.2	30.1	28.1	29.0	28.2	28.5
Investments in property, plant and equipment, MSEK	272	80	87	52	57	33	78	56
Earnings per share, basic SEK	3.34	3.84	3.62	3.68	3.55	3.50	3.27	2.91

Sales by product area, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	1,318	1,311	1,271	1,191	1,323	1,257	1,267	1,154
Other tobacco products	955	958	982	933	723	724	699	687
Lights	334	312	318	331	362	319	299	315
Other operations	1,112	1,174	1,073	912	1,129	1,117	1,074	858
<b>Sales</b>	<b>3,719</b>	<b>3,756</b>	<b>3,644</b>	<b>3,368</b>	<b>3,536</b>	<b>3,416</b>	<b>3,339</b>	<b>3,014</b>

Operating profit/loss by product area, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	545	556	514	455	577	562	562	505
Other tobacco products	366	390	414	384	288	276	279	267
Lights	50	47	36	57	63	51	49	55
Other operations	-53	-14	-28	-29	-27	-15	-28	-18
<b>Operating profit from product areas</b>	<b>908</b>	<b>979</b>	<b>937</b>	<b>866</b>	<b>900</b>	<b>874</b>	<b>862</b>	<b>809</b>
Share of net profit in STG	-	87	126	148	92	115	78	49
<b>Subtotal</b>	<b>908</b>	<b>1,065</b>	<b>1,063</b>	<b>1,014</b>	<b>992</b>	<b>989</b>	<b>941</b>	<b>858</b>
Costs for relocation of distribution facilities	-	-	-42	-	-	-	-	-
<b>Total larger one time items</b>	<b>-</b>	<b>-</b>	<b>-42</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Operating profit</b>	<b>908</b>	<b>1,065</b>	<b>1,021</b>	<b>1,014</b>	<b>992</b>	<b>989</b>	<b>941</b>	<b>858</b>

Operating margin by product area, % <sup>1)</sup>	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	41.4	42.4	40.5	38.2	43.6	44.8	44.4	43.8
Other tobacco products	38.3	40.7	42.2	41.1	39.8	38.1	39.9	38.8
Lights	14.9	15.2	11.4	17.1	17.3	16.0	16.4	17.6
<b>Operating margin from product areas<sup>2)</sup></b>	<b>24.4</b>	<b>26.1</b>	<b>25.7</b>	<b>25.7</b>	<b>25.5</b>	<b>25.6</b>	<b>25.8</b>	<b>26.9</b>
<b>Operating margin<sup>3)</sup></b>	<b>24.4</b>	<b>28.4</b>	<b>29.2</b>	<b>30.1</b>	<b>28.1</b>	<b>29.0</b>	<b>28.2</b>	<b>28.5</b>

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

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

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



# Definitions used in financial tables

## DIVIDEND PAY-OUT RATIO (%)

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

## EBITA MARGIN (%)

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

## OPERATING MARGIN (%)

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

## DIVIDEND YIELD (%)

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

## EBITDA

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

## P/E RATIO

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

## EARNINGS PER SHARE

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

## EBITDA MARGIN (%)

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

## RETURN ON OPERATING CAPITAL (%)

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

## EBITA

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

## NET DEBT

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

## TOTAL RETURN (%)

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

## EBITA INTEREST COVERAGE RATIO

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

## OPERATING CAPITAL

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

# CFO comment



The financial performance during 2015 was strong with both strong growth and cash flow generation. Sales increased by 9 percent to 14,486 MSEK (13,305) and operating profit increased by 7 percent to 3,690 MSEK (3,446). The growth was driven by a significantly stronger US dollar compared to 2014 and by the strong growth of our US mass market cigar business.

For the Snus and moist snuff product area, we have during the year made strategic progress within many areas. The snus market share in Sweden has been relatively stable and we have gained market share within the value segment in Sweden. The markets for snus in Scandinavia and the US and for moist snuff in the US have continued to grow. However, in Sweden during the start of the year the trade reduced inventory following the trade's hoarding in the end of 2014 ahead of the significant tobacco excise tax increase in January 2015. As a consequence the shipment volumes in Scandinavia were flat but the underlying volume development was strong for the full year. However, the negative price/mix effects in Scandinavia continued due to an increased share of value priced products, the launch of *XRANGE*, and a weakened Norwegian krone, and the operating profit from the product area declined.

Our investments to expand snus outside Scandinavia continued and we made progress. For snus in the US, the net loss in local currency was reduced as sales and gross profit grew. Reported in Swedish kronor this investment remained on similar level as in 2014.

Our mass market cigars in the US, reported as part of the product area Other tobacco products, had an outstanding year with volumes reaching record levels. The volumes exceeded 300 million sticks in the first quarter of 2015 and remained consistently above the 300 million level during the following quarters. In addition, sales were further enhanced by the positive average selling price development resulting from portfolio mix shift. For chewing tobacco, volume declines in line with market trends were largely compensated by price increases. In local currency, the operating profit for the product area increased significantly.

During 2015, Swedish Match also had the benefit of not paying fees for the tobacco buy-out program (a governmental program supporting tobacco growers) which expired late 2014. However, during 2016 further costs are expected to be offsetting this benefit, as Swedish Match expects to incur cigar-related fees to the Food and Drug Administration when new cigar regulations are enacted.

With continued efficient management of our lights business, the performance during the year held up well despite challenges. The geopolitical situation in some markets has put pressure on the business. The weakened Brazilian real has had a negative impact

on primarily the match business and the stronger US dollar has for some markets had a negative impact on sales whereas the effect has been positive for other markets. In total, sales and operating profit declined for the product area.

The contribution from STG also improved during the year and STG made a marked improvement in EBITDA. As STG continued to generate strong cash flows, a special dividend was paid to its shareholders during the year. Swedish Match thereby received an additional 555 MSEK in dividends from STG and in total during the year 816 MSEK. Swedish Match reporting of STG was changed as a consequence of the February 2016 IPO of STG. From the fourth quarter of 2015 Swedish Match reports its share in STG with a one quarter lag. Due to this transition, no share of STG's net profit was recognized for the fourth quarter 2015.

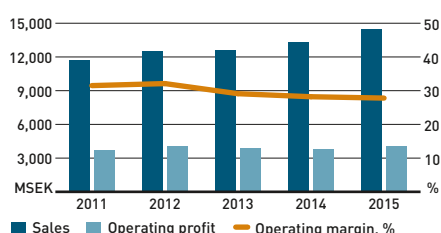
We continue to have a high cash conversion and we have generated strong free cash flows – which all have been returned to our shareholders. The cash flow from operating activities increased to 3,768 MSEK (3,276) positively affected by growth in earnings, cash flow from changes in working capital and the special dividend from STG. During the year 3.3 bn SEK were returned to shareholders via dividends and share repurchases.

In summary, 2015 has been a strong year financially for Swedish Match. The Company's capacity to generate solid cash flows continued, supported by good earnings and we have delivered value to our shareholders through share repurchases, dividends, and, I am happy to note, a positive share price performance during the year. I am also pleased to conclude that the year resulted in an increase in earnings per share of more than 9 percent and that the earnings per share amounted to 14.48 SEK.

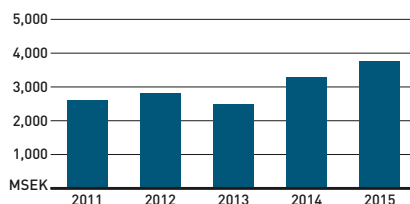


**Marlene Forsell**  
CFO

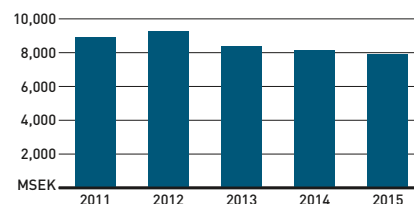
SALES AND OPERATING PROFIT 2011–2015



NET CASH FROM OPERATING ACTIVITIES 2011–2015



NET DEBT 2011–2015



## Content

Report of the Board of Directors .....	48
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### Consolidated financial statements

Consolidated income statement .....	54
Consolidated statement of comprehensive income .....	54
Consolidated balance sheet .....	55
Consolidated statement of changes in equity .....	56
Consolidated cash flow statement .....	57
Notes for the Group .....	58
Note 1 Accounting principles .....	58
Note 2 Critical estimate and judgments .....	63
Note 3 Segment information .....	63
Note 4 Other operating income and expenses .....	65
Note 5 Personnel .....	65
Note 6 Audit fees .....	69
Note 7 Operating expenses classified by nature .....	69
Note 8 Net finance cost .....	69
Note 9 Income tax .....	69
Note 10 Earnings per share .....	70
Note 11 Intangible assets .....	71
Note 12 Property, plant and equipment .....	72
Note 13 Forest plantations .....	72
Note 14 Investments in associated companies and joint ventures .....	73
Note 15 Other non-current receivables and other current receivables .....	74
Note 16 Inventories .....	74
Note 17 Trade receivables .....	74
Note 18 Cash and cash equivalents .....	74
Note 19 Equity .....	75
Note 20 Interest bearing liabilities .....	76
Note 21 Employee benefits .....	76
Note 22 Provisions .....	79
Note 23 Other liabilities .....	79
Note 24 Accrued expenses and deferred income .....	79
Note 25 Financial instruments and financial risks .....	80
Note 26 Operating lease agreements .....	83
Note 27 Pledged assets .....	83
Note 28 Commitments and contingent liabilities and assets .....	83
Note 29 Group companies .....	83
Note 30 Supplementary information to cash flow statement .....	84
Note 31 Related parties .....	84
Note 32 Subsequent events .....	84
Note 33 Information about the Parent Company .....	84

### Parent Company financial statements

Parent Company income statement .....	85
Parent Company statement of comprehensive income .....	85
Parent Company balance sheet .....	86
Statement of changes in Parent Company equity .....	87
Cash flow statement for the Parent Company .....	88
Notes for the Parent Company .....	89
Note 1 Sales .....	89
Note 2 Audit fees .....	89
Note 3 Operating lease agreements .....	89
Note 4 Other operating income and expense .....	89
Note 5 Financial items .....	89
Note 6 Appropriations .....	89
Note 7 Income tax .....	90
Note 8 Tangible assets .....	90
Note 9 Group companies .....	91
Note 10 Other non-current receivables .....	91
Note 11 Other receivables .....	91
Note 12 Prepaid expenses and accrued income .....	92
Note 13 Equity .....	92
Note 14 Untaxed reserves .....	92
Note 15 Other provisions .....	93
Note 16 Bond loans .....	93
Note 17 Liabilities to Group companies .....	93
Note 18 Other liabilities .....	93
Note 19 Accrued expenses and deferred income .....	93
Note 20 Pledged assets and contingent liabilities/assets .....	93
Note 21 Supplementary information to cash flow statement .....	93
Note 22 Related parties .....	94
Note 23 Carrying value and fair value of financial instruments .....	94
Note 24 Derivatives under netting agreements .....	95
Note 25 Employee benefits .....	95
Proposed distribution of earnings .....	96
Auditor's report .....	97



# Report of the Board of Directors

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

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

## Sales

Sales for the year were 14,486 MSEK (13,305). In local currencies, sales increased by 2 percent.

For the year, sales of *Snus and moist snuff* increased to 5,090 MSEK (5,001). Trade destocking during the first quarter of 2015 in Scandinavia following the excise tax increase in January, as well as lower fourth quarter trade hoarding effects in 2015, are estimated to have impacted sales development negatively. In Scandinavia, sales revenues declined, while shipment volumes were flat with value priced products comprising a larger share of the product portfolio. Swedish Match estimates that its underlying volumes (excluding trade destocking/hoarding and calendar effects) on the Scandinavian market increased by more than 2 percent and that the total market grew by more than 4 percent on an underlying basis. Sales in Scandinavia adjusted for destocking/hoarding effects and negative currency translation effects stemming from the weaker Norwegian krone, declined somewhat as increased volumes did not fully compensate for negative price/mix impacts. In the US, sales revenues in local currency for moist snuff increased due to a somewhat higher average price per can while volumes were in line with prior year.

For *Other tobacco products* (cigars and chewing tobacco), total sales for the year amounted to 3,829 MSEK (2,832). In local currency, sales for the year increased by 10 percent compared to the previous year. Cigar volumes in the US increased by 12 percent, while sales in local currency increased more in percentage terms, due to a shift in the portfolio mix. For chewing tobacco, sales in local currency were down slightly with higher prices substantially compensating for the decline in volumes.

For *Lights* (matches, lighters and complementary products) sales for the year amounted to 1,295 MSEK (1,295). Excluding currency translation effects, sales for the product area were also flat. Sales of complementary products mainly within the Brazilian operations increased.

Sales in *Other operations* amounted to 4,272 MSEK (4,178). Other operations primarily comprise the distribution of tobacco products on the Swedish market, and corporate overhead costs.

## Operating profit

Full year operating profit from product areas increased by 7 percent to 3,690 MSEK compared to 3,446 MSEK in 2014. In local currencies the operating profit from product areas was down by 2 percent, negatively affected by the trade destocking in Scandinavia at the beginning of the year, as well as lower trade hoarding effects in Scandinavia in the fourth quarter vs. prior year's fourth quarter.

Operating profit for *Snus and moist snuff* amounted to 2,071 MSEK (2,207), negatively affected by the same parameters as sales, and included net costs for Swedish snus expansion outside Scandinavia amounting to 352 MSEK (341).

Operating profit for *Other tobacco products* increased to 1,554 MSEK (1,109). In local currency, operating profit was up by 14 percent, attributable to strong performance for US cigars, which benefited from record volume levels and the absence of fees related to the tobacco buy-out program, which expired in late 2014. Operating profit for chewing tobacco in local currency declined.

Operating profit for *Lights* for the year amounted to 190 MSEK (218). In local currencies, operating profit declined by 17 percent, mainly as a consequence of weaker performance for lighters in Eastern Europe. Net realized pricing compensated for lower match volumes in many markets whereas lighters were negatively affected by both lower volumes and higher market support.

Operating loss for *Other operations* for the year was 124 MSEK (88).

Swedish Match has started to report its share of STG's net profit with a one quarter lag. The share of net profit in STG, after interest

## Sales and operating profit/loss by product area

MSEK	Sales		Operating profit/loss	
	2015	2014	2015	2014
Snus and moist snuff	5,090	5,001	2,071	2,207
Other tobacco products	3,829	2,832	1,554	1,109
Lights	1,295	1,295	190	218
Other operations	4,272	4,178	-124	-88
<b>Sales and operating profit from product areas</b>	<b>14,486</b>	<b>13,305</b>	<b>3,690</b>	<b>3,446</b>
Share of net profit in STG	-	-	360	334
<b>Total</b>	<b>14,486</b>	<b>13,305</b>	<b>4,050</b>	<b>3,780</b>
<i>Larger one-time items:</i>				
Costs for relocation of distribution facilities			-42	-
<b>Total larger one-time items</b>			<b>-42</b>	<b>-</b>
<b>Total</b>			<b>4,008</b>	<b>3,780</b>

## Summary of consolidated income statement

MSEK	2015	2014
Sales	14,486	13,305
Operating profit	4,008	3,780
Net finance cost	-463	-510
Taxes	-742	-644
<b>Profit for the year</b>	<b>2,803</b>	<b>2,626</b>
<i>Attributable to:</i>		
Equity holders of the Parent	2,803	2,625
Non-controlling interest	0	0
<b>Profit for the year</b>	<b>2,803</b>	<b>2,626</b>
Earnings per share, basic (SEK)	14.48	13.23

and tax, has not been reported for the fourth quarter as from the reporting period ending December 31, 2015. The reported share of net profit in STG, after interest and tax, (including only the first nine months in 2015 but twelve months in 2014) amounted to 360 MSEK (334) and was positively affected by a reassessment of useful lives of primarily trademarks, but negatively affected by restructuring costs.

Operating profit for the full year included a larger one-time charge of 42 MSEK relating to the relocation of distribution facilities in Sweden. Operating profit, including share of net profit in STG and larger one-time items, amounted to 4,008 MSEK (3,780). Operating margin from product areas for the year, excluding larger one-time items, was 25.5 percent (25.9). Operating margin, including share of net profit in STG and larger one-time items, was 27.7 percent (28.4).

#### Scandinavian Tobacco Group

Scandinavian Tobacco Group (STG) is a world leading manufacturer of cigars and pipe tobacco. During the full year 2015 and up until February 9, 2016, Swedish Match owned 49 percent (49 million shares) of STG.

On February 10, 2016, STG was listed on Nasdaq Copenhagen and in conjunction with the listing Swedish Match sold 17.8 million shares. Immediately after the listing, Swedish Match's ownership amounted to 31.2 percent. In connection with the offering, the Managers (JP Morgan, Deutsche Bank, Nordea, Carnegie) have been granted an over-allotment option. If this over-allotment option is exercised in full, Swedish Match ownership will be reduced to 29.0 percent.

Swedish Match has from the reporting period ending December 31, 2015 started to report its share of STG's net profit as well as its share of equity with a one quarter lag. As a consequence of transitioning to a one quarter lag reporting, Swedish Match has only included results from its ownership in STG for the first nine months of 2015.

Swedish Match's share of STG's net profit after interest and tax amounted to 360 MSEK (334) for the full year but only included Swedish Match's share of STG's net profit for the first nine months of 2015, as explained above. On a first nine months comparison, Swedish Match's share of STG's net profit amounted to 360 MSEK (242), which included a positive adjustment of 56 MSEK relating to the reassessment of useful lives primarily for trademarks. Besides the positive adjustment of 56 MSEK, Swedish Match's share of STG's net profit for the first nine months was positively affected by currency effects but negatively affected by restructuring charges at STG with a negative impact of 57 MSEK, after tax.

If adjusted to reflect the positive effect of the reassessment of useful lives of certain tangible and intangible assets in the 2014 comparable figures, Swedish Match's share of STG's net profit for the first nine months would have amounted to 304 MSEK (283).

STG's reported EBITDA for the first nine months increased to 946 MDKK (871) affected by positive currency effects, but negatively affected by restructuring costs. The restructuring costs were incurred by concrete steps to increase productivity and build a stronger company, including a detailed plan to rationalize the product portfolio and the number of stock keeping units coupled with the announcement of a sizeable reduction of the workforce in the supply chain. Underlying EBITDA showed a marked improvement, driven by increased productivity and synergies realized from the acquisition of a cigar business in Belgium.

#### Larger one-time items

SMD Logistics AB, a subsidiary of Swedish Match AB, has on April 27, 2015 reached an agreement to sell its distribution facility in Solna, Sweden, and at the same time reached an agreement to acquire a new distribution center located in Kungsängen, Sweden. Restructuring costs of 42 MSEK related to the relocation of the distribution operations were recognized as a larger one-time item during the second quarter.

#### Net finance cost

Net finance cost for the year decreased to 463 MSEK (510) mainly due to lower interest bearing debt.

#### Taxes

For the full year the reported tax expense amounted to 742 MSEK (644), corresponding to a tax rate of 20.9 percent (19.7). The tax rate, excluding associated companies and joint ventures, was 23.1 percent (21.6). The tax rate in 2015 has increased affected by the stronger US dollar and earnings growth in the US which have resulted in a higher proportion of income being taxed at the higher relative US corporate tax rate. The increase is partially offset by the net effect of items of a temporary nature. 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 14.48 SEK (13.23). Diluted earnings per share was 14.48 SEK (13.22). Basic earnings per share for the year, excluding larger one-time items and the reassessment of useful lives in STG, amounted to 14.36 SEK (13.23), while diluted earnings per share, similarly adjusted, was 14.36 SEK (13.22).

#### Liquid funds

Cash and cash equivalents amounted to 1,732 MSEK at the end of the year, compared with 2,312 MSEK at the beginning of 2015. As of December 31, 2015, Swedish Match had 1,500 MSEK in unutilized committed credit lines.

#### Summary of consolidated balance sheet

MSEK	2015	2014
Non-current assets	9,872	10,006
Other current assets	3,220	4,255
Cash and cash equivalents	1,732	2,312
<b>Total assets</b>	<b>14,824</b>	<b>16,573</b>
Equity	252	279
Non-current financial liabilities and provisions	3,105	3,144
Non-current loans	7,613	7,803
Current liabilities and provisions	3,201	4,207
Current loans	653	1,141
<b>Total equity and liabilities</b>	<b>14,824</b>	<b>16,573</b>

#### Summary of consolidated cash flow statement

MSEK	2015	2014
Net cash from operating activities	3,768	3,276
Net cash used in investing activities	-513	-274
Net cash transferred to shareholders	-3,318	-2,290
Net cash from other financing activities	-605	-1,798
<b>Net decrease in cash and cash equivalents</b>	<b>-669</b>	<b>-1,085</b>
Cash and cash equivalents at beginning of the year	2,312	3,164
Effects of exchanges rate fluctuations on cash and cash equivalents	90	232
<b>Cash and cash equivalents at end of year</b>	<b>1,732</b>	<b>2,312</b>

## Financing and cash flow

Cash flow from operating activities for 2015 amounted to 3,768 MSEK compared with 3,276 MSEK for the previous year. The cash flow from operations increased compared to the prior year as a result of improved EBITDA and dividends received from associated companies, including an extra dividend of 555 MSEK from STG, partly offset by lower cash flow from changes in working capital, primarily relating to timing effects, and some increased payments of income taxes. Cash flow from changes in working capital was negatively affected by timing effects in 2015 and benefited from timing effects in 2014.

The net debt as of December 31, 2015 amounted to 7,922 MSEK compared to 8,126 MSEK at December 31, 2014.

During 2015, new bond loans of 798 MSEK were issued. Repayments of bond loans for the same period amounted to 1,435 MSEK, including the repurchase of bond loans of 296 MSEK with shorter maturities. At December 31, 2015 Swedish Match had 8,064 MSEK of interest bearing debt excluding retirement benefit obligations compared to 8,703 MSEK at December 31, 2014. During 2016, 650 MSEK of this debt falls due for payment. As of December 31, 2015, Swedish Match had net retirement benefit obligations of 1,591 MSEK compared to 1,734 MSEK at December 31, 2014. The decrease in net retirement benefit obligations during 2015 is due to the impact of higher discount rates, changes in demographic assumptions and currency translation, mostly affecting the US plans.

## Capital expenditures and investments

Investments in property, plant and equipment during the year amounted to 491 MSEK (223), including 150 MSEK related to the new distribution facility in Kungsängen, Sweden. Total investments in intangible assets during 2015 amounted to 14 MSEK (5).

## Depreciations, amortizations and write-downs

During the year, total depreciation, amortization and write-downs amounted to 317 MSEK (303), of which depreciation and write-down on property, plant and equipment amounted to 273 MSEK (262) and amortization and write-down of intangible assets amounted to 44 MSEK (41).

## Dividend and financial policy

The dividend policy of the Company is a pay-out ratio of 40 to 60 percent of the earnings per share, subject to adjustments for larger one-time items. The Board has further determined that the financial policy should be that the Group will strive to maintain a net debt that does not exceed 3 times EBITA.

