

# Corporate governance report

Swedish Match AB (publ) is a public Swedish limited liability company listed on the NASDAQ OMX Stockholm. The objective of the Company's operations, as stated in the Company's Articles of Association, is to directly or indirectly conduct business relating to the development and manufacture of and trade in tobacco products, matches and lighters and to carry out other activities that are related to these businesses.

The Company and the Group are governed on the basis of the Company's Articles of Association, the Swedish Companies Act, the Rule Book for Issuers on the NASDAQ OMX Stockholm, the Swedish Code of Corporate Governance and other applicable laws and regulations. The Articles of Association, adopted by the general meeting of shareholders, are available on the Company's website at [www.swedishmatch.com](http://www.swedishmatch.com).

Swedish Match applies the Swedish Code of Corporate Governance, which is available on the NASDAQ OMX website at [www.nasdaqomx.com](http://www.nasdaqomx.com). The Company is not reporting any deviations from the Code for 2008, except with regard to the Code's regulation that auditors shall review the Company's half-year or nine-month report. The reason for this deviation is that the Board of Directors, with reference to the Company's stable operations, is of the opinion that the extra cost that would be incurred by such a review was not warranted.

This Corporate governance report, with the exception of the report on internal control, has been examined by the Company's auditors but does not represent part of the formal Annual Report.

## General Meeting

The General Meeting constitutes the highest governing body in a limited liability company, and shareholders' rights to participate in resolutions regarding the Company's affairs are exercised at General Meetings. The Company's shareholders were informed of their legal rights to have issues addressed at General Meetings through the Company's website at [www.swedishmatch.com](http://www.swedishmatch.com). Each share

entitles the holder to one vote at a General Meeting. Resolutions adopted by General Meetings are generally resolved by a simple majority. However, according to the Swedish Companies Act, certain matters are to be decided by a qualified majority.

The Annual General Meeting must be held within six months of the close of the fiscal year. At the Annual General Meeting, resolutions are adopted concerning such matters as dividends, approval of the Annual Report, discharge of the Board of Directors and the President from personal liability, election and compensation of the Chairman and members of the Board of Directors and, where applicable, auditors, guidelines for determination of compensation payable to senior executives, and other matters of importance to the Company.

The Annual General Meeting for 2008 was held on April 22, 2008. The minutes of the meeting are available on the Company's website at [www.swedishmatch.com](http://www.swedishmatch.com).

## Nominating Committee

The Nominating Committee is established according to the principles resolved by the Annual General Meeting.

Pursuant to a resolution adopted at the 2008 Annual General Meeting, the Nominating Committee shall consist of five members. The Annual General Meeting resolved to empower the Chairman of the Board to contact the largest known shareholders of the Company in order of size and, until four representatives had been appointed, ask each of them to appoint a representative who, together with the Chairman of the Board, would constitute the Nominating Committee until the time

of the appointment of a new Nominating Committee pursuant to the authorization received from the following year's Annual General Meeting. After the Chairman of the Board, Conny Karlsson, had contacted the Company's largest shareholders, the Nominating Committee was constituted on November 4, 2008 with William N. Booth (Wellington Management Company), Mads Eg Gensmann (Parvus Asset Management), Michael Allison (Morgan Stanley Investment Management) and Andy Brown (Cedar Rock Capital) as members, in addition to the Chairman of the Board.

Pursuant to instructions established by the General Meeting, the Nominating Committee's duties are to prepare and submit proposals to the General Meeting concerning the election of the Chairman of the Annual General Meeting, the election of the Chairman and other members of the Board, directors' fees divided among the Chairman of the Board and other Board members, and any fees for committee work, as well as, if applicable, the election of and fees to be paid to the auditors.

As part of the process for nominating Board members and proposing Board fees prior to the 2008 Annual General Meeting, the Nominating Committee was informed of the result of an evaluation of the work of the Board of Directors conducted late in 2007 with the assistance of an independent consultant. During the year, the Nominating Committee also addressed the issue of auditors to be elected at the Annual General Meeting 2008 and their fees. The Audit Committee assisted the Nominating Committee in the assessment of auditors and their fees.