The Board continually reviews the financial position of the Company, and the actual level of net debt will be assessed against anticipated future profitability and cash flow, investment and expansion plans, acquisition opportunities as well as the development of interest rates and credit markets. The Board is committed to maintain an investment grade credit rating similar to S&P's BBB or Moody's Baa2 long term ratings.

The Board proposes an increased dividend of 20.00 SEK consisting of an ordinary dividend of 8.00 SEK (7.50) and a special dividend of 12.00 SEK. The proposed increased ordinary dividend of 8.00 SEK (7.50) is equivalent to 55 percent of the full year's earnings per share. The proposed ordinary and special dividend together amounts to 3,778 MSEK based on the 188.9 million shares outstanding at the end of the year.

## Share structure

The Annual General Meeting on April 23, 2015 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 196.5 million shares with a quotient value of 1.9823 SEK representing a share capital of 389.5 MSEK. Each share carries one vote.

In line with the financial policy, 7.5 million shares were repurchased during the year for 1,995 MSEK at an average price of 266.91 SEK, following authorization from the Annual General Meetings held in 2015 and 2014. The purpose of the repurchase was primarily to enable the Company's capital structure to be adjusted. Total shares bought back by Swedish Match since the buyback programs started have been repurchased at an average price of 113.59 SEK. During the year the Company sold 0.7 million treasury shares at an average price of 197.45 SEK, totaling 141 MSEK, as a result of option holders exercising their options. As per December 31, 2015 Swedish Match held 7.6 million shares in treasury, corresponding to 3.86 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, 2015 amounted to 188.9 million. As of December 31, 2015, the Company has no remaining call options outstanding.

The Board will propose to the Annual General Meeting in April 2016 a renewed mandate to repurchase shares up to a total holding in treasury not exceeding 10 percent of the number of registered shares in the Company until next Annual General Meeting in 2017.

In addition a proposal will be made to cancel 7.8 million shares held in treasury, including 0.2 million shares repurchased after December 31, 2015, 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 4,488 compared with 4,395 for the full year 2014.

## 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 99 and is also available on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com).

The Corporate Governance Report includes information on risk management and internal control over financial reporting, see further on page 105.

## Corporate Sustainability

Sustainability efforts benefit the environment and the Company's stakeholders, helping to generate long term value for the Company. It helps Swedish Match to be more competitive, to identify and reduce costs and risks, to strengthen the company's reputation, and to be an employer of choice.

Swedish Match is in the midst of a transition from reporting according to the Global Reporting Initiative (GRI) G3 guidelines toward reporting in a manner that is consistent with GRI G4. One aim of this new reporting is to provide more in depth information for those areas that the Company considers to be of greater importance, and a clearly defined strategic direction and approach.

## 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. Swedish Match considers that it is the Company's responsibility to actively work to map and reduce the negative environmental impact of the business throughout the entire value chain.

To support its environmental efforts, Swedish Match has adopted a Group Environmental Policy that encompasses all aspects of its



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

The Company's ten most significant manufacturing facilities, with products accounting for more than 95 percent of Company sales of its own produced products, have management systems certified according to the environmental management standard ISO 14001 as well as the quality management systems standard ISO 9001.

#### Permits and obligatory reporting

All plants satisfied the requirements of their permits during 2015. The snus plants in Gothenburg and Kungälv in Sweden are subject to obligatory reporting in accordance with the Swedish Environmental Code. The plant in Vetlanda, Sweden produces match sticks and boxes with striking surface that are used in match production. These operations require a permit in accordance with the Environmental Protection Act. The permit is valid indefinitely. Noise levels, storage of timber and solvent emissions are regulated.

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

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

#### Organization and personnel

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

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

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

The human resource organization regularly coordinates and conducts a global employee survey to identify common improvement areas. The latest survey measured levels of employee engagement,

satisfaction, and employer attractiveness. It also evaluated communication effectiveness and other areas critical to the performance of the Company, such as leadership and management capabilities. The results from the surveys are shared with all employees and following the presentation of the results, employees and managers develop action plans together based on the survey results.

#### Risk factors

Swedish Match faces intense competition in all of its markets and for each of its products and such competition may increase in the future. In order to be successful the Group must develop products and brands that resonate with changing consumer 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 and also operations in Brazil, the Dominican Republic, Norway and EMU member countries. Consequently, changes in exchange rates of the euro, Norwegian krone, Brazilian real, the Dominican peso and in particular the US dollar 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.

Regulatory and fiscal changes related to tobacco and other taxes, as well as to the marketing, sale and consumption of tobacco products, in the countries where the Group is operating may have an adverse effect on Swedish Match results of operations.

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

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

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

Refinancing risk is the risk of not being able to meet the need for future funding. To avoid this risk, all maturing loans shall be able to be repaid by the operating cash flow. Furthermore there shall be a liquidity reserve consisting of available cash and cash equivalents as well as unutilized committed credit facilities. The aim of the Group is to have an even maturity structure of the debt portfolio and the objective for interest rate fixing periods is to achieve an even and low cost of interest. Since the part of loans with variable interest rates is approximately 7 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*.

#### Events following the close of the reporting period

On January 14, 2016, Scandinavia Tobacco Group announced the intention to launch an Initial Public Offering (IPO or Offering) and listing of the company on Nasdaq Copenhagen and on January 28, an offering circular was published. The IPO consisted of a partial sale of existing shares by the STG shareholders, Swedish Match and Skandinavisk Holding II A/S. The shareholders offered to sell 35.6 percent in the offering with an overallotment option of another 4.4 percent. The IPO closed on February 9, 2016, and admission to trading and listing of the STG shares on Nasdaq Copenhagen took place on February 10, 2016. Swedish Match reduced its ownership in STG in the IPO from 49.0 percent (49.0 million shares) to 31.2 percent (31.2 million shares) at completion of the offering. Assuming full exercise of the overallotment option at a later date, Swedish Match will hold 29.0 percent of STG (29.0 million shares).

The final offer price of 100 DKK per share corresponds to a market capitalization of STG of DKK 10 billion. The proceeds from the STG shares sold by Swedish Match in the Offering are planned to be transferred to Swedish Match's shareholders. The Board of Directors of Swedish Match therefore intends to propose to the 2016 Swedish Match Annual General Meeting a special dividend of 12.00 SEK per share and an ordinary dividend of 8.00 SEK, in total 20.00 SEK. Swedish Match expects that the capital gain from the reduction of share ownership in STG will be in excess of 500 MSEK, not subject to taxation, and will be recognized in the financial statement for the first quarter of 2016.

#### Change of control clauses

Swedish Match AB and certain subsidiaries in the Group are party to agreements that include change of control clauses. Bonds issued under Swedish Match's 1,500 MEUR Global Medium Term Note Program and the 1,500 MSEK Revolving Credit Facility have clauses that can force the Company to pay back loans in a change of control situation. Some agreements with third parties in the Scandinavian tobacco distribution and sales businesses can be cancelled should there be a change of control of Swedish Match.

The President and two other members of the Group Management Team may initiate the termination of their employment if the Company is delisted or in the event of a major change of ownership of the Company, provided such change has a significant impact on the duties and responsibility compared with the duties and responsibility immediately prior to such change. In such an event, these persons have 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 2016. 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 2015.

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 2016 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 2015.

#### Application of principles on variable salary for 2016

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 2016 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 2016 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 for 2016 are estimated<sup>1)</sup> to range between 0 MSEK and 15 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 2016 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 2016 but measured over the full performance period 2016–2018. The criterion is total Group Operating profit from product areas for the years 2016–2018. There will not be any pay-out at all unless there is an improvement in relation to the comparable performance of the Group in 2015.

Accruals for the GMT long term incentive programs are estimated<sup>1)</sup> to range between 0 MSEK below minimum level and 11 MSEK at maximum level depending on performance outcome. For the principles of remuneration adopted by the Annual General Meeting in April 2015, see *Note 5 Personnel*.

#### Outlook

For 2016, on a full year basis, we expect Scandinavian snus as well as US moist snuff consumption to continue to grow as measured in number of cans. In our Scandinavian snus business, the average net selling price per can is expected to decline slightly versus prior year as modest price increases are offset by the effect of the weakened Norwegian krone, mix effects attributable to the successful launch of X RANGE, and growth of the value segment. Since December 2015 the competitive activity level in the Swedish snus market has increased and we expect it to remain high for the remainder of the year. For our US moist snuff business, we expect higher prices to more than compensate for negative mix effects during the year. We will continue to work hard to defend our market shares in both Scandinavia and in the US.

For cigars in the US, Swedish Match expects the market to continue to grow in 2016 but to remain highly competitive. Swedish Match expects the US Food and Drug Administration (FDA) to begin regulating cigars during the year and in conjunction with this Swedish Match, like the rest of the cigar industry, will be subject to user fees to the FDA.

Swedish Match will continue to invest in growth outside Scandinavia in 2016 and expects the US snus business to continue to grow and to deliver increased gross profit and reduced operating loss.

Swedish Match generates a substantial share of its sales and operating profit in the US. During 2015, the stronger US dollar compared to 2014 had a significant positive effect on both sales and operating profit growth. For 2016, Swedish Match expects a much less pronounced currency translation impact.

The effective corporate tax rate, excluding associated companies, is expected to be somewhat higher for 2016 than for 2015.

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

#### Swedish Match AB (publ)

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

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

Sales in the Parent Company for the full year amounted to 40 MSEK (48). Profit before income tax amounted to 3,794 MSEK (1,075) and net profit for the year amounted to 3,614 MSEK (989). The higher net profit for the year mainly pertains to higher dividends from subsidiaries compared to previous year and lower interest expenses due to lower average interest bearing debts.

During the period, the Parent Company received dividends of 2,983 MSEK (705), of which 1,739 MSEK relate to dividend in kind recognized at market value, and net Group contributions of 2,016 MSEK (1,708).

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.

During the year repayments of bond loans amounted to 1,435 MSEK and new bond loans of 798 MSEK were issued. During the period, the Parent Company made share repurchases of 7.5 million (3.7) shares for 1,995 MSEK (890) and sold 0.7 million (0.4) treasury shares for 141 MSEK (53).

Capital expenditures on tangible assets for the period amounted to 2 MSEK (1).

A dividend of 1,464 MSEK (1,453) has been paid during the period.

<sup>1)</sup> Estimation made on the assumption that Group Management Team is unchanged and on an assumed exchange rate SEK vs. USD of 8.56.



## Consolidated income statement

MSEK	Note	2015	2014
Sales, including tobacco tax		27,438	25,908
Less tobacco tax		-12,952	-12,603
<b>Sales</b>	3	<b>14,486</b>	<b>13,305</b>
Cost of goods sold		-7,697	-7,109
<b>Gross profit</b>		<b>6,789</b>	<b>6,197</b>
Selling expenses		-2,177	-1,910
Administrative expenses		-890	-786
Other operating income and expenses	4	2	-6
Share of profit in associated companies and joint ventures	14	327	285
Costs for relocation of distribution facilities		-42	-
<b>Operating profit</b>	3, 5, 6, 7, 21, 26	<b>4,008</b>	<b>3,780</b>
Finance income		22	27
Finance costs		-486	-537
<b>Net finance cost</b>	8	<b>-463</b>	<b>-510</b>
<b>Profit before income tax</b>		<b>3,545</b>	<b>3,270</b>
Income tax expense	9	-742	-644
<b>Profit for the year</b>		<b>2,803</b>	<b>2,626</b>
<i>Attributable to:</i>			
Equity holders of the Parent		2,803	2,625
Non-controlling interests		0	0
<b>Profit for the year</b>		<b>2,803</b>	<b>2,626</b>
Earnings per share, basic, SEK	10		
Including larger one-time items		14,48	13.23
Excluding larger one-time items		14,36	13.23
Earnings per share, diluted, SEK	10		
Including larger one-time items		14,48	13.22
Excluding larger one-time items		14,36	13.22

## Consolidated statement of comprehensive income

MSEK	Note	2015	2014
<b>Profit for the year</b>		<b>2,803</b>	<b>2,626</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>			
Translation differences related to foreign operations	19	-137	732
Translation differences included in profit and loss	19	44	-
Effective portion of changes in fair value of cash flow hedges	19	86	-57
Reclassification for gains/losses on cash flow hedges included in profit and loss	19	8	-
Share of other comprehensive income in associated companies and joint ventures	19	260	322
Income tax relating to reclassifiable components of other comprehensive income	9	-21	13
<b>Subtotal, net of tax for the period</b>		<b>241</b>	<b>1,009</b>
<i>Other comprehensive income that will not be reclassified to the income statement</i>			
Actuarial gains and losses attributable to pensions, incl. payroll tax		395	-410
Share of other comprehensive income in associated companies and joint ventures		7	-25
Income tax relating to non-reclassifiable components of other comprehensive income	9	-155	154
<b>Subtotal, net of tax for the period</b>		<b>248</b>	<b>-281</b>
<b>Other comprehensive income, net of tax for the period</b>		<b>489</b>	<b>728</b>
<b>Total comprehensive income for the year</b>		<b>3,292</b>	<b>3,353</b>
<i>Attributable to:</i>			
Equity holders of the Parent		3,292	3,353
Non-controlling interests		0	0
<b>Total comprehensive income for the year</b>		<b>3,292</b>	<b>3,353</b>

## Consolidated balance sheet

MSEK	Note	December 31, 2015	December 31, 2014
<b>Assets</b>			
Intangible assets	11	1,048	1,030
Property, plant and equipment	12	2,130	1,937
Forest plantations	13	110	137
Investments in associated companies and joint ventures	14	4,845	5,233
Other non-current receivables	15	721	693
Deferred income tax assets	9	1,018	976
<b>Total non-current assets</b>		<b>9,871</b>	<b>10,006</b>
Inventories	16	1,378	2,419
Trade receivables	17	1,547	1,557
Prepaid expenses and accrued income		104	92
Income tax receivables		38	73
Other current receivables	15	153	115
Cash and cash equivalents	18	1,732	2,312
<b>Total current assets</b>		<b>4,952</b>	<b>6,567</b>
<b>TOTAL ASSETS</b>		<b>14,824</b>	<b>16,573</b>
<b>Equity</b>			
Share capital	19	390	390
Reserves		837	597
Retained earnings		-976	-709
<b>Equity attributable to equity holders of the Parent</b>		<b>251</b>	<b>277</b>
Non-controlling interests		1	1
<b>TOTAL EQUITY</b>		<b>252</b>	<b>279</b>
<b>Liabilities</b>			
Loans and borrowings	20, 25	7,613	7,803
Other liabilities	23	212	248
Provision for pensions and similar obligations	21	1,682	1,815
Other provisions	22	456	410
Deferred income tax liabilities	9	755	671
<b>Total non-current liabilities</b>		<b>10,718</b>	<b>10,946</b>
Loans and borrowings	20, 25	653	1,141
Trade payables		602	957
Income tax liabilities		78	52
Other liabilities	23	1,659	2,369
Accrued expenses and deferred income	24	715	730
Provisions	22	147	98
<b>Total current liabilities</b>		<b>3,854</b>	<b>5,348</b>
<b>TOTAL LIABILITIES</b>		<b>14,572</b>	<b>16,294</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>14,824</b>	<b>16,573</b>

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

## Consolidated statement of changes in equity

2014	Note	Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
		Share capital	Reserves	Retained earnings	Total		
<b>Equity at beginning of year</b>	19	<b>390</b>	<b>-412</b>	<b>-763</b>	<b>-786</b>	<b>1</b>	<b>-785</b>
Profit for the year		-	-	2,625	2,625	0	2,626
Other comprehensive income, net of tax <sup>11</sup>		-	1,009	-281	728	0	728
<b>Total comprehensive income</b>		<b>-</b>	<b>1,009</b>	<b>2,344</b>	<b>3,353</b>	<b>1</b>	<b>3,353</b>
Dividend		-	-	-1,453	-1,453	-	-1,453
Repurchase of own shares		-	-	-890	-890	-	-890
Stock options exercised		-	-	53	53	-	53
Cancellation of shares		-3	-	3	0	-	0
Bonus issue		3	-	-3	0	-	0
<b>Equity at end of year</b>		<b>390</b>	<b>597</b>	<b>-709</b>	<b>277</b>	<b>1</b>	<b>279</b>

2015	Note	Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
		Share capital	Reserves	Retained earnings	Total		
<b>Equity at beginning of year</b>	19	<b>390</b>	<b>597</b>	<b>-709</b>	<b>277</b>	<b>1</b>	<b>279</b>
Profit for the year		-	-	2,803	2,803	0	2,803
Other comprehensive income, net of tax <sup>11</sup>		-	241	248	489	0	489
<b>Total comprehensive income</b>		<b>-</b>	<b>241</b>	<b>3,051</b>	<b>3,292</b>	<b>0</b>	<b>3,292</b>
Dividend		-	-	-1,464	-1,464	-	-1,464
Repurchase of own shares		-	-	-1,995	-1,995	-	-1,995
Stock options exercised		-	-	141	141	-	141
Cancellation of shares		-8	-	8	0	-	0
Bonus issue		8	-	-8	0	-	0
<b>Equity at end of year</b>		<b>390</b>	<b>837</b>	<b>-976</b>	<b>251</b>	<b>1</b>	<b>252</b>

<sup>11</sup> Other comprehensive income included in retained earnings consists of actuarial gains and losses attributable to the Group's defined pension plans and the Group's share of actuarial gains and losses in associated companies and joint ventures, net after payroll and income taxes, in an amount of 248 MSEK [-281].

## Consolidated cash flow statement

MSEK	Note	2015	2014
<b>Operating activities</b>	30		
Profit before income tax		3,545	3,270
Share of net profit/loss in associated companies and joint ventures		-327	- 285
Dividends receive from associated companies		824	235
Adjustments for other non-cash items and other		412	253
Income tax paid		-724	- 580
<b>Cash flow from operating activities before changes in working capital</b>		<b>3,730</b>	<b>2,893</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/ Decrease (+) in inventories		1,110	- 933
Increase (-)/ Decrease (+) in operating receivables		-45	- 71
Increase (+)/ Decrease (-) in operating liabilities		-1,027	1,388
<b>Net cash generated from operating activities</b>		<b>3,768</b>	<b>3,276</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		-491	- 223
Proceeds from sale of property, plant and equipment		17	2
Purchase of intangible assets		-14	- 5
Acquisition of subsidiaries		-0	- 2
Investments in associated companies and joint ventures		-25	- 45
Changes in financial receivables, etc.		-0	-0
<b>Net cash from investing activities</b>		<b>-513</b>	<b>- 274</b>
<b>Financing activities</b>			
Proceeds from non-current borrowing		798	-
Repayment of borrowings		-1,435	-1,805
Repurchase of own shares		-1,995	- 890
Stock options exercised		141	53
Dividend paid to equity holders of the Parent		-1,464	-1,453
Other		31	7
<b>Net cash used in financing activities</b>		<b>-3,924</b>	<b>-4,088</b>
<b>Net decrease in cash and cash equivalents</b>		<b>-669</b>	<b>-1,085</b>
Cash and cash equivalents at the beginning of the year		2,312	3,164
Effect of exchange rate fluctuations on cash and cash equivalents		90	232
<b>Cash and cash equivalent at end of year</b>		<b>1,732</b>	<b>2,312</b>



# 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, 2014.

### 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, 2016.

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

The financial reports are presented in Swedish kronor (SEK), which is the functional currency of the Parent Company. Unless otherwise indicated, all amounts are rounded off to the nearest million. Figures in the reports are based on a consolidation system in SEK thousands. By rounding the numbers in tables, totals may not always equal the sum of the included rounded numbers. Assets and liabilities are reported at their historical acquisition value, except for certain financial assets and liabilities and biological assets that are reported at fair value. Financial assets and liabilities reported at fair value comprise derivative instruments and financial assets classified as financial assets reported at fair value through profit and loss or as financial assets available for sale. Biological assets refer to forest plantations. Assets and groups of assets classified as held for sale are reported as held for sale as of the date certain events confirm the assets or group of assets are held for sale. Assets held for sale are reported at the lower of carrying value and fair value adjusted for selling costs.

### Use of the assessments in the financial reports

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

### Significant accounting principles applied

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

### New standards, amendments and interpretations

A number of new standards, amendments to standards and interpretations of accounting standards have been applied in 2015. New standards and amendments to standards that have been applied as of January 1, 2015 are described below. Other changes in IFRS effective as of January 1, 2015 have not had any impact on the Group's financial statements.

The following new IFRS standards, amendments and interpretations to existing standards applicable as of January 1, 2015 have not had any significant impact on the Group's financial result or position: *IFRIC 21 Levies* and annual improvements to *IFRS 3 Business Combinations*, *IFRS 13 Fair Value Measurement* and *IAS 40 Investment Property*.

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

A number of new standards, changes in standards and interpretations of standards apply from 2016 or later and have not been applied in these financial reports.

*IFRS 15 Revenue from Contracts with Customers* which is expected to be effective in 2018 and supersedes *IAS 18 Revenue* and *IAS 11 Construction Contracts* and the related Interpretations when it becomes effective, introduces a 5-step approach in determining when to recognize revenue from customers. The impact from IFRS 15 on the Group's financial statements has not been assessed.

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

*IFRS 16 Leases* which is expected to be effective in 2019 and replacing *IAS 17 Leases* and the related Interpretations when it becomes effective, prescribes the principles for the recognition, measurement, presentation and disclosure of leases for both lessee and lessor, generally reflecting most leases on-balance sheet. The impact from *IFRS 16* 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, 2016 or later are not expected to have any significant impact on the Group's financial result or position: amendments to *IFRS 10 Consolidated Financial Statements*, *IFRS 11 Joint Arrangements*, *IFRS 12 Disclosure of Interests in Other Entities*, *IAS 1 Presentation of Financial Statements*, *IAS 7 Statement of Cash Flows*, *IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses*, *IAS 16 Property, Plant and Equipment*, *IAS 19 Employee Benefits*, *IAS 27 Separate Financial Statements*, *IAS 28 Investments in Associates and Joint Ventures*, *IAS 38 Intangible Assets*, *IAS 41 Agriculture* and annual improvements to *IFRS 2*, *IFRS 3*, *IFRS 5*, *IFRS 7*, *IFRS 8*, *IFRS 13*, *IAS 7*, *IAS 16*, *IAS 19*, *IAS 24*, *IAS 34*, and *IAS 38*.

### Consolidation principles

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

### Subsidiaries

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

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

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

## NOTE 1 Continued

of acquisition at fair value. Transaction costs relating to acquisition of subsidiaries are not included in the value of the acquired assets. All acquisition-related costs are expensed in the period when incurred. Contingent considerations are recognized on the balance sheet at fair value at the date of the acquisition, with any contingent payment classified as debt subsequently re-measured through the income statement.

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

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

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

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate. Results from disposal of an associate when the control is lost are recognized in the income statement. Any remaining interests in divested associates are re-measured to fair value, with the gain or loss recognized in the income statement to the extent disposed externally.