Until the 2008 Annual General Meeting, the Nominating Committee consisted of the members specified above. Of the members of the Nominating Committee, only Conny Karlsson was also a member of the Board. Mads Eg Gensmann served as Chairman of the Nominating Committee. The Company's General Counsel, Fredrik Peyron, served as secretary to the Nominating Committee.

The Nominating Committee shall meet as often as necessary to discharge its duties, and at least once per year. Proposals to the Nominating Committee can be submitted to the Nominating Committee's secretary, Fredrik Peyron. During 2008, the Nominating Committee held one meeting prior to the Annual General Meeting and two meetings thereafter. The 2008 Annual General Meeting decided that no fees should be paid to the members of the Nominating Committee, but that any expenses of the Nominating Committee were to be borne by the Company.

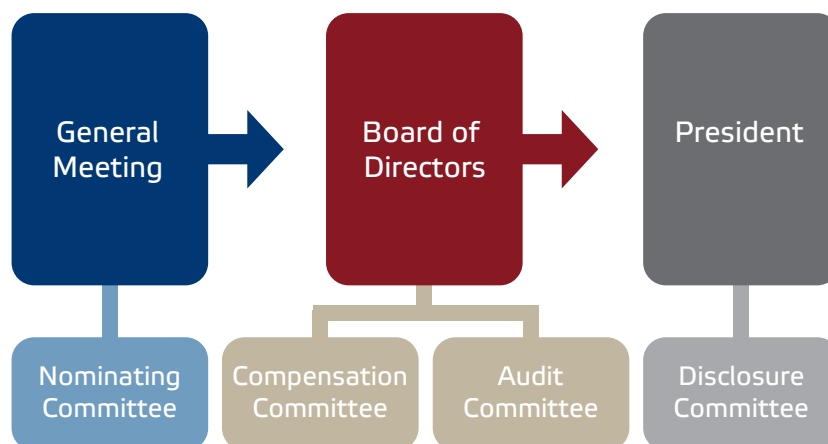
## Board of Directors

### Composition

According to the Articles of Association, the Company's Board of Directors must consist of at least five and at most ten directors, apart from those persons who, pursuant to law, may be appointed according to other arrangements. At the end of 2008, Swedish Match's Board of Directors consisted of seven members elected by the General Meeting plus three employee representatives and their three deputies in accordance with the Trade Union Representatives (Status at the Workplace) Act.

During the year, the Board of Directors consisted of the following directors elected by the General Meeting: Conny Karlsson, Sven Hindrikes (until the Annual General Meeting on April 22, 2008), Charles A. Blixt, John P. Bridendall (until the Annual General Meeting on April 22, 2008), Andrew Cripps, Arne Jurbrant, Kersti Strandqvist, Meg Tivéus, and Karen Guerra, who was elected as a new member at the 2008 Annual General Meeting. During the year, Kenneth Ek, Eva Larsson and Joakim Lindström served as employee representatives on the Board, with Håkan Johansson, Eeva Kazemi Vala and Gert-Inge Rang as deputies. Detailed information about individual Board members and deputies is provided on page 106–107.

## GOVERNANCE OF THE SWEDISH MATCH GROUP



### Meetings

The Board of Directors convenes for seven ordinary meetings and one statutory meeting per year. In addition to the scheduled Board meetings, the Board is called to additional meetings convened at the discretion of any director or of the President.

The auditors participate in the Board meeting at which the annual accounts for the fiscal year are presented in order to communicate their observations from the audit. The auditors also met with the Board without the presence of the President or any other member of the executive management.

### Responsibilities of the Board of Directors

The Board of Directors is primarily responsible for establishing Swedish Match's strategic and financial Long-Range Plan, monitoring the performance of the operations on an ongoing basis, ensuring that there is a satisfactory process for monitoring the Company's compliance with laws and regulations, reviewing and approving the financial accounts, and taking decisions regarding investments and divestments.

The Board of Directors appoints and issues instructions for the President and monitors his work. The Board also determines the President's salary and other compensation within the framework of the

guidelines established at General Meetings.