#### Non-controlling interest

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

#### Discontinued operations

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

#### Classification etc.

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

#### Reporting by segment

The Group's reportable segments are based on the internal reporting structure. Swedish Match's chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product areas. The Group's reportable segments are *Snus and moist snuff*, *Other tobacco products*, *Lights* and *Other operations*. Reportable segments have been aggregated when there are similarities in the segments' economic characteristics, such as gross profit margins, level of capital investments and impact from variations in the business cycle. Also similarities in the type of product, manufacturing process, customers, distribution process and regulatory environment have been considered to determine the appropriate aggregation of reportable

segments. There are no internal sales between operating segments and the Group's financial costs as well as taxes are not allocated to product areas.

Operating assets are not monitored on a segment basis.

#### Foreign currencies

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

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

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

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

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

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

Country	Currency	Average exchange rate January–December		Exchange rate on December 31	
		2015	2014	2015	2014
USA	USD	8.44	6.86	8.41	7.79
Euro zone	EUR	9.36	9.10	9.19	9.47
Denmark	DKK	1.25	1.22	1.23	1.27
Brazil	BRL	2.57	2.92	2.16	2.92
Norway	NOK	1.05	1.09	0.96	1.05

#### Revenues

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

#### Financial income and expenses

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

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

#### Financial instruments

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

Financial instruments reported in the balance sheet include, on the asset side, cash and cash equivalents, trade receivables, shares and other equity instruments, loans receivable, and derivatives. Such instruments on the liability

ties and equity side are trade payables, 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 settle the liability simultaneously.

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

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

Financial assets, including derivatives but excluding trade receivables, 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.

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 such loss event has an 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 means that they are initially reported at the amount received after deductions for transaction costs. After the date of acquisition, loans are valued at amortized cost in accordance with the effective interest method.

#### Derivatives used for hedge accounting

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

#### Financial assets available for sale

The financial assets in this category include financial assets that are not classified in any other category or financial assets that the company initially chose to classify in this category. Assets in this category for which fair value can be reliably measured are valued continuously at their fair value with changes in value reported in other comprehensive income. At the time when the investments are removed from the balance sheet previously recognized gains and losses reported in other comprehensive are reclassified to profit and loss. Assets in

this category which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are valued at cost and regularly tested for impairment. Any impairment losses are recognized as operating expenses.

#### Derivatives and hedge accounting

Derivative instruments such as forward contracts and swaps are utilized to cover the risk of exchange rate differences and exposure to interest rate risks. Changes in fair value affecting derivative instruments are reported in the income statement based on the reason for the holding. If hedge accounting is not applied, increases or decreases in the value of the derivative are reported as a revenue or expense item under operating profit or under net finance cost, based on the reason for using the derivative instrument and whether its use is related to an operating item or a financial item. When hedge accounting is used, the ineffective portion is reported in the same manner as changes in value affecting derivatives that are not used for hedge accounting. In those cases in which derivatives were entered into in order to manage interest rate risk, Swedish Match applies hedge accounting as described in IAS 39.

#### Receivables and liabilities in foreign currency

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

#### Cash flow hedges

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

#### Fair value hedges

In cases where fixed interest rate obligations are converted into floating interest rate obligations, hedge accounting according to the fair value hedge technique is applied. The fair value changes arising from revaluation of derivatives are recognized directly in profit and loss, and the related value change from the hedged item is similarly recognized in profit and loss thus offsetting the effective portion in the hedge relationship. Swedish Match had no fair value hedges at December 31, 2015.

#### Derivatives not used for hedge accounting

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

#### Leased assets

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

#### Intangible assets

##### (i) Goodwill

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

## NOTE 1 Continued

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

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

**(iii) Amortization**

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

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

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

**Tangible assets**

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

**Depreciation**

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

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

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

**Forest plantations**

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

**Inventory**

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

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

**Impairment**

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

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

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

**Provisions**

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

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

**Share capital**

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

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

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

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

**Termination benefits**

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

**Post-employment benefits**

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

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



Pension costs for defined benefit plans are calculated according to the Projected Unit Credit Method in a manner that distributes the cost over the employee's remaining active working life. These costs are valued at the present value of the expected future disbursements using a discount rate that corresponds to the interest rate on first-class corporate bonds or government bonds with a remaining maturity that approximates the particular commitments. Service cost, past service cost and any administration costs relating to post-employment defined benefit plans are classified as operating cost. A finance component calculated based on the discount rate on the net liability or net asset is recognized in the net finance cost. The finance component is recognized as interest expense or interest income net by plan.

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

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

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

In the reporting period beginning January 1, 2016, Swedish Match will change the method used to estimate the service and interest components of income and expenses related to the post-employment benefit plans in the US. This change compared to the previous method is expected to result in a decrease in the service and interest cost components in 2016. Historically, these service and interest cost components were estimated using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation as of the beginning of the period. We have elected to use the full yield curve approach in estimating these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. This change was made to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to corresponding spot rate along the yield curve. This change will not affect the measurement of benefit obligations related to the US plans as the change in the service and interest cost components will be offset by an increase in the actuarial gains and losses reported in experience assumptions. We view this change as a change in accounting estimate and accordingly will account for it prospectively.

### Share-based payments

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

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

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

for the incentive plan are expensed during the service year, which is the first year, including social security fees applicable for each country where the executives work. Costs for the incentive plan are reported as personnel costs with corresponding amount reported as a long term deferred compensation liability on the balance sheet. The accrual will be subject to review based on actual performance during the performance period with any changes in the estimate taken through the income statement.

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

### Taxes

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

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

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

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

### Contingent liabilities

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

### Earnings per share

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

### Parent Company accounting principles

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

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

### Subsidiaries, joint ventures and associated companies

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

### Employee benefits

The Parent Company applies different principles for computing defined benefit plans than those specified in IAS 19. The Parent Company follows the provisions of the Pension Security Act and the regulations of the Swedish Financial Supervisory Authority, since that is a prerequisite for tax deductibility. The key

differences compared with the regulations in IAS 19 are how the discount rate is determined, that computation of the defined benefit obligations occurs according to current salary levels without assumptions regarding future wage increases, and that all actuarial gains and losses are reported in the income statement as they are incurred.

#### Taxes

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

#### Group and shareholder contributions

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

## 2. Critical estimates and judgments

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

#### Intangible assets

According to IFRS intangible assets are to be defined as having either definite or indefinite lives. Intangible assets with indefinite useful lives are not amortized but instead tested annually for impairment. Goodwill, according to IFRS, has by definition an indefinite useful life and is therefore not amortized. Acquired trademarks have been deemed to have definite useful lives and are in general amortized over a period of 10–20 years. Trademarks and intangible assets that are being amortized are tested for impairment when circumstances indicate that the value of an intangible asset is impaired. The impairment tests include significant judgments made by management, such as assumption of projected future cash flows used in the valuation of the assets. Future events could cause management to conclude that impairment indicators exist and that an intangible asset is impaired. Any resulting impairment loss could have a material impact on the financial condition and result of operations. The Group's intangible assets as of December 31, 2015 amounted to 1,048 MSEK and amortization and write downs amounted to 44 MSEK. The amount for goodwill, which is included in intangible assets, amounts to 671 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, 2015 the Group's investments in associated companies and joint ventures amounted to 4,845 MSEK. For further information on the Group's investments in associated companies and joint ventures see *Note 14 Investments in associates and joint ventures*.

#### Legal disputes

The Company is involved in a number of legal proceedings. Although the Group is convinced that it has a strong position in these disputes, an unfavorable outcome cannot be ruled out, and this could have an adverse effect on the Group's earnings. 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 are based on assumptions on the discount rate, future mortality, rate of compensation increase etc., often for a long time period. The actual outcome could differ from the assumptions made which can lead to an adjustment to the amount recognized in the balance sheet. The benefit obligations of the Group's defined benefit pension plans and post-employment medical benefit plans as of December 31, 2015 were estimated to exceed the fair value of plan assets by 1,591 MSEK. Further details of the Group's defined benefit plans are presented in *Note 21 Employee benefits*.

## 3. Segment information

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

**Snus and moist snuff** are smokeless tobacco products that are produced and sold primarily in Sweden, Norway and the 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*, *Göteborgs Rapé*, *Ettan*, *Grov*, *Catch*, *Kaliber*, *Kronan*, and *XRANGE snus series* in Sweden, *General*, *General G.3*, *Nick & Johnny*, and *The Lab* in Norway, and *Longhorn*, *Timber Wolf*, and *General* in the US.

**Other tobacco products** represent cigars and chewing tobacco manufactured and sold on the US market. Swedish Match is a major player in the US mass market cigar market, with such well known brands as *Garcia y Vega*, *Game by Garcia y Vega*, *1882*, *White Owl*, and *Jackpot*. 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. The main brand is *Red Man*. The market for chewing tobacco shows a declining trend.

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

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

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

NOTE 3 Continued

Operating segments	Snus and moist snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net profit/loss in STG		Swedish Match Group	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
External sales	5,090	5,001	3,829	2,832	1,295	1,295	4,272	4,178	14,486	13,305	-	-	14,486	13,305
Depreciations, amortizations and write-downs <sup>1)</sup>	-176	-174	-59	-53	-38	-34	-43	-43	-317	-303	-	-	-317	-303
Income from associated companies and joint ventures <sup>2)</sup>	-36	-47	3	8	0	1	-	-10	-33	-48	360	334	327	285
<b>Operating profit</b>	<b>2,071</b>	<b>2,207</b>	<b>1,554</b>	<b>1,109</b>	<b>190</b>	<b>218</b>	<b>-124</b>	<b>-88</b>	<b>3,690</b>	<b>3,446</b>	<b>360</b>	<b>334</b>	<b>4,050</b>	<b>3,780</b>
Costs for relocation of distribution facilities	-	-	-	-	-	-	-42	-	-42	-	-	-	-42	-
<b>Operating profit, including larger one-time items</b>	<b>2,071</b>	<b>2,207</b>	<b>1,554</b>	<b>1,109</b>	<b>190</b>	<b>218</b>	<b>-166</b>	<b>-88</b>	<b>3,648</b>	<b>3,446</b>	<b>360</b>	<b>334</b>	<b>4,008</b>	<b>3,780</b>
Finance income													22	27
Finance costs													-486	-537
<b>Profit before income tax</b>													<b>3,545</b>	<b>3,270</b>

<sup>1)</sup> Write-downs of tangible assets amounted to 1 MSEK [5] for snus and moist snuff and 0 MSEK [2] for other tobacco products. There were no write-downs of intangible assets.

<sup>2)</sup> The full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. Swedish Match's share of net profit in STG for 2015 includes an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets.

	Snus and moist snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net profit/loss in STG		Swedish Match Group	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<b>Restructuring costs and results from sale of fixed assets</b>														
Restructuring charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains/losses from sale of fixed assets	-2	0	0	0	0	0	-1	-0	-2	0	-	-	-2	0
<b>Investments</b>														
Property, plant and equipment <sup>1)</sup>	164	127	95	33	54	49	178	14	491	223	-	-	491	223
Intangible assets	5	1	-	-	-	-	9	5	14	5	-	-	14	5

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

## 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 <sup>1)</sup>			
	2015		2014		2015		2014	
	MSEK	Percent	MSEK	Percent	MSEK	Percent	MSEK	Percent
Sweden	7,283	50	7,352	55	6,797	79	6,920	80
USA	5,163	36	3,869	29	1,195	14	1,103	13
Rest of the world	2,040	14	2,084	16	601	7	621	7
<b>Total</b>	<b>14,486</b>	<b>100</b>	<b>13,305</b>	<b>100</b>	<b>8,594</b>	<b>100</b>	<b>8,644</b>	<b>100</b>

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

## Information about major customers

Swedish Match generates its sales from a diverse customer portfolio and the reliance on individual customers is therefore limited. Sales from the Group's largest single external customer constituted 8 percent of the Group's total sales, whereof 4 percent in Snus and moist snuff and 4 percent in Other operations.

## 4. Other operating income and expenses

Other operating income and expenses are specified below:

	2015	2014
Foreign exchanges gains	52	16
Foreign exchanges losses	-48	-22
Result from sale of fixed assets	-2	0
<b>Total</b>	<b>2</b>	<b>-6</b>

## 5. Personnel

The average number of employees, including temporary employees, in the Parent Company during 2015 was 40, and in the Group 4,488. The corresponding numbers in 2014 were 41 and 4,395, respectively.

Group employees by country are summarized in the table below:

	2015		2014	
	Average number of employees	(of whom men, %)	Average number of employees	(of whom men, %)
<b>Parent Company</b>				
Sweden	40	48	41	51
<b>Subsidiaries</b>				
Belgium	3	-	3	-
Brazil	608	71	672	70
Dominican Republic	1,392	48	1,101	50
Netherlands	102	95	101	95
Norway	47	68	48	67
Philippines	258	58	268	59
Sweden	1,013	63	997	63
Turkey	15	73	15	73
United States	1,009	70	1,147	69
Other countries	1	-	2	50
<b>Total</b>	<b>4,488</b>	<b>61</b>	<b>4,395</b>	<b>63</b>

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

	2015		2014	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
<b>Parent Company</b>				
Board members	10	60	10	60
President and other management	7	71	7	86
<b>Group</b>				
Board members	102	58	79	62
President and other management	46	83	40	88

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

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

	2015			2014		
	Wages, salaries and other remunerations	Social costs	of which, pension costs <sup>1)</sup>	Wages, salaries and other remunerations	Social costs	of which, pension costs <sup>1)</sup>
Parent Company	76	33	10	72	52	28
Subsidiaries	1,357	626	216	1,178	508	154
<b>Total</b>	<b>1,433</b>	<b>659</b>	<b>226</b>	<b>1,251</b>	<b>560</b>	<b>182</b>

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

The pension costs for the Parent Company include 6 MSEK (6) attributable to the President and other management consisting on average of six persons during 2015 and six persons in 2014.

The pension costs for the subsidiaries include 9 MSEK (7) attributable to Presidents and other management consisting on average of 21 persons during 2015 (18 persons in 2014). The defined benefit obligations related to Presidents and other management as of December 31, 2015 amounted to 79 MSEK (72).



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

	2015			2014		
	Board, President and other management <sup>1)</sup>	of which, variable salaries	Other employees	Board, President and other management <sup>1)</sup>	of which, variable salaries	Other employees
<b>Parent Company</b>						
Sweden	42	16	34	37	11	35
<b>Subsidiaries</b>						
Total in subsidiaries	70	31	1,287	45	14	1,133
<b>Total</b>	<b>111</b>	<b>47</b>	<b>1,321</b>	<b>82</b>	<b>25</b>	<b>1,168</b>

<sup>1)</sup> The Board, President and other management employed by the Parent Company consisted on average of 13 persons (13). Presidents and other management employed by the subsidiaries consisted on average of 21 persons (18), whereof one person was a member of the Group Management Team. For further information about remunerations to Group Management Team members see table below "Remuneration and other benefits to Group Management Team".

During 2015, 43 MSEK (31) 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 23, 2015 decided, for the period up to and including April 28, 2016 when the next Annual General Meeting is held that the Chairman of the Board shall receive a fee of 1,750,000 SEK, the deputy Chairman shall receive 830,000 SEK, that other members of the Board elected by the General Meeting shall each receive a fee of 700,000 SEK and as compensation for committee work the Chairmen of the Compensation Committee and the Audit Committee shall receive 250,000 SEK respectively and the other members of these committees shall each receive 125,000 SEK. Members of the Board employed by the Group shall not receive any Directors' fees.

There are no variable salaries or other benefits paid to the Board members for Board work during 2015. In 2015 a study fee in the amount of 57,048 SEK was paid to each of the three employee representatives on the Board, and in the amount of 42,699 SEK to each of the three deputy members. The study fees were paid by each employee representative's respective company. The fees to Board members elected by the Annual General Meeting for Board work during 2015 and 2014 are shown in the tables below:

### Fees to Board members

TSEK	2015				TSEK	2014			
	Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work		Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work
Conny Karlsson <i>Board chairman</i>	1,750	250	–	2,000	Conny Karlsson <i>Board chairman</i>	1,750	250	–	2,000
Andrew Cripps <i>Board member</i>	830	–	125	955	Andrew Cripps <i>Board member</i>	830	–	125	955
Charles Blixt <i>Board member</i>	700	125	–	825	Karen Guerra <i>Board member</i>	700	125	–	825
Jacqueline Hoogerbrugge <i>Board member</i>	700	125	–	825	Wenche Rolfsen <i>Board member</i>	700	–	125	825
Wenche Rolfsen <i>Board member</i>	700	–	125	825	Robert Sharpe <i>Board member</i>	700	125	–	825
Meg Tivéus <i>Board member</i>	700	–	250	950	Meg Tivéus <i>Board member</i>	700	–	250	950
Joakim Westh <i>Board member</i>	700	–	125	825	Joakim Westh <i>Board member</i>	700	–	125	825
<b>Total</b>	<b>6,080</b>	<b>500</b>	<b>625</b>	<b>7,205</b>	<b>Total</b>	<b>6,080</b>	<b>500</b>	<b>625</b>	<b>7,205</b>

### Remuneration and other benefits to Group Management Team

The Annual General Meeting on April 23, 2015 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.

## NOTE 5 Continued

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

**Application of principles on variable salary for 2015**

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

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

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

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

TSEK		Fixed salary	Variable salary	Other benefits	Pension costs	Total	Defined benefit obligations	Severance costs
<b>President</b>	2015	6,439	6,763	134	2,370	15,707	-	-
	2014	6,252	4,412	152	2,271	13,086	-	-
<b>Other members of Group Management Team</b>	2015	15,692	16,503	1,237	5,264	38,696	20,098	-
	2014	14,926	10,338	1,173	4,860	31,297	18,425	-
<b>Total</b>	2015	22,131	23,266	1,371	7,634	54,403	20,098	-
	2014	21,177	14,750	1,325	7,130	44,383	18,425	-

**Comments to the table**

- At the end of 2015, the Group Management Team consisted of seven persons including the President. The President and five other members of the Group Management Team were employed by the Parent Company and one member was employed by a subsidiary.
- At the end of 2014, the Group Management Team consisted of seven persons including the President. The President and five other members of the Group Management Team were employed by the Parent Company and one member was employed by a subsidiary. Two members of the Group Management Team were during 2014 partly absent due to parental leave. Acting members during the time of absence are not included in the Group Management Team headcount or in the table above.

- Variable salary pertains to accruals charged to the consolidated income statement during the year for short term and long term incentive programs.
- Other benefits pertain to company cars, medical insurance, dental plan, life insurance, club membership and other benefits.
- Reported pension costs correspond to service costs for defined benefit pension plans and fees relating to defined contribution pension plans (excluding payroll taxes).

### Variable salary

In 2015, the Group Management Team ("GMT") participated in short and long term incentive programs (variable salary) described under the presentation of the principles for remuneration and other terms of employment above.

The predominant performance criterion for the CEO and the heads of corporate functions in the short term incentive program for 2015 was Group operating profit (excluding share of net profit in STG and excluding investments in Swedish Snus outside Scandinavia). The CEO and three heads of corporate functions also had an additional criterion, constituting a maximum of 30 percent of the short term incentive, based on objectives established by the board and the Compensation Committee. Those members of the Group Management Team who were division Presidents had partly the same criterion as the CEO and partly incentive criteria linked to the division.

The performance criteria for the CEO and other members of the GMT for the long term program that started in 2013, for which the performance period ended in 2015, were primarily based on a financial criterion (75 percent) and to a lesser extent on subjective criteria (25 percent). The financial performance criterion was accumulated Group operating profit (excluding share of net profit in STG and excluding investments in Swedish snus outside Scandinavia). The result of the financial performance criterion was established by the Compensation Committee to 3,674 MSEK in relation to 2015 and 11,140 MSEK for the total performance period 2013 to 2015. In regards to the financial performance criterion, the threshold and target for maximum payout were 12,299 MSEK and 13,296 MSEK respectively for the total performance period. The subjective performance criteria were related to the fulfillment of strategic objectives and evaluated by the Compensation Committee. The total performance outcome for the long term program was 12.5 percent.

In the long term program that started in 2015, the performance criterion for the CEO and other members of the Group Management team is the accumulated Group operating profit from product areas for the years 2015 to 2017. 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 2014. 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 earning per share and the result of the return after tax on operating adjusted capital compared to the previous three years average. In addition, the participants needed to retain as an employee at the end of 2009. The options 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	2015		2014	
	Weighted average exercise price	Number of underlying shares	Weighted average exercise price	Number of underlying shares
Outstanding at beginning of period	197.45	711,770	178.11	1,088,104
Granted during period	-	-	-	-
Exercised during period	197.45	711,770	141.52	376,334
Expired during period	-	-	-	-
<b>Outstanding at period-end</b>	<b>-</b>	<b>-</b>	<b>197.45</b>	<b>711,770</b>
Exercisable at period-end	-	-	197.45	711,770

The average share price for share options exercised in 2015 was 255.34 SEK (203.81).

During 2015, all remaining options issued by Swedish Match, as part of its former option program, have been exercised and no further options are outstanding.

### Pensions

#### President

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

#### Other members of Group Management Team

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

### Other employment conditions

#### Severance pay etc.

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

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

## 6. Audit fees

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

Audit fees	2015	2014
KPMG		
Audit services	7	7
Audit related services	0	0
Tax services	1	1
Other services	1	1
<b>Total</b>	<b>9</b>	<b>9</b>

Other services include assistance with testing of IT-controls.

## 7. Operating expenses classified by nature

Operating expenses	2015	2014
Personnel expenses	2,092	1,811
Depreciation, amortization and write-downs	317	303
Direct material	1,884	1,651
Finished products from third party manufacturers	4,118	4,035
Other operating expenses	2,352	2,011
<b>Total</b>	<b>10,763</b>	<b>9,811</b>

Expenses for research and development are recognized in the income statement as other operating expenses. During 2015 expenses for research and development amounted to 118 MSEK (109).

## 9. Income tax

The major components of income tax expense/income for the years ended December 31, 2015 and 2014 are:

Income tax expense reported in the income statement	2015	2014	Income tax reported outside of the Income statement	2015	2014
<i>Current tax:</i>			Deferred tax	-175	167
Current tax on earnings for the year	-827	-551	<b>Total</b>	<b>-175</b>	<b>167</b>
Adjustments in respect of prior years	-7	5	<i>This comprises:</i>		
<b>Total current tax</b>	<b>-834</b>	<b>-546</b>	<b>Tax reported in other comprehensive income</b>		
<i>Deferred tax:</i>			Actuarial net gains/losses attributable to pensions	-155	154
Origination and reversal of temporary differences	92	-97	Revaluation of cash flow hedges net gain/loss	-21	13
Impact of change in tax rate	0	-1	Impact of change in tax rate	-	-
<b>Total deferred tax</b>	<b>92</b>	<b>-98</b>	<b>Total tax reported in other comprehensive income</b>	<b>-175</b>	<b>167</b>
<b>Income tax expense</b>	<b>-742</b>	<b>-644</b>	<b>Total tax reported outside of the income statement</b>	<b>-175</b>	<b>167</b>

The deductible and taxable temporary differences in the balance sheet for the years ended December 31, 2015 and 2014 are summarized below:

Deferred tax assets and deferred tax liabilities	2015			2014		
	Deferred tax assets	Deferred tax liabilities	Net balance	Deferred tax assets	Deferred tax liabilities	Net balance
Tax loss carry forwards	108	-	108	7	-	7
Trade receivables	2	-	2	3	-	3
Pensions and other post-employment benefits	641	20	621	703	18	685
Employment benefits	123	-	123	104	-	104
Intangible assets	76	273	-197	112	275	-163
Tangible assets	17	204	-187	12	204	-192
Tax allocation reserve	-	210	-210	-	153	-153
Inventory	3	67	-64	4	53	-49
Unremitted earnings in foreign subsidiaries	-	29	-29	-	21	-21
Financial assets	19	-	19	37	-	37
Other	78	-	78	47	-	47
<b>Total</b>	<b>1,067</b>	<b>804</b>	<b>263</b>	<b>1,029</b>	<b>724</b>	<b>305</b>
Netting of assets and liabilities	-49	-49	-	-53	-53	-
<b>Net deferred tax balances</b>	<b>1,018</b>	<b>755</b>	<b>263</b>	<b>976</b>	<b>671</b>	<b>305</b>

## 8. Net finance cost

Financial income	2015	2014
Interest income relating to pension receivables	2	3
Interest income relating to cash and bank	10	23
Interest income relating to financial instruments held for trading	7	0
Net foreign exchange gains	3	1
<b>Total</b>	<b>22</b>	<b>27</b>
Financial expenses		
Interest expense relating to pension liabilities	-82	-56
Interest expense relating to financial liabilities measured at amortized cost	-367	-472
Interest expense relating to cash flow hedges transferred from equity	-30	-
Interest expense relating to financial liabilities pertaining to fair value	0	0
Net foreign exchange losses	-	0
Other financial expenses	-6	-9
Net gain on financial liabilities revalued to fair value	-	0
<b>Total</b>	<b>-486</b>	<b>-537</b>
<b>Net finance cost</b>	<b>-463</b>	<b>-510</b>



The net of deferred tax liabilities and assets for the years ended December 31, 2015 and 2014 are summarized below:

Movement in deferred tax liabilities, net	2015	2014
Opening balance, net	-305	-156
Deferred tax expense/income in the Income statement	-92	98
Deferred tax in other comprehensive income	175	-167
Translation differences	-41	-80
<b>Closing balance, net</b>	<b>-263</b>	<b>-305</b>

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

As of December 31, 2015 the Group's non-recognized deductible temporary differences, excluding tax losses, are in total 9 MSEK (10). The table below shows amounts and expiration of the Group's tax losses carried forward:

Year	Amount
2015	-
2016	-
Subsequent years or no time limitation	489
<b>Total tax losses carried forward recognized</b>	<b>489</b>
<b>Total tax losses carried forward not recognized</b>	<b>-</b>

A reconciliation between tax expense and the product of accounting profit multiplied by Sweden's statutory tax rate for the years ended December 31, 2015 and 2014 is as follows:

Reconciliation of effective tax rate	2015		2014	
	%	MSEK	%	MSEK
<b>Accounting profit before income tax excluding discontinued operations</b>		<b>3,545</b>		<b>3,270</b>
<b>Swedish statutory tax rate</b>	<b>22.0</b>	<b>780</b>	<b>22.0</b>	<b>719</b>
Effect of tax rates in foreign jurisdictions	2.0	71	1.5	49
Results from associated companies reported net of tax	-1.9	-69	-1.9	-63
Income tax in respect of prior years	0.1	5	0.0	1
Income not subject to tax	-1.9	-68	-2.5	-83
Expenses not deductible for tax purposes	0.1	4	0.2	7
No benefit available for loss	0.0	1	0.0	0
Effect of enacted change of tax rate	0.0	0	-	-
Other items	0.5	18	0.4	14
<b>Reported effective tax</b>	<b>20.9</b>	<b>742</b>	<b>19.7</b>	<b>644</b>

The tax rate in 2015 has increased affected by the stronger US dollar and earnings growth in the USA which have resulted in a higher proportion of income being taxed at a high US corporate tax rate. The increase is partially offset by the net effects of items of a temporary nature.

## 10. Earnings per share

Basic	2015	2014
Profit for the year attributable to equity holders of the Parent <sup>1)</sup>	2,803	2,625
Profit for the year attributable to equity holders of the Parent, excluding larger one-time items <sup>2)</sup>	2,779	2,625
<b>Weighted average number of shares outstanding, basic</b>	<b>193,506,546</b>	<b>198,475,824</b>

Diluted	2015	2014
Profit for the year attributable to equity holders of the Parent <sup>1)</sup>	2,803	2,625
Profit for the year attributable to equity holders of the Parent, excluding larger one-time items <sup>2)</sup>	2,779	2,625
Weighted average number of shares outstanding, basic	193,506,546	198,475,824
Effect of issued options	23,720	107,503
<b>Weighted average number of shares outstanding, diluted</b>	<b>193,530,266</b>	<b>198,583,328</b>

Earnings per share, basic, SEK	2015	2014
Including larger one-time items <sup>1)</sup>	14.48	13.23
Excluding larger one-time items <sup>2)</sup>	14.36	13.23

Earnings per share, diluted, SEK	2015	2014
Including larger one-time items <sup>1)</sup>	14.48	13.22
Excluding larger one-time items <sup>2)</sup>	14.36	13.22

<sup>1)</sup> Profit for the full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. Swedish Match's share of net profit in STG for 2015 includes an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets.

<sup>2)</sup> Adjusted for a Swedish Match larger one-time item (negative 33 MSEK after tax) and the above-mentioned STG reassessment of useful lives.

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 had an exercise price below the average market price during 2015. During 2015, all remaining options issued by Swedish Match, as part of its former option program, have been exercised and no further options are outstanding. For a table detailing number and weighted average of exercise prices for shares under options during 2015 see Note 5 Personnel.

# 11. Intangible assets

Intangible assets at December 31 comprised the following:

	Goodwill		Trademarks		Other intangible assets <sup>1)</sup>		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
<b>Cost at beginning of year</b>	<b>673</b>	<b>595</b>	<b>989</b>	<b>931</b>	<b>202</b>	<b>198</b>	<b>1,864</b>	<b>1,723</b>
Purchases/investments	-	-	-	-	14	5	14	5
Reclassifications <sup>2)</sup>	-	-	-	-	4	-	4	-
Adjustment	-	-	0	-	-	-1	0	-1
Translation differences, etc.	37	78	27	58	0	0	64	136
<b>Cost at end of year</b>	<b>710</b>	<b>673</b>	<b>1,016</b>	<b>989</b>	<b>220</b>	<b>202</b>	<b>1,946</b>	<b>1,864</b>
<b>Accumulated amortization and write-down at beginning of year</b>	<b>-39</b>	<b>-39</b>	<b>-706</b>	<b>-648</b>	<b>-89</b>	<b>-64</b>	<b>-833</b>	<b>-751</b>
Amortization for the year	-	-	-16	-15	-27	-25	-44	-41
Write-down for the year	-	-	-	-	-	-	-	-
Adjustment	-	-	-	-	0	1	0	1
Translation differences, etc.	-	-	-20	-43	0	0	-20	-43
<b>Accumulated amortization and write-down at end of year</b>	<b>-39</b>	<b>-39</b>	<b>-742</b>	<b>-706</b>	<b>-116</b>	<b>-89</b>	<b>-898</b>	<b>-833</b>
<b>Net carrying value at end of year</b>	<b>671</b>	<b>634</b>	<b>273</b>	<b>283</b>	<b>104</b>	<b>114</b>	<b>1,048</b>	<b>1,030</b>

<sup>1)</sup> Other intangible assets mainly consist of software and licenses.

<sup>2)</sup> During 2015, 4 MSEK was reclassified from construction in progress to software.

No borrowing costs have been capitalized during 2015 for intangible assets.

The Group's intangible assets are deemed to have definite useful lives, except for goodwill, which according to the IFRS definition has an indefinite useful life.

Amortization and write-downs has been charged to the income statement as stated below;

	Amortization and write-down	
	2015	2014
Cost of goods sold	0	0
Selling expenses	-20	-18
Administrative expenses	-24	-23
<b>Total</b>	<b>-44</b>	<b>-41</b>

## Goodwill

The Group's goodwill is tested for impairment annually and whenever there is an indication of impairment. For the purpose of impairment testing, goodwill is allocated to the lowest level of groups of cash generating units based on product groups and geographical markets, at which it is monitored by management. The carrying values of these groups of cash generating units are compared to their recoverable amount, determined on the basis of value in use. If the carrying value is higher, the difference is charged to the income statement.

The value in use of a cash generating unit is calculated using a valuation model based on discounted expected future cash flows. The cash flows are explicitly forecasted for the coming five years, after which a terminal growth

factor is applied to calculate the terminal value. The cash flows used in the valuation model are projected considering historical performance and forecasts, and are based on what management believes are reasonable assumptions. These assumptions may be subject to adjustments if circumstances change or new facts become known. The key assumptions in the calculation are sales growth, EBITDA margin, working capital and investment needs, discount rate and the terminal growth rate of free cash flow. The assumptions for sales growth, EBITDA margin, working capital and investment needs are based on historical trends over the last five years along with internal forecasts for the cash generating units. 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 2015, 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 1 percent (0,5) is applied for the Other tobacco products operations, 1 percent (2) for Lights operations and 1 percent (1) for the US moist snuff operations. When performing sensitivity analysis by increasing the discount rate by 2 percentage points or decreasing the terminal growth rate by 2 percentage points, the values in use were larger than the carrying values for all cash generating units. Realistic changes in key assumptions show no indications of impairment.

Cash generating units	Goodwill in cash generating units			
	Pre-tax WACC 2015, %	2015	Pre-tax WACC 2014, %	2014
Other tobacco products operations	7.3	424	7.4	402
Lights operations	13.4	170	13.4	170
US moist snuff operations	8.4	77	8.1	62
<b>Total</b>		<b>671</b>		<b>634</b>

## 12. Property, plant and equipment

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

	Buildings and land <sup>1)</sup>		Plant and machinery		Equipment, tools and fixtures		Construction in progress		Total <sup>2)</sup>	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<b>Cost at beginning of year</b>	<b>1,076</b>	<b>994</b>	<b>3,394</b>	<b>3,099</b>	<b>718</b>	<b>658</b>	<b>104</b>	<b>105</b>	<b>5,292</b>	<b>4,857</b>
Purchases/investments	152	1	55	46	73	74	195	83	474	204
Acquisitions	-	2	-	-	1	1	-	-	1	3
Sales/disposals	0	-	-100	-66	-44	-20	0	0	-144	-87
Reclassifications <sup>3)</sup>	17	22	116	67	2	2	-139	-91	-4	0
Translation differences, etc.	8	57	42	248	-21	4	4	7	33	315
<b>Cost at end of year</b>	<b>1,252</b>	<b>1,076</b>	<b>3,507</b>	<b>3,394</b>	<b>729</b>	<b>718</b>	<b>163</b>	<b>104</b>	<b>5,651</b>	<b>5,292</b>
<b>Accumulated depreciation and write-down at beginning of year</b>	<b>-456</b>	<b>-393</b>	<b>-2,466</b>	<b>-2,162</b>	<b>-433</b>	<b>-392</b>	<b>0</b>	<b>-4</b>	<b>-3,355</b>	<b>-2,950</b>
Depreciation for the year	-32	-27	-177	-170	-63	-58	-	-	-272	-255
Write-down for the year	-	0	-1	-7	0	-	-	-	-1	-7
Acquisitions	-	-1	-	-	-1	-1	-	-	-1	-2
Sales/disposals	-	-	83	63	43	20	-	-	126	84
Translation differences, etc.	-8	-36	-28	-190	18	-3	0	3	-18	-225
<b>Accumulated depreciation and write-down at end of year</b>	<b>-496</b>	<b>-456</b>	<b>-2,589</b>	<b>-2,466</b>	<b>-436</b>	<b>-433</b>	<b>-1</b>	<b>0</b>	<b>-3,521</b>	<b>-3,355</b>
<b>Net carrying value at end of year</b>	<b>756</b>	<b>619</b>	<b>918</b>	<b>928</b>	<b>293</b>	<b>286</b>	<b>163</b>	<b>103</b>	<b>2,130</b>	<b>1,937</b>

<sup>1)</sup> Buildings and land include land and land improvements at a book value of 100 MSEK (102).

<sup>2)</sup> Total property, plant and equipment exclude forest plantation.

<sup>3)</sup> Reclassifications include property, plant and equipment reclassified from construction in progress. During 2015 4 MSEK was 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 273 MSEK (262) was charged to cost of goods sold in the income statement in an amount of 210 MSEK (205), to administrative expenses of 22 MSEK (19), and to selling expenses of 41 MSEK (38).

## 13. Forest plantations

Forest plantations at December 31 comprised the following:

Forest plantations	2015	2014
<b>Carrying value at beginning of year</b>	<b>137</b>	<b>120</b>
Purchases/investments/new planting	17	19
Sales/disposals during the year	-	-
Change in fair value	-	-
Transfer to inventories	-6	-8
Translation differences, etc.	-38	6
<b>Carrying value at end of year</b>	<b>110</b>	<b>137</b>

The Group's forest plantations comprise poplar and pine forests with a total area of 5,960 hectares at December 31, 2015. 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 2015 had an estimated value of 6 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 2015.

Replanting is required following harvesting of the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 150 hectares annually. During 2015, 167 hectares (200) pine forest was replanted. At present, there is no corresponding requirement for poplar.

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

## 14. Investments in associated companies and joint ventures

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

### Investments in associated companies

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

Transaction costs of 19 MSEK attributable to the investment in the STG are included in the acquisition value. As Swedish Match at the close of the transaction owned 49 percent of the net assets transferred via STG, 49 percent of the total capital gain has been deferred. Hence, in the Group's accounts the carrying value of the STG investment is adjusted by the deferred capital gain in an amount of 543 MSEK.

Other associated companies of Swedish Match, which are not considered material, are a 40 percent ownership interest in Arnold André GmbH & Co. KG, a cigar company in Germany, a 32 percent ownership interest in Malaysian Match Co. SDN. BHD. which is a Malaysian sales distributor for primarily matches and lighters in the Asia region and a 49 percent interest in Road Cargo Sweden Holding AB, a Swedish company which through its subsidiaries provides road transportation

services with SMD Logistics AB as a major client. On December 23, 2015, Swedish Match acquired the remaining 51 percent interest in Road Cargo Sweden Holding AB, and contributed 100 percent of the shares in Road Cargo Sweden AB, a subsidiary of Road Cargo Holding AB, to EB Road Cargo AB in exchange for a 25 percent ownership interest in EB Road Cargo AB.

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

Associates	2015	2014
<b>Carrying value at beginning of year</b>	<b>5,221</b>	<b>4,482</b>
Investments in associated companies	2	10
Share of net profit/loss in associated companies	363	333
Share of other comprehensive income in associated companies	268	296
Dividends from associated companies	-824	-235
Translation differences, etc	-186	335
<b>Carrying value at end of year</b>	<b>4,845</b>	<b>5,221</b>

During the year, Swedish Match received a dividend of 816 MSEK (223) from STG and 8 MSEK (12) from other associated companies.

The tables below specify the summary financial position of the associated companies and the corresponding carrying values. Beginning in the fourth quarter of 2015, Swedish Match share of net profit for STG are reported on a one quarter lag, based on the availability of publicly released financial reporting. As a consequence of this change, 2015 reported figures for STG reflect the Swedish Match share of net profit of the nine months ended September 2015. Swedish Match share of net profit/loss of other associated companies are recognized with a time lag of one month, based on the investee's internal financial reporting. Adjustments resulting from annual audits of investee results are reflected in the subsequent reporting periods.

	Scandinavian Tobacco Group A/S		Other associated companies		Total	
	2015	2014	2015	2014	2015	2014
Sales	6,229	7,476	1,040	1,063	7,269	8,539
Operating profit	900	960	13	20	913	980
Net profit/loss	619	671	6	10	625	681
Other comprehensive income	546	606	-	-	546	606
Total comprehensive income	1,165	1,276	6	10	1,171	1,286
Total current assets	5,652	6,042	595	586	6,247	6,628
Total fixed assets	11,869	11,712	143	94	12,012	11,806
Total current liabilities	2,230	1,873	330	311	2,560	2,184
Total non-current liabilities	4,593	4,429	129	88	4,722	4,517
<b>Equity</b>	<b>10,698</b>	<b>11,452</b>	<b>276</b>	<b>282</b>	<b>10,974</b>	<b>11,734</b>
<b>Equity interest</b>	<b>5,275</b>	<b>5,644</b>	<b>108</b>	<b>113</b>	<b>5,383</b>	<b>5,757</b>
Goodwill	-	-	5	6	5	6
Deferred capital gain net of transaction costs	-543	-543	-	-	-543	-543
<b>Carrying value at end of year</b>	<b>4,732</b>	<b>5,102</b>	<b>113</b>	<b>119</b>	<b>4,845</b>	<b>5,221</b>

### Investments in joint ventures

In 2009, Swedish Match and Philip Morris International (PMI) 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 2015 was 36 MSEK (47). On October 1, 2015, SMPM International AB was dissolved, with trademarks and certain other assets reverting to the original owners. Separate transitional agreements have been signed whereby Swedish Match will supply snus products to PMI for certain markets and PMI will perform distribution services on behalf of Swedish Match in Canada.

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

Joint ventures	2015	2014
Carrying value at beginning of year	11	23
Investment in joint venture	25	35
Net loss of joint venture	-36	-47
<b>Carrying value at end of year</b>	<b>-</b>	<b>11</b>

The table below specifies the summary financial position of the joint venture:

	2015	2014
Sales	6	7
Operating loss	-71	-94
Net loss	-72	-95
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>-72</b>	<b>-95</b>
Total current assets	30	54
Total fixed assets	0	0
Total current liabilities	29	32
Total non-current liabilities	-	-
<b>Equity</b>	<b>1</b>	<b>22</b>
<b>Carrying value at end of year</b>	<b>-</b>	<b>11</b>

### Transactions with associated companies and joint ventures

In the normal course of business, Swedish Match conducts various transactions with associated companies and joint ventures. Transactions are conducted at an arms-length basis. Receivables from these companies totaled 27 MSEK (34). Total sales to associated companies and joint ventures amounted to 169 MSEK (170). Payables to these companies totaled 10 MSEK (6). Total purchases from associated companies and joint ventures amounted to 103 MSEK (108).



## 15. Other non-current receivables and other current receivables

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

Non-current receivables	2015	2014
Non-current financial receivables	621	601
Net assets in pension plans	91	81
Other non-current receivables	9	11
<b>Total</b>	<b>721</b>	<b>693</b>

The greater part of non-current financial receivables pertains to life insurance policies in a non-Swedish subsidiary and a substantial part of the remainder refer to foreign exchange derivatives used to hedge the Parent Company's bond loans denominated in foreign currencies.

Other current receivables at December 31 comprised the following items:

Other current receivables	2015	2014
Current financial receivables	21	0
VAT receivables	16	15
Other current receivables	115	100
<b>Total</b>	<b>153</b>	<b>115</b>

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

## 16. Inventories

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

Inventories	2015			2014		
	Current	Non-current	Total	Current	Non-current	Total
Finished goods	477	-	477	1,496	-	1,496
Work in progress	41	-	41	48	-	48
Leaf tobacco	347	227	573	387	219	606
Other input materials and consumables	286	-	286	269	-	269
<b>Total</b>	<b>1,151</b>	<b>227</b>	<b>1,378</b>	<b>2,200</b>	<b>219</b>	<b>2,419</b>

During 2015, 19 MSEK (15) 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	2015	2014
Trade receivables	1,569	1,585
Less provision for impairment of trade receivables	-21	-28
<b>Net total</b>	<b>1,547</b>	<b>1,557</b>

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

Trade receivable provision	2015	2014
<b>Carrying value at beginning of year</b>	<b>-28</b>	<b>-23</b>
Provision	-7	-9
Recovery	9	5
Write-off	1	1
Companies acquired	-	0
Translation differences, other deductions or additions, etc.	3	-1
<b>Carrying value at end of year</b>	<b>-21</b>	<b>-28</b>

As of December 2015, trade receivables of 55 MSEK (66) were past due but not impaired. The aging of these trade receivables are as follows:

Aging of trade receivables	2015	2014
Current	1,492	1,492
Overdue < 31 days	38	46
Overdue 31 - 60 days	7	9
Overdue > 60 days	10	11
<b>Total</b>	<b>1,547</b>	<b>1,557</b>

Swedish Match does not generally hold collateral against trade receivables. The ten largest customers represent 38 percent (39) of total net sales. Trade receivables are generally held in domestic currencies, which have an insignificant impact on the foreign currency risk. The provision for account receivables mainly pertain to doubtful customer account receivables that have the potential risk for not being collected. The credit risk of the Group's trade receivables are deemed to be low. For more information see Note 25 *Financial instruments and financial risks*.

## 18. Cash and cash equivalents

Cash and cash equivalents	2015	2014
Cash and bank	1,732	2,312
<b>Total</b>	<b>1,732</b>	<b>2,312</b>

# 19. Equity

## Objectives, policies and processes for managing capital

The Board of Directors of Swedish Match has concluded that in view of the good and stable prospects for the business the financial policy is that the Group will strive to maintain a net debt that does not exceed three times EBITA. The Board of Directors has further concluded that the strategic position of Swedish Match supports a dividend policy with a targeted pay-out ratio to 40 to 60 percent of the earnings per share for the year, subject to adjustments for larger one-time items. The Board of Directors proposes a total dividend of 20.00 SEK per share consisting of an ordinary dividend per share of 8.00 SEK and an extra dividend of 12.00 SEK. The proposed ordinary dividend of 8.00 SEK is equivalent to 55 percent of the earnings per share for the year, excluding larger one-time items. The extra dividend of 12.00 SEK is proposed in accordance with Swedish Match's financial policy of returning excess cash to its shareholders and following the partial divestment of STG in conjunction with the listing of STG on Nasdaq Copenhagen. The proposed ordinary and extra dividend together amounts to 3,778 MSEK based on the 188.9 million shares outstanding at the end of the year. Dividend for 2014, paid in 2015, amounted to 1,464 MSEK corresponding to 7.50 per share, which is equivalent to 57 percent of the earnings per share for the year, excluding larger one-time items.

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

	Number of shares (thousands)		Cumulative effect on equity (MSEK)	
	2015	2014	2015	2014
<b>Balance at beginning of year</b>	<b>4,823</b>	<b>2,955</b>	<b>-23,235</b>	<b>-22,398</b>
Repurchase of own shares during the year	7,473	3,745	-1,995	-890
Stock options exercised during the year	-712	-376	141	53
Allocated to retained earnings by cancellation of treasury shares	-4,000	-1,500	8	3
Bonus issue	-	-	-8	-3
<b>Balance at end of year</b>	<b>7,584</b>	<b>4,823</b>	<b>-25,089</b>	<b>-23,235</b>

Since the buyback programs started in June 2000 the total number of shares repurchased amounts to 229.7 million shares and the total number of cancellation of shares amounts to 207.4 million shares. Total number of shares sold as a result of option holders exercising options amounts to 14.6 million shares.

The Annual General Meeting on April 23, 2015 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 outstanding shares of the Company, including treasury shares, after the cancellations, is 196.5 million shares.

During the year 7.5 million shares were repurchased for 1,995 MSEK at an average price of 266.91 SEK. As at December 31, 2015 Swedish Match held 7.6 million shares in its treasury, corresponding to 3.86 percent of the total number of shares. During the year the Company has sold 0.7 million treasury shares at an average price of 197.45 SEK, totaling 141 MSEK, as a result of option holders exercising their options. During the first quarter, all remaining options issued by Swedish Match, as part of its former options program, have been exercised and no further options are outstanding. The number of shares outstanding, net after repurchase and after the sale of the treasury shares as per year end amounted to 188.9 million.

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

2014	Hedge reserve	Translation reserve	Non-controlling interest
<b>Balance at beginning of year</b>	<b>-124</b>	<b>-288</b>	<b>1</b>
Profit for the year pertaining to non-controlling interest	-	-	0
Translation differences related to foreign operations for the year	-	732	0
Translation differences included in profit and loss	-	-	-
Effective portion of changes in fair value cash flow hedges	-57	-	-
Share of reserves in associated companies and joint ventures, net of taxes <sup>1)</sup>	-3	324	-
Income tax relating to components of other comprehensive income <sup>2)</sup>	13	-	-
<b>Balance at end of year</b>	<b>-172</b>	<b>768</b>	<b>1</b>

2015	Hedge reserve	Translation reserve	Non-controlling interest
<b>Balance at beginning of year</b>	<b>-172</b>	<b>768</b>	<b>1</b>
Profit for the year pertaining to non-controlling interest	-	-	0
Translation differences related to foreign operations for the year	-	-137	0
Translation differences included in profit and loss	-	44	-
Effective portion of changes in fair value cash flow hedges	86	-	-
Changes in fair value cash flow hedges included in profit and loss	8	-	-
Share of reserves in associated companies and joint ventures, net of taxes <sup>1)</sup>	10	250	-
Income tax relating to components of other comprehensive income <sup>2)</sup>	-21	-	-
<b>Balance at end of year</b>	<b>-89</b>	<b>926</b>	<b>1</b>

<sup>1)</sup> Share of reserves in associates and joint ventures includes Swedish Match share of other comprehensive income reported in the consolidated financial reports of associated companies and joint ventures, such as fair value adjustments on financial instruments and related income taxes and translation effects that arise from the transaction 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.

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

### Hedge reserve

The hedge reserve includes the accumulated effective portion of changes in fair value of 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	2015	2014
2015	-	2
2016	-	650
2017	2,920	3,312
2018	1,249	1,250
2019	1,117	1,145
2020	799	-
2021 and later	1,528	1,444
<b>Total</b>	<b>7,613</b>	<b>7,803</b>

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

Current interest-bearing liabilities	2015	2014
Current portion of non-current loans	650	1,137
Bank overdraft facilities utilized	4	4
<b>Total</b>	<b>653</b>	<b>1,141</b>

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

## 21. Employee benefits

### Post-employment employee benefits

The Group has defined benefit pension plans in a number of subsidiaries, through which the employees are entitled to post-employment benefits based on their pensionable income and the number of service years.

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

Post-employment defined benefits	2015	2014
Defined benefit plans, net liabilities	689	754
Post-employment medical benefits, net liabilities	985	1,054
Other long term employee benefits, net liabilities	8	7
<b>Provision for pensions and similar obligations</b>	<b>1,682</b>	<b>1,815</b>
Defined benefit plans, net assets	-91	-81
<b>Included in non-current receivables</b>	<b>-91</b>	<b>-81</b>
<b>Net post-employment liability</b>	<b>1,591</b>	<b>1,734</b>

The year 2015 was characterized by an overall increase in discount rates mostly affecting the US plans, along with adjustments to the mortality expectations within 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 plans' 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 any additional discretionary amounts to avoid benefit restrictions, and to 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 dependents, with the balance relating to members with deferred pensions. There are no active members accruing further benefits, and no new members are able to join.

The plan is set up as a separate legal entity, and a separate trustee company, Swedish Match UK Pension Trustee Limited, is responsible for its governance. One-third of the directors of the trustee company are nominated by the membership and two-thirds are nominated by the employer. The strategic asset allocation is determined from time to time by the directors of the trustee company, after consulting Swedish Match, based on professional advice and having regard to the level of risk.

At the end of 2011, the trustee undertook a significant exercise to reduce risk by purchasing a bulk annuity contract covering all of the liabilities for pensions in payment at that time. The trustee is currently following a largely growth-based strategy for the remaining assets but is actively looking for opportunities to de-risk further as and when the funding position allows.

The other pension plans within the Group are final salary pension plans that provide benefits to members in the form of a guaranteed level of pension payable for life, or in a lump-sum at the date of the retirement. The majority of benefit payments are from trustee-administered funds. Also, there are a number of unfunded plans where the Group meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by local regulations and practices in each country, as is the nature of relationship between Swedish Match and the trustees (or equivalent) and their composition. Responsibility for governance of the plans, including investment decisions and contribution schedules, lies jointly with Swedish Match and the board of trustees. The board of trustees 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:

Post-employment defined benefits	Defined benefit pension plans		Post-employment medical benefits	
	2015	2014	2015	2014
Present value of funded obligations	2,857	2,909	-	-
Fair value of plan assets	-2,397	-2,360	-	-
<b>Deficit(+)/Surplus(-), net</b>	<b>461</b>	<b>549</b>	<b>-</b>	<b>-</b>
Present value of unfunded obligations	138	124	985	1,054
Unrecognized assets due to recoverability limit	-	-	-	-
<b>Net asset(-)/liability(+) in the balance sheet</b>	<b>598</b>	<b>674</b>	<b>985</b>	<b>1,054</b>
<b>Amounts in the balance sheet</b>				
Liabilities	689	754	985	1,054
Assets	-91	-81	-	-
<b>Net asset(-)/liability(+) in the balance sheet</b>	<b>598</b>	<b>674</b>	<b>985</b>	<b>1,054</b>

## NOTE 21 Continued

**Actuarial assumptions**

Provisions for the Group's post-employment defined benefit plans are reported based on actuarial valuations. Actuarial valuations are calculated based on actuarial assumptions for determining the discounted net present value of the obligations. Significant actuarial assumptions used are discount rate, future salary growth rate, future pension growth rate, inflation, future mortality experience and medical cost trend rate, as applicable.

The discount rate is set per country with reference to market yield on high quality corporate bonds of appropriate duration or government bonds for countries where a deep market of high quality corporate bonds is not available. Assumptions regarding future mortality experience are based on advice in accordance with published statistics and experience in each country. The interest income on plan assets is based on the discount rate and is a component of the return on plan assets. Changes in assumptions can give rise to remeasurement differences, i.e., actuarial gains and losses, in the valuation of the Group's defined benefit obligations and the outcome from the performance of plan assets. Actuarial gains and losses are recognized to the full amount as they occur in accordance with the actuarial valuation and reported in other comprehensive income. The full recognition of actuarial gains and losses implies that the Group's net pension liability in the balance sheet includes all cumulative actuarial gains and losses.

**Significant risks associated with the Group's post-employment defined benefit plans**

Changes in market yields on corporate and government bonds would impact the plan liabilities. A decrease in market yields will decrease the discount rate assumption which increases plan liabilities for accounting purposes. However, for funded plans, this will be partially offset by an increase in the value of the trusts' bond holdings. As Swedish Match moves along the liability-driven investment glide path, this offset will increase and risk will be further mitigated.

Some pension plan trusts hold equities, whose growth is expected to outpace liabilities over the long term while providing volatility and risk in the short term. Poor equity performance will decrease funded status and will increase both accounting expense and required funding. As discussed above, over time, Swedish Match intends to reduce the level of equity investment risk by investing more in fixed income assets that better match the liabilities per the liability-driven investment glide path set forth in the Statement of Investment Guidelines.

The plans provide benefits for the life of participants (and often their spouses as well). As such, increases in life expectancy will result in an increase in the plans' liabilities.

Other risks to which the plans are exposed include the risk that price inflation will increase, which will result in higher pension payments being due. The postretirement medical liabilities in the US reflect assumptions of increases in future US health care costs (health care trend). If actual cost increases outpace these assumptions, plan liabilities will increase.

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

Actuarial assumptions	Group			
	Defined benefit pension plans		Post-employment medical benefits	
	2015	2014	2015	2014
Discount rate, %	4.2	3.9	4.4	4.2
Future salary increases, %	2.9	3.2	3.0	3.3
Future pension increases, %	2.3	2.4	-	-
Medical cost trend rate, %	-	-	7.0	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 262 MSEK and a decrease of 0.5 percent in the discount rate would increase the defined benefit obligation with 291 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	
	2015	2014	2015	2014
<b>Balance at beginning of year</b>	<b>3,033</b>	<b>2,334</b>	<b>1,054</b>	<b>723</b>
Service cost	65	45	41	28
Interest expense	123	111	47	36
Administrative expense	-	0	-1	-1
Gain on settlements	-	-21	-	-
Settlements payments from plan assets	-	-112	-	-
Contributions by plan participants	-	0	3	2
Benefits paid	-166	-129	-27	-25
Taxes paid	-1	-1	-	-
Changes in financial assumptions	-113	271	-113	58
Changes in demographic assumptions	-78	109	-86	75
Experience assumptions	-52	-4	-16	-11
Translation differences	183	430	84	169
<b>Balance at end of year</b>	<b>2,995</b>	<b>3,033</b>	<b>985</b>	<b>1,054</b>

During 2014, Swedish Match offered a "lump sum window" to deferred inactive participants in one of the US plans, a one-time opportunity to receive their pension benefits under the plan as a single sum payment on December 1, 2014. Under this lump sum window a total of 112 MSEK payments were made in December 2014. The liabilities associated with these plan benefits were settled at that time. The difference between the settled liabilities and the lump sum payments is treated as a component of the 2014 defined benefit cost as a gain on settlements. The settled defined benefit obligation amounts to 133 MSEK and the lump sum payments amount to 112 MSEK, leading to a settlement gain of 21 MSEK.

Profile of plan members of the defined benefit obligation	Defined benefit pension plans		Post-employment medical benefits	
	2015	2014	2015	2014
Active employees	954	952	547	611
Deferred members	410	448	-	0
Members in retirement	1,631	1,633	437	443
<b>Balance at end of year</b>	<b>2,995</b>	<b>3,033</b>	<b>985</b>	<b>1,054</b>
<b>Weighted average duration of defined benefit obligation</b>	<b>13 years</b>	<b>14 years</b>	<b>15 years</b>	<b>16 years</b>

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	
	2015	2014	2015	2014
<b>Fair value at beginning of year</b>	<b>2,360</b>	<b>2,029</b>	<b>0</b>	<b>0</b>
Interest income on plan assets	90	94	-	0
Administrative expense	-16	-10	-1	-1
Settlements payments from plan assets	-	-112	-	-
Employer contributions	62	87	26	24
Employee contributions	-	0	3	2
Benefits paid	-166	-129	-27	-25
Taxes paid	-1	-1	-	-
Return on plan assets	-63	77	-	-
Translation differences	130	323	-	-
<b>Fair value at end of year</b>	<b>2,397</b>	<b>2,360</b>	<b>0</b>	<b>0</b>

The actual return on plan assets in 2015 amounted to 28 MSEK compared to a return in 2014 of 171 MSEK.



Plan assets at December 31 are comprised as follows:

Plan assets	2015	2014
Equity securities <sup>1)</sup>	1,047	1,145
Debt instruments	389	401
Real estate	72	2
Other <sup>2)</sup>	888	812
<b>Total</b>	<b>2,397</b>	<b>2,360</b>

<sup>1)</sup> Equity securities consist of quoted securities in all material respect. The Group's plan assets do not hold any own shares.

<sup>2)</sup> A large part pertains to the UK annuity insurance policies.

### Income and expenses relating to post-employment benefit plans recognized in the income statement

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

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2015	2014	2015	2014
Current service costs	65	45	41	28
Interest expense on obligation	123	111	47	36
Interest income on plan assets	-90	-94	-	-
Interest expense on asset ceiling	-	0	-	-
Administrative expenses	16	10	-	-
Gain on settlements	-	-21	-	-
<b>Net expense(+) reported in the income statement</b>	<b>114</b>	<b>51</b>	<b>88</b>	<b>64</b>

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

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2015	2014	2015	2014
Cost of goods sold	25	14	17	12
Administrative expenses	28	24	5	3
Selling expenses	28	18	18	12
Other income/expenses	-	-21	-	-
Interest income	-90	-94	-	0
Interest expenses	123	111	47	36
<b>Net expense(+) reported in the income statement</b>	<b>114</b>	<b>51</b>	<b>88</b>	<b>64</b>

### Post-employment employee benefits per country

Defined benefit pension plans and post-employment medical benefits at December 31 per significant country are comprised as follows:

2015	Present value of obligation	Fair value of plan assets	Net liability/asset	Asset ceiling	Net liability/asset in balance sheet
	USA	3,031	1,421	1,610	-
UK	756	745	11	-	11
Rest of the world	200	230	-30	-	-30
<b>Total</b>	<b>3,987</b>	<b>2,397</b>	<b>1,591</b>	<b>-</b>	<b>1,591</b>

2014	Present value of obligation	Fair value of plan assets	Net liability/asset	Asset ceiling	Net liability/asset in balance sheet
	USA	3,126	1,380	1,746	-
UK	766	752	14	-	14
Rest of the world	202	228	-26	-	-26
<b>Total</b>	<b>4,094</b>	<b>2,360</b>	<b>1,734</b>	<b>-</b>	<b>1,734</b>

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	
	2015	2014	2015	2014	2015	2014	2015	2014
Discount rate, %	4.4	4.1	4.4	4.2	3.7	3.4	4.6	3.7
Future salary increases, %	3.0	3.3	3.0	3.3	-	-	2.3	2.0
Future pension increases, %	2.0	2.3	-	-	3.3	3.1	1.2	1.2
Medical cost trend rate, %	-	-	7.0	8.0	-	-	-	-

### Expected contribution next year

Expected contributions for post-employment defined benefit plans for the full year 2016 amounts to 114 MSEK.

### Income and expenses relating to post-employment benefit plans recognized in other comprehensive income

The amounts reported in other comprehensive income consist of the following:

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2015	2014	2015	2014
Actuarial gains and losses on obligations, incl. salary taxes	-243	376	-215	122
Return on plan assets, excluding interest income	63	-77	-	-
Effect from change in asset ceiling	-	-11	-	-
<b>Net income(-)/expense(+) reported in other comprehensive income statement</b>	<b>-180</b>	<b>288</b>	<b>-215</b>	<b>122</b>

### Defined contribution plans

The Group has certain obligations under defined contribution plans.

Contributions to these plans are determined by provisions in the respective plan. Costs for defined contribution plans charged to income statement for the year amounts to 118 MSEK (108).

### Multi-employer insurance plan

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 2015 were 51 MSEK (49). Swedish Match contribution represents 0.18 percent (0.26) of the total contributions paid to Alecta. Swedish Match active members in the multi-employer plan are 0.08 percent (0.07) of all active members in the plan. Alecta has a collective funding ratio as per December 2015 of 153 percent (143). Collective funding ratio is a buffer for Alecta's insurance commitments to protect against fluctuations in investment return and insurance risks. It is a difference between Alecta's assets and the company's insurance commitments to policyholders and insured individuals. The collective solvency is normally allowed to vary between 125 and 155 percent, with the target of 140 percent. If the level of collective solvency is less than 125 percent or exceeds 155 percent, measures are to be taken in order to create conditions for restoring the level of collective solvency to the normal interval.

## 22. Provisions

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

<b>Non-current provisions</b>	<b>2015</b>	<b>2014</b>	<b>Current provisions</b>	<b>2015</b>	<b>2014</b>
Income tax	121	95	Restructurings	42	0
Restructurings	4	4	Other operating provisions	105	98
Other operating provisions	5	7	<b>Total current provisions</b>	<b>147</b>	<b>98</b>
Deferred compensation	271	199	<b>Total provisions</b>	<b>603</b>	<b>508</b>
Other provisions	55	105			
<b>Total non-current provisions</b>	<b>456</b>	<b>410</b>			

Movements in provisions during the year were as follows:

<b>Provisions</b>	<b>Income tax provisions</b>	<b>Restructuring provisions</b>	<b>Other operating provisions</b>	<b>Deferred compensation</b>	<b>Other Provisions</b>	<b>Total</b>
<b>Carrying value at beginning of year</b>	<b>95</b>	<b>4</b>	<b>105</b>	<b>199</b>	<b>105</b>	<b>508</b>
Provisions made during the year	53	44	44	76	-	216
Provisions used during the year	-19	-	-40	-9	-50	-117
Provisions reversed during the year and changes in estimates	-	-	-6	-6	-	-12
Reclassifications	-	-2	3	-1	-	0
Translation differences, etc.	-9	-	5	12	-	8
<b>Carrying value at end of year</b>	<b>121</b>	<b>46</b>	<b>111</b>	<b>271</b>	<b>55</b>	<b>603</b>

### Income tax provisions

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

### Restructuring provisions

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

### Other operating provisions

Provisions of operating character, and not related to restructuring or deferred compensation, are reported as operating provisions. A large part of the operating provisions are related to provisions for outstanding redemptions of current coupons and future product returns. While provisions related to coupons and returns are expected to be realized within the year, they are replaced within the year, and as such the provisions are classified as current.

### Deferred compensation

The deferred compensation provision represents obligations for earned remuneration to certain employees and accruals for the long term incentive plan. Certain employees may elect to defer a portion of their normal salary and/or bonus awards until a later date, and may elect to defer 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:

<b>Other non-current liabilities</b>	<b>2015</b>	<b>2014</b>
Non-interest bearing non-current liabilities	12	13
Non-current financial liabilities, derivatives	200	234
<b>Total</b>	<b>212</b>	<b>248</b>

Other current liabilities at December 31 comprised the following:

<b>Other current liabilities</b>	<b>2015</b>	<b>2014</b>
Tobacco taxes	1,223	2,011
VAT liabilities	387	329
Other	49	29
<b>Total</b>	<b>1,659</b>	<b>2,369</b>

## 24. Accrued expenses and deferred income

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

<b>Accrued expenses and deferred income</b>	<b>2015</b>	<b>2014</b>
Accrued wage/salary-related expenses	181	179
Accrued vacation pay	62	60
Accrued social security charges	58	58
Accrued interest	109	135
Other	305	298
<b>Total</b>	<b>715</b>	<b>730</b>

## 25. Financial instruments and financial risks

### Operations

As a result of its international operations, Swedish Match is exposed to financial risks. The term "financial risks" refers to fluctuations in Swedish Match's cash flow caused by changes in foreign exchange rates and interest rates, and to risks associated with refinancing and credit. To manage its financial risks, Swedish Match has a finance policy in place established by the Board of Directors. The Group's finance policy comprises a framework of guidelines and principles 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

	2015			2014		
	Nominal	Assets	Liability	Nominal	Assets	Liability
Currency derivatives	1,791	0	-	351	-	-
Interest-rate derivatives*	5,171	267	101	5,472	129	15
<b>Total:</b>	<b>6,962</b>	<b>267</b>	<b>101</b>	<b>5,823</b>	<b>129</b>	<b>15</b>
<b>*Of which hedge accounting</b>						
Cash flow hedges <sup>1)</sup>	5,171	267	101	5,472	129	15

<sup>1)</sup> The instruments are cross currency and interest rate swaps. There are no conditions in these transactions that can cause any significant differences in the hedging relation between these derivatives and their underlying liabilities.

### Currency risks

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

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

The consolidated income statement includes exchange rate gains of 8 MSEK (-3) in operating profit and gain 3 MSEK (1) 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 960 MSEK on an annual basis. It is divided as following; 623 MSEK in NOK (65 percent), 111 MSEK in USD (12 percent), 82 MSEK in PHP (9 percent), 55 MSEK in EUR (6 percent), 42 MSEK in GBP (4 percent) and in other currencies 47 MSEK (4 percent). Swedish Match's policy for managing the Group's trans-

action 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, 2015, no transaction exposure for 2016 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 57 MSEK (112), which of 62 in NOK, 6 in EUR, 4 in GBP, -8 in PHP, -11 in USD and 4 in other currencies for the year ending December 31, 2015.

### 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. Effects mainly pertain to USD, NOK, 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 5,549 MSEK in USD (90 percent), 340 MSEK in EUR (5 percent), 187 MSEK in BRL (3 percent) and in other currencies 105 MSEK (2 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 negative in an amount of approximately 562 MSEK, which of 555 in USD and 7 in other currencies based on the exposure at December 31, 2015.

### 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, 2015, the average interest maturity period for Group loans was 3.2 years (3.5 years), taking into account interest rate swaps. The interest maturity structure on December 31, 2015 was as follows:

Year	Loans		Loans and effects from derivatives	
	Fixed	Variable	Fixed	Variable
2016	650	-	650	-
2017	2,920	-	2,920	-
2018	902	347	902	347
2019	918	199	918	199
2020	799	-	799	-
2021-	1,528	-	1,528	-
<b>Total</b>	<b>7,717</b>	<b>546</b>	<b>7,717</b>	<b>546</b>

At December 31, 2015, 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 12 MSEK (18) on an annual basis. The net interest bearing debt (including net pension obligations) at the same date amounted to 7,922 MSEK (8,126). 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 1 MSEK (2).

## NOTE 25 Continued

**Refinancing risk and liquidity**

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

Swedish Match has a syndicated bank credit facility of 1,500 MSEK, which matures in December 2020. This was unutilized at year-end and contained no financial covenants. At year-end 2015, available cash funds and committed credit facilities amounted to 3,232 MSEK. Of this amount, confirmed credit lines amounted to 1,500 MSEK and cash and cash equivalents making up the remaining 1,732 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, 2015, a total of 8,287 MSEK of the global program was outstanding. The average maturity of the Group's bond borrowing at December 31, 2015 was 3.3 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
2016	926	36	602	1,564	1,305
2017	3,200	82	-	3,282	2,968
2018	1,382	-	-	1,382	1,249
2019	1,216	-	-	1,216	1,117
2020	859	-	-	859	799
2021-	1,769	-	-	1,769	1,528
<b>Total</b>	<b>9,352</b>	<b>118</b>	<b>602</b>	<b>10,072</b>	<b>8,966</b>

Under the global MTN program, Swedish Match has issued bonds in SEK, EUR, USD and CHF. Borrowing in EUR, USD and CHF is hedged by currency swaps and currency interest rate swaps. The average interest cost for outstanding borrowings (including derivative instruments) on December 31, 2015 was 4.2 percent (4.5).

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**

	2015				
	Gross amount for financial instruments	Amount netted in the balance sheet	Net amount in the balance sheet	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
<b>MSEK</b>					
Derivatives – assets	304	0	304	-131	173
Derivatives – liabilities	176	0	176	-131	45
	2014				
	Gross amount for financial instruments	Amount netted in the balance sheet	Net amount in the balance sheet	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
<b>MSEK</b>					
Derivatives – assets	283	0	283	-188	95
Derivatives – liabilities	188	0	188	-188	0

**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 2015.

	2015			
	Jan 1	Change of market value	Allocated to earnings	Dec 31
Hedging instruments, derivatives	-169	86	8	-75
<b>Total</b>	<b>-169</b>	<b>86</b>	<b>8</b>	<b>-75</b>
	2014			
	Jan 1	Change of market value	Allocated to earnings	Dec 31
Hedging instruments, derivatives	-111	-58	-	-169
<b>Total</b>	<b>-111</b>	<b>-58</b>	<b>-</b>	<b>-169</b>

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

	2016	2017	2018	2019	2020	2021-
Fixed rate interest on hedging swaps	-247	-247	-96	-96	-57	-230

**Fair value hedges**

At year end 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, 2015, the average interest maturity for the Group's current investments was less than 1 month.

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

To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. These agreements grant rights to net market valuations on assets and liabilities if the counterparty is in an event of default, as with suspended payments. The following table shows the netted exposures per December 31, 2015. No collateral has been received or pledged.



NOTE 25 Continued

At December 31, 2015, credit exposure in derivative instruments amounted to 173 MSEK, and credit exposure in cash and deposits at banks amounted to 1,732 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 1,547 MSEK (1,557). For more information see *Note 17 Trade receivables*.

### Credit ratings

At December 31, 2015, 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, 2015. 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 loans and borrowings differ from their fair value as a consequence of changes in the market interest rates.

Swedish Match applies to IFRS 7 for financial instruments measured at fair value on the balance sheet whereby an entity shall classify fair value measurement using a fair value hierarchy that reflects the significance of input used according to the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3 – Inputs that are not based on observable market data

All items valued at fair value in the balance sheet are considered to be included in level 2 within the fair value hierarchy. To determine the fair value of those financial assets and liabilities, current official market quotations for similar instruments have been used for discounting future cash flows. The values presented are indicative and may not necessarily be realized.

	Items carried at fair value via the income statement	Loans and receivables	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value
<b>2015</b>							
Trade receivables	-	1,547	-	-	-	1,547	1,547
Other non-current receivables	-	-	-	324	397	721	721
Other current receivables	-	-	-	-	153	153	153
Prepaid expenses and accrued income	-	-	-	-	104	104	104
Cash and cash equivalents	-	1,732	-	-	-	1,732	1,732
<b>Total assets</b>	<b>-</b>	<b>3,279</b>	<b>-</b>	<b>324</b>	<b>654</b>	<b>4,257</b>	<b>4,257</b>
Loans and borrowings	-	-	8,266	-	-	8,266	8,713 <sup>11</sup>
Other liabilities	21	-	-	198	1,640	1,859	1,859
Accrued expenses and deferred income	-	-	92	18	605	715	715
Trade payables	-	-	602	-	-	602	602
<b>Total liabilities</b>	<b>21</b>	<b>-</b>	<b>8,960</b>	<b>216</b>	<b>2,245</b>	<b>11,442</b>	<b>11,889</b>
<b>2014</b>							
Trade receivables	-	1,557	-	-	-	1,557	1,557
Other non-current receivables	-	-	-	305	388	693	693
Other current receivables	-	-	-	-	115	115	115
Prepaid expenses and accrued income	-	-	-	-	92	92	92
Cash and cash equivalents	-	2,312	-	-	-	2,312	2,312
<b>Total assets</b>	<b>-</b>	<b>3,869</b>	<b>-</b>	<b>305</b>	<b>595</b>	<b>4,769</b>	<b>4,769</b>
Loans and borrowings	-	-	8,944	-	-	8,944	9,606 <sup>11</sup>
Other liabilities	0	-	-	234	2,382	2,617	2,617
Accrued expenses and deferred income	-	-	117	19	595	730	730
Trade payables	-	-	957	-	-	957	957
<b>Total liabilities</b>	<b>0</b>	<b>-</b>	<b>10,018</b>	<b>253</b>	<b>2,977</b>	<b>13,248</b>	<b>13,910</b>

<sup>11</sup> The estimated fair value, which is classified as level 2 in the fair value hierarchy, is the revaluation of the loans and borrowings based on the market rates from banks for December 31, 2015 and 2014.

## 26. Operating lease agreements

The Group's leasing expenses for operating lease agreements for 2015 amounted to 58 MSEK (58).

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	2015	2014
Within one year	51	54
Between 1–5 years	171	177
Later than 5 years	31	54
<b>Total</b>	<b>253</b>	<b>284</b>

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

## 27. Pledged assets

### Pledged assets

As per December 31, 2015 the Group had 59 MSEK (54) in assets pledged, pertaining to endowment insurance policies pledged as security for certain defined contribution obligations. In accordance with IAS19, endowment insurance policies pledged as security for certain defined contribution obligations of 59 MSEK (54) have been netted against the deferred compensation obligations in non-current provisions as of December 31, 2015.

## 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	2015	2014
Guarantees on behalf of subsidiaries	51	48
Guarantees to associated companies	0	50
Other guarantees and contingent liabilities	154	152
<b>Total</b>	<b>205</b>	<b>250</b>

### Legal disputes

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

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. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, in any on-going or unasserted disputes of this nature, there are in the opinion of management good defenses against all claims and each claim will be vigorously defended.

### Contingent assets

Swedish Match sold two parcels of land adjacent to the old headquarter building in Stockholm in 2007, for which the final purchase price was subject to the approval of a changed city plan. For one of these parcels of land the approval was received in January 2013, and Swedish Match received an additional payment of 161 MSEK in the first half of 2013. There is a contingent additional purchase price also for the second parcel of land. At this time it is not possible to provide a meaningful estimate of what this amount could be.

## 29. Group companies

Subsidiary holdings <sup>1)</sup>	Subsidiary's domicile, country	Ownership share, %	
		2015	2014
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 Brazil Holding AB	Brazil	100	–
SM Dominicana, S.A.	Dominican Republic	100	100
SM Deutschland GmbH	Germany	100	100
SM Treasury Lux S.à r.l.	Luxembourg	100	100
SM Malaysian Holding AB	Malaysia	100	–
SM Group BV	Netherlands	100	100
SM Lighters BV	Netherlands	100	100
SM Overseas BV	Netherlands	100	100
SM Distribution A/S	Norway	100	100
SM Norge A/S	Norway	100	100
SM Philippines Inc.	Philippines	100	100
SMINT Holdings Corp	Philippines	100	100
Swedmat Corp	Philippines	100	100
Swedish Match Fósforos Portugal, SA	Portugal	100	100
Road Cargo Sweden Holding AB	Sweden	100	–
Lysstickan AB	Sweden	100	–
SMD Logistics AB	Sweden	100	100
SM Industries AB	Sweden	100	100
SM Intellectual Property AB	Sweden	100	100
SM North Europe AB	Sweden	100	100
Svenska Tändsticks AB	Sweden	100	100
Svenska Tändsticksbolaget Försäljningsaktiebolag	Sweden	100	100
SM Cigars Holding AB	Sweden	100	100
Swedish Match US AB	Sweden	100	100
SMD Logistics Holding AB	Sweden	100	100
SMD Solna Fräsaren AB	Sweden	100	–
SMD Logistics Örnäs AB	Sweden	100	–
SM (PM) International AB	Sweden	100	–
Svenska Tobaks AB	Sweden	100	100
Svenskt Snus AB	Sweden	100	100
SM Treasury Switzerland AG	Switzerland	100	–
SM Kibrit ve Cakmak Endustri A.S.	Turkey	100	100
SM Cigars Holding Inc.	USA	100	–
SM Cigars Inc.	USA	100	100
SM USA Inc.	USA	100	–
SM Leaf Tobacco Company	USA	100	100
SM North America LLC <sup>2)</sup>	USA	100	100
The Pinkerton Tobacco Co. LLC <sup>2)</sup>	USA	100	100

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

<sup>2)</sup> SM North America Inc and The Pinkerton Tobacco Co. has changed name as of December 2015 to SM North America LLC and The Pinkerton Tobacco Co. LLC.

## 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	2015	2014
Interest received	17	38
Interest paid	-423	-537
<b>Total</b>	<b>-406</b>	<b>-499</b>

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

Adjustments for non cash items and other	2015	2014
Depreciation, amortization and write down	317	303
Change in provisions	48	-6
Change in defined benefit plans	113	2
Change in accrued interest	-28	-50
Change in market value revaluations and unrealized exchange rate differences	21	20
Realized exchange rate differences moved to financing	-35	-4
Other	-23	-11
<b>Total</b>	<b>412</b>	<b>253</b>

### Investments in associated companies, joint ventures and other companies

Investments in joint ventures during 2015 pertain to investment of 25 MSEK in SMPM International AB. During 2015, Swedish Match acquired the remaining 50 percent of SMPM International AB, at a price of 6 MSEK, with acquired cash and bank of 19 MSEK. Net cash flow effect for the Group was 13 MSEK. For further information see *Note 14 Investments in associated companies and joint ventures*.

Investments in joint ventures during 2014 pertain to investment of 35 MSEK in SMPM International AB and investments in associated companies of 10 MSEK in Road Cargo Sweden Holding AB.

Swedish Match Fosforos Portugal SA was acquired during 2014 at a price of 49 MSEK, with acquired net assets of 48 MSEK of which cash and bank represented 47 MSEK. Net cash flow effect for the Group was -2 MSEK.

### Divestment of subsidiaries

No divestments of subsidiaries have been made during 2015 or 2014.

## 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, and disregarding intergroup transactions that are eliminated in the consolidated financial statements of the Group, no other related parties transactions have been conducted during the year.

## 32. Subsequent events

On February 10, 2016 STG announced the close and results of its Initial Public Offering (IPO or Offering). After completion of the Offering, Swedish Match held through its subsidiary Swedish Match Cigars Holding AB, 31.2 percent of STG (31.2 million shares). Assuming full exercise of the overallotment option at a later date, Swedish Match will hold 29.0 percent of STG (29.0 million shares).

The proceeds from the STG shares sold by Swedish Match in the Offering will be transferred to Swedish Match's shareholders. The Board of Directors of Swedish Match has proposed a special dividend of 12.00 SEK per share in addition to the ordinary dividend proposed to the 2016 Swedish Match Annual General Meeting. Both the ordinary dividend and the special dividend will be paid concurrently.

Swedish Match expects that the capital gain from the reduction of share ownership will be in excess of 500 MSEK, not subject to taxation, and will be recognized in the financial statements for the first quarter of 2016.

As of February 10, 2016, STG is listed on Nasdaq Copenhagen, under the symbol "STG".

## 33. 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 Stockholm. The address of the head office is Sveavägen 44, postal address: SE-118 85 Stockholm, Sweden.

The consolidated financial statements for 2015 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	2015	2014
Sales	1	40	48
Administrative expenses	2, 3, 8, 25	-184	-203
Other operating income and expenses	4	-1	0
<b>Operating loss</b>		<b>-145</b>	<b>-154</b>
Result from participation in Group companies	5	2,979	705
Interest income and similar items	5	0	0
Interest expenses and similar items	5	-796	-1,059
<b>Profit/loss after financial items</b>		<b>2,038</b>	<b>-508</b>
Appropriations	6	1,756	1,583
<b>Profit before income tax</b>		<b>3,794</b>	<b>1,075</b>
Income tax expense	7	-180	-86
<b>Profit for the year</b>		<b>3,614</b>	<b>989</b>

## Parent Company statement of comprehensive income

MSEK	Note	2015	2014
<b>Profit for the year</b>		<b>3,614</b>	<b>989</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>			
Effective portion of changes in fair value of cash flow hedges		86	-57
Reclassification for gains/losses on cash flow hedges included in profit and loss		8	-
Income tax relating to components of other comprehensive income	7	-21	13
<b>Subtotal, net of tax for the year</b>		<b>73</b>	<b>-45</b>
<b>Total comprehensive income for the year</b>		<b>3,687</b>	<b>944</b>



## Parent Company balance sheet

MSEK	Note	December 31, 2015	December 31, 2014
<b>Assets</b>			
Tangible assets	8	3	2
<b>Non-current financial assets</b>			
Participations in Group companies	9	48,527	50,954
Other non-current receivables	10	324	305
Deferred income tax assets	7	32	51
<b>Total non-current financial assets</b>		<b>48,883</b>	<b>51,311</b>
<b>Total non-current assets</b>		<b>48,886</b>	<b>51,313</b>
<b>Current assets</b>			
Receivables on Group companies		2,214	1,961
Receivables on associated companies		1	1
Current income tax receivables	7	-	5
Other receivables	11	3	4
Prepaid expenses and accrued income	12	10	6
<b>Total current assets</b>		<b>2,227</b>	<b>1,977</b>
<b>TOTAL ASSETS</b>		<b>51,113</b>	<b>53,290</b>
<b>Equity</b>			
Restricted equity	13		
Share capital, 196 500 000 shares at 1.9823 and 200 500 000 at 1.9427 respectively		390	390
Unrestricted equity			
Reserve for fair value		-59	-132
Retained earnings		17,270	19,600
Profit for the year		3,614	989
<b>TOTAL EQUITY</b>		<b>21,215</b>	<b>20,846</b>
<b>Untaxed reserves</b>	14	<b>675</b>	<b>415</b>
Other provisions	15	48	35
<b>Total provisions</b>		<b>48</b>	<b>35</b>
<b>Non-current liabilities</b>			
Bond loans	16	7,613	7,803
Liabilities to Group companies	17	18,100	18,100
Other liabilities	18	198	234
<b>Total non-current liabilities</b>		<b>25,911</b>	<b>26,137</b>
<b>Current liabilities</b>			
Bond loans		650	1,137
Trade payables		9	11
Liabilities to Group companies		2,440	4,536
Current income tax liabilities	7	19	-
Other liabilities		5	4
Accrued expenses and deferred income	19	141	168
<b>Total current liabilities</b>		<b>3,263</b>	<b>5,855</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>51,113</b>	<b>53,290</b>
<b>Memorandum items</b>			
Pledged assets	20	55	50
Contingent liabilities	20	51	98

## Statement of changes in Parent Company equity

2014	Note	Restricted equity	Unrestricted equity			Total equity
		Share capital	Reserve for fair value <sup>1)</sup>	Retained earnings	Profit for the year	
<b>Equity at beginning of year</b>	13	<b>390</b>	<b>-87</b>	<b>19,283</b>	<b>2,607</b>	<b>22,192</b>
Profit for the year		-	-	-	989	989
Other comprehensive income, net of tax for the year		-	-45	-	-	-45
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-45</b>	<b>-</b>	<b>989</b>	<b>944</b>
Allocation of profit		-	-	2,607	-2,607	-
Dividend		-	-	-1,453	-	-1,453
Repurchase of own shares		-	-	-890	-	-890
Stock options exercised		-	-	53	-	53
Cancellation of shares		-3	-	3	-	-
Bonus issue		3	-	-3	-	-
<b>Equity at end of year</b>		<b>390</b>	<b>-132</b>	<b>19,600</b>	<b>989</b>	<b>20,846</b>

2015	Note	Restricted equity	Unrestricted equity			Total equity
		Share capital	Reserve for fair value <sup>1)</sup>	Retained earnings	Profit for the year	
<b>Equity at beginning of year</b>	13	<b>390</b>	<b>-132</b>	<b>19,600</b>	<b>989</b>	<b>20,846</b>
Profit for the year		-	-	-	3,614	3,614
Other comprehensive income, net of tax for the year		-	73	-	-	73
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>73</b>	<b>-</b>	<b>3,614</b>	<b>3,687</b>
Allocation of profit		-	-	989	-989	-
Dividend		-	-	-1,464	-	-1,464
Repurchase of own shares		-	-	-1,995	-	-1,995
Stock options exercised		-	-	141	-	141
Cancellation of shares		-8	-	8	-	-
Bonus issue		8	-	-8	-	-
<b>Equity at end of year</b>		<b>390</b>	<b>-59</b>	<b>17,270</b>	<b>3,614</b>	<b>21,215</b>

<sup>1)</sup> Reserve for fair value consists of a hedge reserve.

## Cash flow statement for the Parent Company

MSEK	Note	2015	2014
<b>Operating activities</b>	21		
Profit/loss after financial items		2,038	-508
Adjustments for non-cash items and other		-1,761	-38
Income tax paid		-156	-79
<b>Cash flow from operating activities before changes in working capital</b>		<b>121</b>	<b>-625</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in operating receivables		-23	1
Increase (+)/Decrease (-) in operating liabilities		12	-6
<b>Net cash generated from operating activities</b>		<b>110</b>	<b>-629</b>
<b>Investing activities</b>			
Purchase of tangible assets		-2	-1
Capital redemption by subsidiaries		4,166	-
Proceeds from sale of subsidiaries, net of cash disposed of		-4	-
<b>Net cash from investing activities</b>		<b>4,160</b>	<b>-1</b>
<b>Financing activities</b>			
Proceeds from non-current borrowings		798	-
Repayment of borrowings		-1,435	-1,805
Repurchase of own shares		-1,995	-890
Stock options exercised		141	53
Dividend		-1,464	-1,453
Changes in financial receivables/liabilities Group companies		-311	4,726
Other		-4	0
<b>Net cash used in financing activities</b>		<b>-4,270</b>	<b>631</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>-</b>	<b>-</b>
Cash and cash equivalents at the beginning of the year		-	-
<b>Cash and cash equivalents at end of year</b>		<b>-</b>	<b>-</b>

## Notes for the Parent Company

All amounts referred to in the notes of the Parent Company financial statements are in millions of Swedish kronor (MSEK) unless stated otherwise. The amounts within brackets refer to the preceding year, 2014.

For remuneration and other benefits to Parent Company President and other members of Group management, see *Note 5 Personnel* for the Group on page 65.

### 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	2015	2014
<b>KPMG</b>		
Audit services	4	4
Audit related services	0	0
Tax services	-	0
Other services	1	1
<b>Total</b>	<b>4</b>	<b>5</b>

Other services include assisting with testing of IT-controls.

### 3. Operating lease agreements

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

Minimum lease payments	2015	2014
Within one year	14	12
Between 1-5 years	60	56
Later than 5 years	-	18
<b>Total</b>	<b>74</b>	<b>86</b>

The operating lease agreements are attributable to the rental of real estate. The contract runs for five years and the agreement includes indexation clause.

Expensed payments on operating lease agreements	2015	2014
Minimum lease payments	15	6
<b>Total</b>	<b>15</b>	<b>6</b>

### 4. Other operating income and expense

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

## 5. Financial items

Result from participation in Group companies	2015	2014
Dividends received	2,983	705
Loss on sale of Group companies	-4	-
<b>Total</b>	<b>2,979</b>	<b>705</b>

Loss on sale of shares in Group companies amounting to -4 MSEK relates to subsidiaries sold to STG in 2010.

Interest income and similar items	2015	2014
Interest income relating to Group companies	-	0
Interest income relating to other financial instruments held for trading	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

Interest expenses and similar items	2015	2014
Interest expense relating to Group companies	-397	-580
Interest expense relating to financial liabilities measured at amortized cost	-364	-471
Interest expense relating to cash flow hedges transferred from equity	-30	-
Net gain on financial liabilities revalued to fair value	-	0
Other financial expenses	-4	-8
Net foreign exchange losses	0	0
<b>Total</b>	<b>-796</b>	<b>-1,059</b>

## 6. Appropriations

Appropriations	2015	2014
<b>Difference between reported amortization/depreciation and according to plan</b>		
Software and licenses	-	0
Equipment, tools and fixtures	0	0
<b>Tax allocation reserve</b>		
Appropriation for the year	-260	-125
<b>Group contributions</b>		
Group contributions received	2,177	1,944
Group contributions granted	-161	-236
<b>Total</b>	<b>1,756</b>	<b>1,583</b>



## 7. Income tax

Income tax reported in income statement	2015	2014
Current tax expense for the period	-181	-87
Deferred tax due to temporary differences	1	1
<b>Total</b>	<b>-180</b>	<b>-86</b>

Income tax reported in other comprehensive income	2015	2014
Effective portion of changes in fair value of cash flow hedges	-19	13
Reclassification for gains/losses on cash flow hedges included in profit and loss	-2	-
<b>Total</b>	<b>-21</b>	<b>13</b>

Reconciliation of effective tax rate	2015		2014	
	(%)		(%)	
<b>Income before tax</b>		<b>3,794</b>		<b>1,075</b>
<b>Swedish statutory tax rate</b>	<b>22.0</b>	<b>-835</b>	<b>22.0</b>	<b>-237</b>
Non-taxable dividends	-17.3	656	-14.4	155
Tax exempt income	-0.0	0	-0.0	0
Non-deductible expenses	0.0	-1	0.3	-4
Taxes related to prior years	0.0	0	0.0	0
Standard interest income, tax allocation reserve	0.0	-1	0.1	-1
<b>Reported effective tax</b>	<b>4.7</b>	<b>-180</b>	<b>8.0</b>	<b>-86</b>

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

	Current income tax assets		Current income tax liabilities	
	2015	2014	2015	2014
<b>Carrying value at beginning of year</b>	<b>5</b>	<b>13</b>	<b>-</b>	<b>-</b>
Current tax expense	-	-87	181	-
Paid/received tax	-5	79	-161	-
<b>Carrying value at end of year</b>	<b>-</b>	<b>5</b>	<b>19</b>	<b>-</b>

Tax liabilities amounts to 19 MSEK (receivable 5) and consists of taxes to be 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	2015	2014
Hedge reserve	17	37
Provision	15	14
Other	-	0
<b>Carrying value at end of year</b>	<b>32</b>	<b>51</b>

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

2015	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	37	-	-21	17
Provision	14	1	-	15
Other	0	0	-	-
<b>Total</b>	<b>51</b>	<b>1</b>	<b>-21</b>	<b>32</b>

2014	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	25	-	13	37
Provision	13	1	-	14
Other	0	0	-	0
<b>Total</b>	<b>38</b>	<b>1</b>	<b>13</b>	<b>51</b>

## 8. Tangible assets

	Equipment, tools and fixtures		Advances relating to tangible assets	
	2015	2014	2015	2014
<b>Cost at beginning of year</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>-</b>
Purchases/investments	2	-	-	1
Sales/disposals	-2	-	-	-
Reclassifications	1	-	-1	-
<b>Cost at end of year</b>	<b>4</b>	<b>3</b>	<b>-</b>	<b>1</b>
<b>Accumulated depreciation at beginning of year</b>	<b>-2</b>	<b>-2</b>	<b>-</b>	<b>-</b>
Depreciation for the year	-1	0	-	-
Sales/disposals	2	-	-	-
<b>Accumulated depreciation at end of year</b>	<b>-1</b>	<b>-2</b>	<b>-</b>	<b>-</b>
<b>Net carrying value at end of year</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>1</b>

Depreciation of tangible assets is included in administrative expenses in the income statement in the amount of -1 MSEK (0).

No borrowing costs have been capitalized during 2015 nor during 2014.

## 9. Group companies

2015	Balance 1 Jan.	Acquisitions	Divestments	Capital redemption	Balance 31 Dec.
Cost	57,448	2,587	-849	-4,166	55,021
Impairments	-6,494	-	-	-	-6,494
<b>Carrying value</b>	<b>50,954</b>	<b>2,587</b>	<b>-849</b>	<b>-4,166</b>	<b>48,527</b>

2014	Balance 1 Jan.	Acquisitions	Divestments	Capital redemption	Balance 31 Dec.
Cost	57,448	18,875	-	-18,875	57,448
Impairments	-6,494	-	-	-	-6,494
<b>Carrying value</b>	<b>50,954</b>	<b>18,875</b>	<b>-</b>	<b>-18,875</b>	<b>50,954</b>

### Shares in subsidiaries, directly owned

Subsidiary	Corp. Reg.no.	Domicile	Number of shares	Ownership, %	2015	Ownership, %	2014
Svenskt Snus AB	556367-1261	Stockholm	1,000	100	18,875	100	18,875
Swedish Match North Europe AB	556571-6924	Stockholm	1,000	100	15,750	100	15,750
SMD Logistics 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	1,006
Swedish Match Cigars Holding AB	556367-1253	Stockholm	2,000	100	500	100	500
Swedish Match Industries AB	556005-0253	Tidaholm	30,853	100	95	100	95
Swedish Match US AB	556013-4412	Stockholm	96,000	100	9	100	9
Svenska Tändsticks AB	556105-2506	Stockholm	1,000	100	0	100	0
Svenska Tobaks AB	556680-3028	Stockholm	100,000	100	0	100	0
Swedish Match Treasury Lux S.à.r.l.	B175024	Luxembourg	20,000	100	7,090	100	7,090
Swedish Match Treasury SEK SA <sup>1)</sup>	0890.171.968	Belgium	9,999,999	99.99	76	99.99	4,242
Swedish Match USA, Inc	62-1257378	USA	1,000	100	849	-	-
Swedish Match Cigars Holding Inc	81-0733029	USA	1,000	100	1,739	-	-
Swedish Match North America Inc	62-1257378	USA	-	-	-	100	849
Swedish Match Dominicana S.A.	05338-2007-STI	Dominican Republic	9,249,907	99.99	171	99.99	171
Swedish Match Group BV	17080059	Netherlands	20,900,000	100	17	100	17
Swedish Match Distribution A/S	930567647	Norway	500	100	1	100	1
SA Allumettiére Causemille <sup>2)</sup>		Algeria	10,000	100	0	100	0
The Burma Match Co Ltd <sup>3)</sup>		Burma	300,000	100	0	100	0
Vulcan Trading Co. Ltd <sup>4)</sup>		Burma	4,000	100	0	100	0
<b>Carrying value at end of year</b>					<b>48,527</b>		<b>50,954</b>

<sup>1)</sup> Remaining shares owned by subsidiary.

<sup>2)</sup> Nationalized in 1963.

<sup>3)</sup> Nationalized in 1968.

<sup>4)</sup> Nationalized in 1969.

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

## 10. Other non-current receivables

Other non-current receivables consists of derivatives including exchange rate differences and fair values of cross currency and interest rate swaps of 324 MSEK (305).

## 11. Other receivables

Other receivables	2015	2014
Tax account	3	3
VAT receivables	-	0
Other current receivables	0	0
<b>Carrying value at end of year</b>	<b>3</b>	<b>4</b>

## 12. Prepaid expenses and accrued income

Prepaid expenses and accrued income	2015	2014
Prepaid bank charge	4	-
Prepaid rent	-	2
Other prepaid expenses	6	4
<b>Carrying value at end of year</b>	<b>10</b>	<b>6</b>

## 13. Equity

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

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

Number of registered shares	2015	2014
Issued at beginning of year	200,500,000	202,000,000
Cancellation	-4,000,000	-1,500,000
<b>Total shares outstanding at end of year</b>	<b>196,500,000</b>	<b>200,500,000</b>
Of which held by Swedish Match AB	-7,584,209	-4,822,933
<b>Total shares outstanding, net of shares held by Swedish Match AB</b>	<b>188,915,791</b>	<b>195,677,067</b>

### Repurchase of own shares

Repurchase of own shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2015, the Parent Company's holding of treasury shares amounted to 7,584,209 shares (4,822,933).

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)	
	2015	2014	2015	2014
<b>Balance at beginning of year</b>	<b>4,823</b>	<b>2,954</b>	<b>-23,235</b>	<b>-22,398</b>
Repurchase of own shares during the year	7,473	3,745	-1,995	-890
Stock options exercised during the year	-712	-376	141	53
Allocated to retained earnings by cancellation of shares	-4,000	-1,500	8	3
Bonus issue	-	-	-8	-3
<b>Balance at end of year</b>	<b>7,584</b>	<b>4,823</b>	<b>-25,089</b>	<b>-23,235</b>

The Annual General Meeting on April 23, 2015 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 4.0 million shares held in treasury, with a contemporaneous bonus issue, without issuing new shares, of an amount equivalent to the amount represented by the cancelled shares or 7.8 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 196.5 million shares with a quotient value of 1.9823 SEK.

During the year 7.5 million shares were repurchased for 1,995 MSEK at an average price of 266.91 SEK.

Total shares bought back since the buyback program started have been repurchased at an average price of 113.59 SEK.

During 2015, the Company sold 0.7 million treasury shares at an average price of 197.45 SEK, totaling 141 MSEK, as a result of option holders exercising options. No further options are outstanding.

As per December 31, 2015 Swedish Match held 7.6 million shares in its treasury, corresponding to 3.86 percent of the total number of shares.

The number of shares outstanding, net, as per December 31, 2015, amounted to 188.9 million.

### Dividend

After the balance sheet date, the Board proposed a dividend for 2015 of 20.00 SEK per share consisting of an increased ordinary dividend per share of 8.00 SEK (7.50) and a special dividend of 12.00 SEK. The dividend then amounts to 3,778 MSEK based on the 188.9 million shares outstanding at the end of 2015. Prior year total dividend amounted to 1,464 MSEK and corresponded to 195,246,521 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	2015	2014
<b>Carrying value at beginning of year</b>	<b>-132</b>	<b>-87</b>
Effective portion of changes in fair value of cash flow hedges	86	-57
Reclassification for gains/losses on cash flow hedges included in profit and loss	8	-
Income tax	-21	13
<b>Carrying value at end of year</b>	<b>-59</b>	<b>-132</b>

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	2015	2014
<b>Excess amortization/depreciation:</b>		
<b>Intangible assets</b>		
Carrying value at beginning of year	-	0
Excess amortization for the year	-	0
<b>Total</b>	<b>-</b>	<b>-</b>
<b>Tangible assets</b>		
Carrying value at beginning of year	0	0
Excess depreciation for the year	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
<b>Tax allocation reserve:</b>		
Carrying value at beginning of year	415	290
Appropriation current year	260	125
<b>Total</b>	<b>675</b>	<b>415</b>
<b>Carrying value at end of year</b>	<b>675</b>	<b>415</b>

## 15. Other provisions

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

Other provisions	2015	2014
Pension obligation	24	26
Long term incentive	25	9
<b>Carrying value at end of year</b>	<b>48</b>	<b>35</b>
Where of total non-current	48	34
Where of total current	1	1

Movements in provisions during the year were as follows:

2015	Pension obligation	Long term incentive	Total
<b>Carrying value at beginning of year</b>	<b>26</b>	<b>9</b>	<b>35</b>
Provisions made during the year	1	13	14
Provisions used during the year	-1	0	-1
Provisions reversed during the year and changes in estimates	-2	6	3
Provisions reclassified to accrued expenses	-	-3	-3
<b>Carrying value at end of year</b>	<b>24</b>	<b>25</b>	<b>48</b>

2014	Pension obligation	Long term incentive	Total
<b>Carrying value at beginning of year</b>	<b>11</b>	<b>20</b>	<b>31</b>
Provisions made during the year	16	6	22
Provisions used during the year	-1	-9	-10
Provisions reversed during the year and changes in estimates	-	-2	-2
Provisions reclassified to accrued expenses	-	-6	-6
<b>Carrying value at end of year</b>	<b>26</b>	<b>9</b>	<b>35</b>

### Pension obligation

Pension obligation pertains to provision recognized for special income taxes on pension obligations secured in endowment insurances and a pension obligation for a pension trust for ex-employees in the divested Swedish Match UK Ltd. Payments relating to the pension obligations later than five years after balance sheet date are calculated to 23 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.

## 16. Bond loans

Liabilities due for payment later than five years after the balance sheet date amount to 1,528 MSEK (1,444).

## 17. Liabilities to Group companies

No liabilities are due for payment later than five years after the balance sheet date.

## 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 24 MSEK (77).

## 19. Accrued expenses and deferred income

Accrued expenses and deferred income	2015	2014
Accrued interest expenses	109	135
Accrued incentives incl. social security charges	18	23
Accrued social security charges	4	4
Accrued vacation pay	2	2
Personnel expenses	0	0
Other accrued expenses	4	3
Deferred income	3	-
<b>Carrying value at end of year</b>	<b>141</b>	<b>168</b>

## 20. Pledged assets and contingent liabilities/assets

### Pledged assets

Pledged assets pertains to endowment insurance policies pledged as security for pension obligations amounting to 55 MSEK (50). In accordance with IAS 19, endowment insurance policies pledged as securities for certain defined contribution obligations have been netted against the pension obligation in other provisions.

Contingent liabilities	2015	2014
Guarantees on behalf of subsidiaries	51	48
Guarantees on behalf of associated companies	-	50
<b>Total</b>	<b>51</b>	<b>98</b>

### Contingent assets

There is a contingent additional purchase price for a piece of land adjacent to the old Swedish Match head quarter building. The price is subject to the approval of a changed city plan which has not yet been declared and therefore it is not possible to estimate the additional purchase price at this point of time.

## 21. Supplementary information to cash flow statement

Interest paid and received and dividend received	2015	2014
Dividend received <sup>1)</sup>	1,245	705
Interest paid, non-Group companies	-422	-523
Interest received, Group companies	-	0
Interest paid, Group companies	-397	-580
<b>Total</b>	<b>426</b>	<b>-398</b>

<sup>1)</sup> Amount for 2015 excludes 1,739 MSEK which refers to dividends in kind.

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

Adjustments for non cash items and other	2015	2014
Depreciation and amortization	1	0
Loss on sale of subsidiaries	4	-
Dividend	-1,739	-
Change in accrued interest	-24	-52
Change in pension provision	-3	14
Change in fair value revaluations	-	0
Exchange rate differences	0	0
Other	0	-
<b>Total</b>	<b>-1,761</b>	<b>-38</b>



## 22. Related parties

Summary of transactions with related parties	Subsidiaries		Associated companies	
	2015	2014	2015	2014
<b>Revenues</b>				
Dividends	2,983	705	-	-
Group contribution	2,177	1,944	-	-
Interest income	-	0	-	-
Sale of goods/services	38	47	2	2
<b>Expenses</b>				
Group contribution	-161	-236	-	-
Interest expenses	-397	-580	-	-
Purchase of goods/services	-14	-19	-	-
<b>Receivables</b>	<b>2,214</b>	<b>1,961</b>	<b>1</b>	<b>1</b>
<b>Liabilities</b>	<b>20,540</b>	<b>22,636</b>	<b>-</b>	<b>-</b>
<b>Contingent liabilities</b>	<b>51</b>	<b>48</b>	<b>-</b>	<b>50</b>

Transactions with related parties are determined at an arms-length basis. For remunerations to key management personnel, see *Note 5 Personnel for the Group*. In the normal course of business, the Parent company conducts various transactions with subsidiaries. For information about directly owned subsidiaries, see *Note 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, 2015. Derivatives attributable to cash flow hedges are carried at fair value via other comprehensive income. All other items, except loans and borrowings, have a short duration and are considered non-interest bearing, and therefore, the total carrying value of the financial instruments corresponds to the estimated fair value. The carrying amount for loans and borrowings differ from their fair value as a consequence of changes in the market interest rates. Swedish Match applies to IFRS 7 for financial instruments measured at fair value on the balance sheet whereby an entity shall classify fair value measurement using a fair value hierarchy that reflects the significance of input used

according to the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3 – Inputs that are not based on observable market data

All items valued at fair value in the balance sheet are considered to be included in level 2 within the fair value hierarchy. The values presented are indicative and may not necessarily be realized.

	Loans and receivables	Other financial liabilities	Cash flow hedges	Non financial instruments	Total carrying value	Estimated fair value
<b>2015</b>						
Non-current receivables	-	-	324	-	324	324
Receivables from Group companies	2,214	-	-	-	2,214	2,214
Receivables from associated companies	1	-	-	-	1	1
Other receivables	-	-	-	3	3	3
Prepaid expenses and accrued income	-	-	-	10	10	10
<b>Total assets</b>	<b>2,215</b>	<b>-</b>	<b>324</b>	<b>13</b>	<b>2,552</b>	<b>2,552</b>
Loans and borrowings	-	8,263	-	-	8,263	8,709 <sup>1)</sup>
Liabilities to Group companies (non-current)	-	18,100	-	-	18,100	18,100
Other liabilities	-	-	198	5	203	203
Liabilities to Group companies (current)	-	2,440	-	-	2,440	2,440
Accrued expenses and deferred income	-	92	18	31	141	141
Trade payables	-	9	-	-	9	9
<b>Total liabilities</b>	<b>-</b>	<b>28,904</b>	<b>216</b>	<b>36</b>	<b>29,156</b>	<b>29,602</b>
<b>2014</b>						
Non-current receivables	-	-	305	-	305	305
Receivables from Group companies	1,961	-	-	-	1,961	1,961
Receivables from associated companies	1	-	-	-	1	1
Other receivables	-	-	-	4	4	4
Prepaid expenses and accrued income	-	-	-	6	6	6
<b>Total assets</b>	<b>1,962</b>	<b>-</b>	<b>305</b>	<b>10</b>	<b>2,277</b>	<b>2,277</b>
Loans and borrowings	-	8,940	-	-	8,940	9,601 <sup>1)</sup>
Liabilities to Group companies (non-current)	-	18,100	-	-	18,100	18,100
Other liabilities	-	-	234	4	238	238
Liabilities to Group companies (current)	-	4,536	-	-	4,536	4,536
Accrued expenses and deferred income	-	117	19	32	168	168
Trade payables	-	11	-	-	11	11
<b>Total liabilities</b>	<b>-</b>	<b>31,704</b>	<b>253</b>	<b>36</b>	<b>31,993</b>	<b>32,654</b>

<sup>1)</sup> The estimated fair value, which is classified as level 2 according to the fair value hierarchy, is the revaluation of the loans and borrowings based on the market rates from banks for december 31, 2015 and 2014.

## 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 counterparty 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

2015	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	302	0	302	-129	173
Derivatives – Liabilities	153	0	153	-129	24

2014	Gross amount for financial instruments	Amount netted in the balance sheet	Net amount in the balance sheet	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives – Assets	283	0	283	-188	95
Derivatives – Liabilities	188	0	188	-188	0

## 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, 2015 the Swedish pension trust arrangement show a net surplus while the pension plan for employees in the UK shows a deficit.

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

Defined benefit pension plans	2015	2014
Present value of funded obligations	861	883
Fair value of plan assets	-939	-947
<b>Surplus, net</b>	<b>-79</b>	<b>-63</b>
Net surplus in pension trust not recognized in balance sheet	89	78
<b>Net pension liability recognized in the balance sheet</b>	<b>11</b>	<b>14</b>

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

Net pension liability	2015	2014
<b>Balance at beginning of year</b>	<b>14</b>	<b>-</b>
Benefits paid	9	10
Contribution received from pension trust	-9	-10
Change in pension provision	-3	14
<b>Balance at end of year</b>	<b>11</b>	<b>14</b>

89 MSEK (78) of the total net pension asset is covered by "Tryggandelagen".

Specification of expenses and income attributable to pension:

Defined benefit pension plans	2015	2014
Difference between contribution received from pension trust and benefits paid	-1	-1
Interest cost on obligation	-30	-31
Actual return on separately held assets	19	78
Change in pension provision	3	-14
<b>Net income/expense for pension</b>	<b>-9</b>	<b>33</b>
<b>Pensions covered by insurance premiums:</b>		
Costs for pension insurance premiums recognized in income statement	-13	-13
Change in surplus in pension trust	11	-48
<b>Net pension costs recognized in income statement attributable to pension</b>	<b>-11</b>	<b>-28</b>

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

The actual return on separately held assets expressed in percentage is 2.0 percent (9.5).

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

Separately held assets	2015	2014
Debt instruments	92	110
Equity securities	141	22
Other <sup>1)</sup>	707	815
<b>Total</b>	<b>939</b>	<b>947</b>

<sup>1)</sup> Large part pertains to the UK annuity policies at the insurance company Aviva.

### Significant actuarial assumptions at the balance sheet date

The obligations are calculated based on a weighted average discount rate of 3.6 percent (3.2).

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

## Proposed distribution of earnings

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

Retained earnings including Hedge reserve	SEK	17,211,190,588
Profit for the year	SEK	3,614,478,952
	<b>SEK</b>	<b>20,825,669,540</b>

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

To the shareholders, a dividend of 20.00 SEK per share based on 188,915,791 shares outstanding at the end of 2015	SEK	3,778,315,820
Retained earnings to be carried forward	SEK	17,047,353,720
	<b>SEK</b>	<b>20,825,669,540</b>

The income statements and balance sheets will be presented to the Annual General Meeting on April 28, 2016 for adoption. The Board of Directors also proposes April 22, 2016 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, 2016

Conny Karlsson  
Chairman of the Board

Charles A. Blixt  
Board member

Andrew Cripps  
Deputy Chairman

Kenneth Ek  
Board member

Patrik Engelbrektsson  
Board member

Jacqueline Hoogerbrugge  
Board member

Eva Larsson  
Board member

Wenche Rolfsen  
Board member

Meg Tivéus  
Board member

Joakim Westh  
Board member

Lars Dahlgren  
President and CEO

Our auditor's report was submitted on March 8, 2016

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 2015. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 48–96.

#### 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 2015 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 2015 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 2015.

#### 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 8, 2016

KPMG AB

Cronie Wallquist  
Authorized Public Accountant



# Chairman's comment



Swedish Match's vision of a world without cigarettes is focused and clear. I believe that snus can play a positive role toward that vision, as snus is a known and well researched alternative to cigarettes with their harmful effects. This annual report covers our product areas and the financial results, and also highlights some of the direction we are taking in terms of sustainability, expected employee and supplier conduct, and human rights. Good governance is essential to a reputable, high achieving, and responsible company. More details on the activities of the Board of Directors, as well as corporate governance and risk assessment during the year are contained in later sections of this report.

## Swedish Match is a strong company, well positioned for the future

With a market leading position for snus in Scandinavia, a growing snus business in the US, and a broad geographic reach through our portfolio of products, Swedish Match is uniquely positioned as a Company toward achieving its vision. Having sold its cigarette business nearly two decades ago, Swedish Match then reinvested much of the proceeds in building a strong platform for US cigars. One of the major benefits of this business more recently, has been to provide a solid platform to expand the presence and geographic scope for snus in the US, and today *General* snus is available nationwide and volumes are growing.

The Company's premium snus brands have also been growing in volume this past year in Sweden, the Company's largest snus market, following years of declines. Swedish Match took a bold and successful move to stem the declines of its strongest premium brands and, with the launch of *XRANGE*, has strengthened brands such as *General* and *Göteborgs Rapé*, and expanded their appeal. Norway, a vibrant and growing snus market, has experienced major shifts in consumer demand, away from more traditional products. Swedish Match has addressed this with a new, modern range which is showing promise. On the regulatory front, with the new upcoming Tobacco Products Directive within the EU, and increased pending regulatory hurdles worldwide, our challenge is to be well positioned for change, and to provide product choices that are relevant, now and in the future.

The vast majority of profits come from snus and moist snuff, along with cigars and chewing tobacco. Swedish Match has had another exceptionally strong year with its cigars, with record volumes and strong sales and profits in dollar terms. Further, the strong US dollar has provided a boost to profits this past year in reported Swedish kronor. Currency challenges and geopolitical uncertainty in Brazil,

Russia, and Ukraine have had a negative impact on our lights businesses, but the challenges created by these situations are an opportunity for management to increase efficiency and maintain strict cost control while leveraging opportunities for growth.

Since 2010, Swedish Match has held 49 percent of Scandinavian Tobacco Group, or STG. In 2015 we announced our intent to sell part of our stake. In February 2016, STG was floated on the Nasdaq Copenhagen exchange, and our holding was reduced as part of the IPO. We will be proposing at the Annual General meeting to return these proceeds to you, our shareholders, in the form of a special dividend of 12.00 SEK per share. Earnings per share this past year have been impacted by a change in accounting, meaning that there was no reported income from STG in the fourth quarter. Even with that change, earnings per share grew, and the Board will propose to the Annual General Meeting to increase the regular dividend to 8.00 SEK per share.

Information on Board activities are found in the Governance report. I am pleased with the fine work of the Board, their active engagement with management of the company, and with their contributions on the various board committees. I would like to thank both the Board for their major contributions, the CEO and his management team, and especially the employees of Swedish Match, who have demonstrated enthusiasm, dedication, and strong values.

I would like to thank you, our shareholders, for entrusting in me the role of the Chairman of the Board of this great company.



**Conny Karlsson**  
Chairman of the Board

# Governance report

**Swedish Match AB (publ) is a public Swedish limited liability company listed on Nasdaq 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 Stockholm, the Swedish Code of Corporate Governance, and other applicable laws and regulations.

Internal regulations and standards that affect Swedish Match's corporate governance include the Company's Articles of Association, the Board's rules of procedure, the Board's instructions to the CEO, the Group's Code of Conduct, and other policy documents issued within the Group. The Articles of Association are adopted by the General Meeting of shareholders.<sup>1)</sup> They do not contain any limitations on the number of votes that a shareholder may cast at a General Meeting or any specific provisions concerning the appointment and dismissal of directors or regarding amendments of the Articles of Association.

Swedish Match applies the Swedish Code of Corporate Governance (the Code).<sup>2)</sup> The Code is based on the "comply or explain" principle, meaning that a company that applies the Code may deviate from regulations of the Code, but must provide explanations for each deviation. The Company is not reporting any deviations from the Code for 2015, 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 196,500,000 shares at the end of 2015. Each share carries one vote. On December 31, 2015, no shareholder<sup>3)</sup> had a shareholding in the Company representing one tenth or more of the votes of all shares of the Company. The Swedish Match share is listed on Nasdaq Stockholm. Further information concerning Swedish Match's ownership structure and share performance is presented on pages 40–41.

## Annual General Meeting 2016

Swedish Match's 2016 Annual General Meeting will be held on April 28, in Stockholm. All shareholders who have been entered in the share register and have informed the Company of their attendance within the correct time limit stated in the notice are entitled to participate personally or by proxy at the General Meeting and to vote according to the number of shares held. Notice of the General Meeting is published in Post- och Inrikes Tidningar and on the Company's website. Information that

notice to a General Meeting has been issued, is published in the Swedish daily newspaper, 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.<sup>4)</sup>

Shareholders may submit proposals to the Company's Nominating Committee at any time, however, no later than two months prior to the Annual General Meeting, so that the Committee can consider proposals received with due care.

## Nominating Committee for the Annual General Meeting 2016

The Nominating Committee for the Annual General Meeting in 2016 was announced on the Company's website on October 22, 2015. In addition to the Chairman of the Board of Swedish Match, Conny Karlsson, the Nominating Committee consists of the following members: Karim Ladha (Independent Franchise Partners), Mark Husson (Cedar Rock Capital), Johan Strandberg (SEB Investment Management), and John Hernander (Nordea Asset Management). Johan Strandberg serves as Chairman of the Nominating Committee.

## Proposals to the Nominating Committee are to be submitted to:

Swedish Match AB  
The Nominating Committee  
c/o General Counsel Marie-Louise Heiman  
SE-118 85 Stockholm, Sweden  
E-mail:  
nominating.committee@swedishmatch.com

<sup>1)</sup> Available on Swedish Match's website [www.swedishmatch.com/governance](http://www.swedishmatch.com/governance).

<sup>2)</sup> Available on Swedish Corporate Governance Board's website [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

<sup>3)</sup> Source: Euroclear Sweden AB.

<sup>4)</sup> More information is available on Swedish Match's website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm).

# 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](http://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 prevailing procedures routines.

## President and CEO

The President is appointed by the Board of Directors and manages the Company's operations within the framework of rules established by the Board.

With regard to the Board of directors, the President's duties include responsibility for ensuring that the Board of Directors receives objective, comprehensive, and relevant information prior to Board meetings, thus enabling the Board to



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.

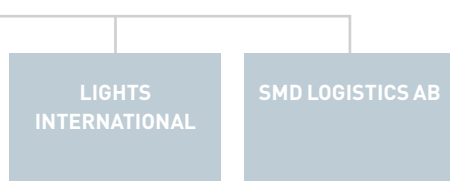
The Committee is to meet as often as necessary but at least twice annually.\*

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.

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



\* Further information regarding for example the committee's respective responsibilities and authorizations, the Company's system of variable remuneration to senior executives as well as minutes from shareholders' meetings, is to be found on the Company's website, [www.swedishmatch.com/governance](http://www.swedishmatch.com/governance).





# GOVERNANCE OF THE SWEDISH MATCH GROUP 2015

## ANNUAL GENERAL MEETING 2015

In 2015 the Annual General Meeting was held on April 23. The minutes of the meeting are available on the Company's website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm).

- The Annual General Meeting 2015 passed the following resolution, amongst others:
- Payment of cash dividend of 7.50 SEK per share for the 2014 fiscal year.
- Re-election of Andrew Cripps, Conny Karlsson, Wenche Rolfsen, Meg Tivéus, and Joakim Westh as Board members. Election of Charles A. Blixt and Jacqueline Hoogerbrugge as new members of the Board. Re-election of Conny Karlsson as Chairman of the Board and Andrew Cripps as deputy Chairman of the Board.

- The Chairman shall receive 1,750,000 SEK, the deputy Chairman shall receive 830,000 SEK and the other Board members elected by the Meeting shall each receive 700,000 SEK. Furthermore, as compensation for committee work carried out, it was decided to allocate 250,000 SEK to the Chairman of the Compensation Committee as well as to the Chairman of the Audit Committee and to allocate 125,000 SEK to each of the other members of these committees.
- 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 2014 and discharge from personal liability granted of the Board of Directors and the Chief Executive Officer.

For information on the utilization of the authorization granted by the General Meeting to the Board of Directors to acquire treasury shares, see the *Report of the Board of Directors*, page 48.

## 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 2015

The Nominating Committee for the Annual General Meeting in 2015 comprised the following five members: Mark Husson (Cedar Rock Capital), Karim Ladha (Independent Franchise Partners), Adam Nyström (Didner & Gerge Fonder), and William von Mueffling (Cantillon Capital Management) as well as Conny Karlsson (the Chairman of the Board). Adam Nyström served as Chairman of the Nominating Committee. The Nominating Committee held three meetings during the period between the 2014 and 2015 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 2015.

## 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 2015, 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.

Since Annual General Meeting 2015, the Board of Directors consisted of the following directors elected by the General Meeting: Conny Karlsson, Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Wenche Rolfsen, Meg Tivéus, and Joakim Westh. Conny Karlsson served as Chairman of the Board. Employee representatives on the Board were Kenneth Ek, Eva Larsson, and Patrik Engelbrektsson with Eva Norlén-Moritz, Gert-Inge Rang, and Joakim Andersson as deputies. Detailed information about individual Board members and deputies is provided on pages 106–107.

### 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 at least 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 2015, the Board's work was evaluated with the assistance of an independent consulting company. The Nominating Committee was informed of the result of the evaluation.

### Compensation to the Board of Directors

Compensation to the Board for the period from the 2015 Annual General Meeting up to and including the 2016 Annual General Meeting was paid in accordance with the resolution adopted by the 2015 Annual General Meeting. No compensation for directorship work was paid to directors employed by the Swedish Match Group.

For further information about Directors' fees for 2015, see *Note 5 Personnel*, page 65.

### Activities of the Board of Directors during 2015

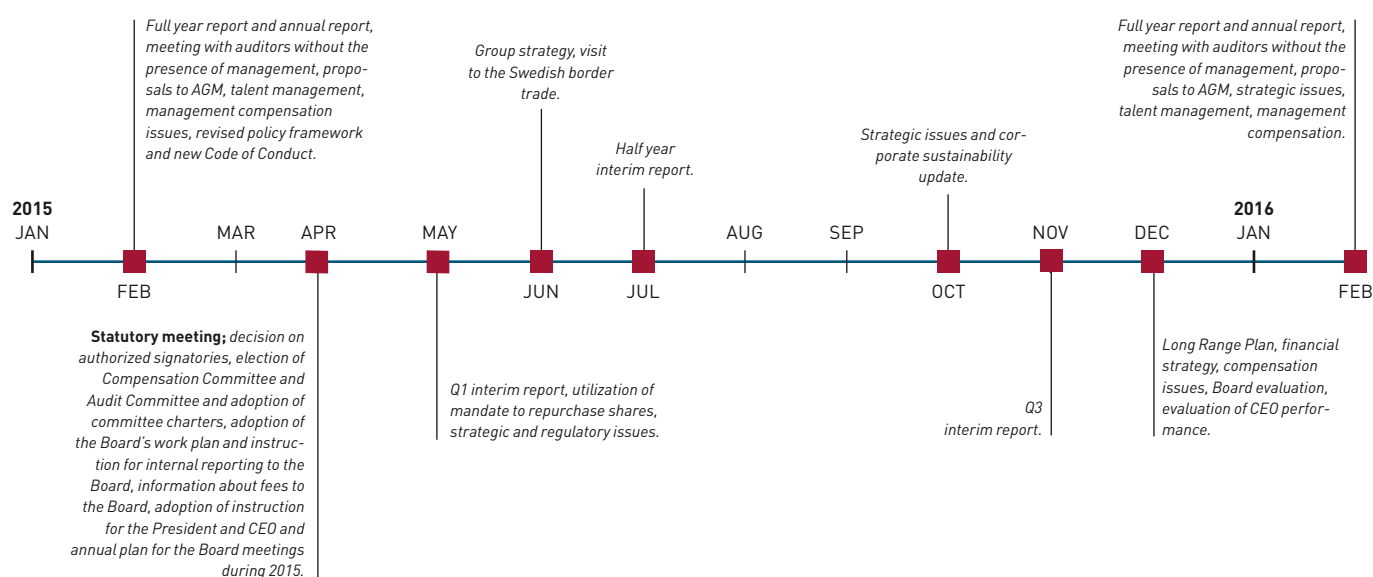
During the period from January 1, until December 31, 2015, the Board held seven scheduled meetings and one statutory meeting. At the time of the publishing of this annual report two Board meetings have been held during 2016.

At all 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 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 2015 to present the audit report and observations from the audit. At the Board meeting in June, which was held in Strömstad in Sweden, the Board focused on the Group strategy going forward and visited the Swedish border trade.

### Audit Committee

In 2015, the members of the Audit Committee 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. A total of five meetings were held in 2015. The Company's auditor, as well as the head of the Internal Audit, participated in all of the meetings of the Audit Committee in 2015 and, at two of these meetings, also met with the committee without the presence of the management of the Company.



#### Composition of the Board and attendance 2015

	Board of Directors	Audit Committee	Compensation Committee	Independent <sup>1)</sup>	Member since	Compensation, TSEK
<b>Total number of meetings</b>	8	5	3			
<b>Members elected by the General Meeting</b>						
Conny Karlsson (Chairman)	8		3	Yes	2006	2,000
Charles A. Blixt (from April 2015)	6		2	Yes	2015	825
Andrew Cripps (Deputy Chairman)	8	5		Yes	2006	955
Karen Guerra (until April 2015)	1		1	Yes	2008	–
Jacqueline Hoogerbrugge (from April 2015)	7		2	Yes	2015	825
Wenche Rolfsen	8	5		Yes	2013	825
Robert Sharpe (until April 2015)	1		1	Yes	2011	–
Meg Tivéus	8	5		Yes	1999	950
Joakim Westh	8	5		Yes	2011	825
<b>Employee representatives</b>						
Kenneth Ek	8					
Eva Larsson	7					
Patrik Engelbretsson	7					
<b>Employee representatives (deputies)</b>						
Joakim Andersson	8					
Eva Norlén-Moritz	8					
Gert-Inge Rang	8					

<sup>1)</sup> As defined in the Swedish Code of Corporate Governance.

### Compensation Committee

Following the AGM and the statutory meeting, the members of the Compensation Committee in 2015 were Conny Karlsson, (Chairman), Charles A. Blixt, and Jacqueline Hoogerbrugge. 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 2015.

During 2015, the committee devoted special attention to determination of variable compensation for 2014 to be paid in 2015 and on targets relevant to variable compensation, proposals to the Board concerning adjustments of the President's salary and variable compensation for 2016 and determination of salaries and variable compensation for other members of the Group Management Team for 2016. 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 2015, the Swedish Match Group Management Team consisted of Lars Dahlgren, President and Chief Executive Officer; Richard Flaherty, President US Division; Marlene Forsell, Senior Vice President and Chief Financial Officer; Fredrik Lagercrantz, Senior Vice President Business Control; Lars Olof Löfman, Chief Innovation Officer Scandinavia Division; Marie-Louise Heiman, Senior Vice President Legal Affairs; and Joakim Tilly, President Scandinavia Division.

Detailed information about the President and Chief Executive Officer Lars Dahlgren is provided on page 108. 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 2015 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 65. For information concerning compensation and other benefits to the Group Management Team, see *Note 5 Personnel*, page 65.

### Audit and auditors

The accounting firm KPMG AB was elected by the General Meeting as the Company's external auditors for the period from 2015 up to and including the Annual General Meeting in 2016. During 2015, in addition to auditing, KPMG AB provided consultancy services to the Group, primarily with regard to tax advice and testing of IT controls.

Cronie Wallquist, authorized public accountant, served as auditor in charge. For information concerning compensation to the Swedish Match's auditors during 2015, see *Note 6 Audit fees*, page 69.

### Disclosure Committee

Members of the Disclosure Committee during 2015 were the heads of Business Control, Investor Relations and Corporate Sustainability, Corporate Control, as well as Legal Affairs.



Swedish Match Annual General Meeting 2015.

## 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 and the Swedish Corporate Governance Code. The Audit Committee has a specific responsibility for monitoring the effectiveness of risk management and internal controls regarding financial reporting. This report describes the Group's system for internal control and risk management 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 to key individuals who 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 per-

taining 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 annual risk-focused plans that are updated throughout the year based on changes and events which influence the risks relating to the system for internal control. These plans are reviewed and approved by the Audit Committee and Internal Audit reports regularly on the results directly to the Audit Committee and to company management. The Audit Committee monitors that recommended actions are taken to improve the internal control regarding financial reporting. The head of Internal Audit reports directly to the Chairman of the Audit Committee and to the CFO. The Audit Committee also receives regular reports from the external auditor.

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. At these Board meetings the Chairman of the Audit Committee also informs the Board on the work of the Audit Committee relating to the monitoring of the effectiveness of internal controls regarding financial reporting. The Disclosure Committee monitors the sufficiency of financial accounts with regard to disclosure requirements.

Stockholm, February 18, 2016

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 2015 on pages 99–105 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 8, 2016

KPMG AB  
Cronie Wallquist  
Authorized Public Accountant



# Board of Directors

Conny Karlsson



**CONNY KARLSSON**

Born 1955. M.Sc. in Economics and Business from Stockholm School of Economics. Chairman of the Board of Directors since 2007. Board member since 2006. Chairman of the Compensation Committee.  
*Other board assignments:* Chairman of Zeres Capital AB and North Alliance AS. Board member of Scandinavian Tobacco Group AS, Malte Månsson AB and Yrkesakademien 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 of the Howden Joinery Group plc, Booker Group plc, Stock Spirits Group plc and the 2 Sisters Food Group.  
*Previous positions:* Director of Corporate Finance, Rothmans International; Director of Investments, British American Tobacco; President, Laurens International SA.  
*Own and related parties' shares:* 19,200

Charles A. Blixt



**CHARLES A. BLIXT**

Born 1951. Jur. Dr. and B.A. University of Illinois. Board member since 2015. Member of the Compensation Committee.  
*Other board assignments:* Non-Executive Director, Krispy Kreme Doughnuts Inc.  
*Previous positions:* Interim General Counsel, Krispy Kreme Doughnuts Inc; Executive Vice President and General Counsel, Reynolds American Inc.  
*Own and related parties' shares:* 2,000

Jacqueline Hoogerbrugge



**JACQUELINE HOOGERBRUGGE**

Born 1963. M.Sc. Chemical Engineering from the University of Groningen. Board member since 2015. President Operations, Cloetta. Member of the Compensation Committee.  
*Previous positions:* President Operations, Leaf International BV; Vice President Operations, Danone's Medical Nutrition Division; Vice President Procurement, Numico Baby & Medical Food, various positions in engineering, manufacturing and procurement, Unilever; and various positions in engineering and sales Fluor Daniel.  
*Own and related parties' shares:* 1,600

Wenche Rolfsen



**WENCHE ROLFSEN**

Born 1952. M.Sc. in Pharmacy and Ph.D. in Pharmacology from Uppsala University. Board member since 2013. Member of the Audit Committee.  
*Other board assignments:* Chairman of Index Pharmaceuticals, and Sarsia Seed; Vice Chairman of Moberg Pharma; Board member of Stiftelsen Industrifonden.  
*Previous positions:* Vice President; Director of Quintiles Phase I, Europe; CEO, Quintiles, Scandinavia; Director, Quintiles, Sweden; Managing Director of Pharmacology, Pharmacia Upjohn; Head of Pharmacology, Pharmacia Ophthalmics; Head of Pharmacology, Pharmacia Läkemedel.  
*Own and related parties' shares:* 3,180



Meg Tivéus

**MEG TIVÉUS**

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

*Other board assignments:* Chairman of Arkitektkopia AB and Close AB. Board member of ADDvise Group AB.

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

*Own and related parties' shares:* 5,200



Joakim Westh

**JOAKIM WESTH**

Born 1961. M.Sc. Royal Institute of Technology and M.Sc. Aeronautics and Astronautics MIT. Board member since 2011. Member of the Audit Committee.

*Other board assignments:* Board member of Absolent AB, Saab AB and CGI Group Inc.

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

*Own and related parties' shares:* 2,500



Cronie Wallquist

**AUDITORS**

**KPMG AB** Lead Auditor:

Cronie Wallquist. Born 1958. Authorized Public Accountant. Swedish Match auditor since 2012. Cronie Wallquist's other auditing assignments include Preem, CDON Group, AstraZeneca and Svenska Petroleum Exploration.

**Independence of Board members**

According to the Nominating Committee, all of the Board members elected by the Annual General Meeting are considered to be independent, under the rules of the Swedish Code of Corporate Governance, in relation to the Company's major shareholders and in relation to management and the Company.

**Changes in the Board of Directors**

Karen Guerra and Robert Sharpe left the Board at the AGM 2015. Charles A. Blixt and Jacqueline Hoogerbrugge were elected as new members.

**Secretary to the Board of Directors**

Since 2015 Marie-Louise Heiman, Senior Vice President 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. Board member since 2013 (deputy during 2012). Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman of the Trade Union Association 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)**

Joakim Andersson

Eva Norlén-Moritz

Gert-Inge Rang

**JOAKIM ANDERSSON**

Born 1970. Deputy member since 2013. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman of the Swedish Food Workers' Trade Union Association (Livs) at SMD Logistics in Kungsängen, Sweden. Module technician at SMD Logistics in Kungsängen.

*Previous positions:* Module Technician, Swedish Match Distribution in Solna, Sweden.

*Own and related parties' shares:* 0

**EVA NORLÉN-MORITZ**

Born 1960. Deputy member since 2010. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Chemist and works with chemical analysis of tobacco and products as well as quality assurance concerning analytical methods at the R&D department within Swedish Match Scandinavia Division in Stockholm, Sweden.

*Previous positions:* The Customs (and Excise) Department Stockholm; Astra Pharmaceutical Production Södertälje.

*Own and related parties' shares:* 0

**GERT-INGE RANG**

Born 1954. Deputy member since 2007. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match Industries. Production Supervisor at Swedish Match's match factory in Vetlanda, Sweden.

*Previous positions:* Supervisor, Swedish Match's match factory in Vetlanda.

*Own and related parties' shares:* 1,000

# Group Management



Lars Dahlgren

## LARS DAHLGREN

President and Chief Executive Officer, Swedish Match since 2008. Joined Swedish Match in 1996. Member of the Group Management Team since 2004. Born 1970. M.Sc. in Business and Economics from the Stockholm School of Economics, Sweden.

*Board assignments:* Board member of Orkla ASA. *Previous positions:* Senior Vice President and Chief Financial Officer, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Finance Director, Swedish Match Philippines; Financial analyst, SBC Warburg.

*Own and related parties' shares:* 36,900



Richard Flaherty

## RICHARD FLAHERTY

President, US Division, Swedish Match since 2009. Joined Swedish Match in 2000. Member of the Group Management Team since 2008. Born 1958. B.A. Economics, J.D. Law Rutgers University, and LL.M. Taxation New York University, USA.

*Previous positions:* Chief Operating Officer, Swedish Match North America Division OTP; Chief Financial Officer, Swedish Match North America Division; Chief Financial Officer, Bumble Bee Seafoods; Commercial Director, Unilever.

*Own and related parties' shares:* 18,125



Marlene Forsell

## MARLENE FORSELL

Senior Vice President and Chief Financial Officer, Swedish Match since 2013. Joined Swedish Match in 2004. Member of the Group Management Team since 2013. Born 1976. M.Sc. in Business and Economics from the Stockholm School of Economics, Sweden.

*Previous positions:* Vice President Group Reporting, Swedish Match AB; Vice President Business Control, Swedish Match Smokefree Division; Vice President Corporate Control, Swedish Match AB; Analyst, Ernst & Young.

*Own and related parties' shares:* 2,000



Marie-Louise Heiman

## MARIE-LOUISE HEIMAN

Senior Vice President, Legal Affairs and General Counsel, Swedish Match since 2015. Joined Swedish Match in 1996. Member of the Group Management Team and Secretary to the Board since 2015. Born 1965. Master of Laws, LL.M., Uppsala University, Sweden.

*Previous positions:* Vice President Legal Affairs, Swedish Match AB; General Counsel Swedish Match North Europe AB; Legal Counsel, AB Fortos, BCP Branded Consumer Products AB and Procordia AB.

*Own and related parties' shares:* 1,925





Fredrik  
Lagercrantz

#### FREDRIK LAGERCRANTZ

Senior Vice President, Business Control, Swedish Match since 2013. Joined Swedish Match in 2009. Member of the Group Management Team since 2013. Born 1977. M. Sc. in Business and Economics from the Stockholm School of Economics, Sweden.  
*Previous positions:* Vice President Group Business Control, Swedish Match; Management Consultant, McKinsey & Co.  
*Own and related parties' shares:* 1,595



Lars Olof  
Löfman

#### LARS OLOF LÖFMAN

Chief Innovation Officer, Scandinavia Division, Swedish Match since 2013. Joined Swedish Match in 1987. Member of the Group Management Team since 2004. Born 1956. M.Sc. in Engineering and Controller DIHM, Sweden.

*Previous positions:* Senior Vice President Product Supply and Marketing, Swedish Match Scandinavia Division; President, Swedish Match Smokefree Products Division; President, Swedish Match Distribution AB; President, Swedish Match North Europe Division; Vice President Production & Development, Swedish Match North Europe Division; Vice President Operations, Swedish Match Snuff Division; Plant and Production Manager, Swedish Match North Europe Division.

*Own and related parties' shares:* 10,689



Joakim Tilly

#### JOAKIM TILLY

President, Scandinavia Division, Swedish Match since 2013. Joined Swedish Match in 1994. Member of the Group Management Team since 2008. Born 1970. M. Sc. in Business and Economics from the Stockholm School of Economics, Sweden.

*Previous positions:* Senior Vice President, Group Finance and IT, and Chief Financial Officer, Swedish Match AB; Senior Vice President Group Finance, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Chief Executive Officer and Chief Financial Officer, Netgiro International; Chief Financial Officer, Swedish Match Lighter Division.

*Own and related parties' shares:* 8,240

#### CHANGES IN THE GROUP MANAGEMENT TEAM

There were no changes in the Group Management Team during 2015.

Holdings of own and related parties shares as of December 31, 2015. For a detailed report of remuneration and benefits for senior executives, refer to *Note 5 Personnel*.

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



For updated information on members of the Group Management Team and their shareholdings, refer to the Company's website.



## Swedish Match's vision is a world without cigarettes.

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

**Swedish Match**<sup>®</sup>

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