The Board of Directors is responsible for ensuring that the Group's organization is appropriate for its purpose, and conducts ongoing evaluations of the financial position of the Company, of management guidelines and of the investment of Company funds. The Board also safeguards the Company's financial accounting, internal control and the quality of its financial reporting through the system for internal control described in detail in the section entitled "Report on internal control" on page 105.

### Working procedures for the Board of Directors

The working procedures for the Board of Directors are established annually at the statutory Board meeting. The working procedures include instructions relating to the role of the Chairman of the Board, the division of responsibilities between the Board of Directors and the President and the guidelines for financial reporting to the Board. The working procedures stipulate that the Company shall have an Audit Committee and a Compensation Committee.

### Activities of the Board of Directors during 2008

The number of Board meetings during 2008 was nine, of which seven were scheduled meetings and one was a statutory meeting.

The Board of Directors elected at the 2008 Annual General Meeting held its 2008 statutory meeting on the same day as the Annual General Meeting, when decisions were made concerning the working procedures for the Board and instructions for the Compensation and Audit Committees. In addition, customary decisions were made concerning the election of the secretary (General Counsel Fredrik Peyron) and authorized signatories, and the appointment of members of the Compensation and Audit Committees.

In addition to a financial review of the business, the Board devoted considerable time to the recruitment of a new CEO to replace Sven Hindrikes, the Company's strategic orientation, structural issues, external issues, follow-up of acquisitions, distribution of surplus funds, and structures for incentives and benefits.

In conjunction with the Board's meetings in August and December, the Board visited the Group's facilities in Gothenburg and Richmond respectively. All of the meetings held during the year followed an approved agenda. Prior to each meeting, a proposed agenda and, where applicable, documents relevant to every point on the agenda were sent to the Board. The Company's auditors attended the Board meeting in February to present the audit report and observations from the audit.

### Chairman of the Board

The Chairman of the Board is responsible for organizing and directing the Board's work and for ensuring that the Board fulfils its obligations. Through regular contact with the President, the Chairman of the Board monitors the Company's operations and development, ensures that the Board of Directors continuously receives the information required for upholding the quality of the Board's work, and confirms that this work is performed in compliance with the Swedish Companies Act.

The Chairman's other responsibilities include forwarding the owners' opinions to the Board of Directors. During 2008, Conny Karlsson served as Chairman of the Board.

### Audit Committee

The Audit Committee is appointed annually by the Board of Directors. In 2008, the members were Meg Tivéus, (Chairman), Andrew Cripps, and Kersti Strandqvist. Although the Committee's work is primarily of a preparatory and advisory nature, the Board of Directors delegate decision-making authority on specific issues to the Committee. The Committee is responsible for overseeing procedures for accounting and financial reporting and for the organization of internal control. It also oversees the audit of the Group's accounting records. Its reviews focus on the quality and integrity of the Group's financial statements and related disclosure,

the performance of the Company's internal control function and independent auditors, the independent auditors' qualifications and independence, the Group's compliance with applicable laws and regulations and, as required, transactions between the Group and related parties. In conjunction with the Audit Committee's review of the financial reports, the members of the Audit Committee also discuss accounting issues relating to the Company's financial reporting. The Audit Committee also establishes guidelines by which services other than auditing may be secured from the Company's auditors. The Audit Committee also discusses other important issues relating to the Company's financial reporting and reports its observations to the Board.

Decision-making powers have been delegated to the Committee by the Board pertaining to:

- (i) advance approval of non-audit services to be provided by the auditors;
- (ii) advance approval of transactions between the Company and related parties;
- (iii) matters pertaining to special review of interim reports by auditors, and
- (iv) the need for a separate review function (internal audit).

The Chairman of the Committee kept the Board of Directors informed on an ongoing basis of the work and decisions of the Committee throughout the year. Prior to the 2008 Annual General Meeting, the Audit Committee evaluated the auditors' work and informed the Nominating Committee of the results of the evaluation. In addition, the Audit Committee assisted the Nominating Committee in preparing nominations for the post of auditor and recommendations on fees for auditing services.

In consultation with Committee members, the Chairman of the Committee shall decide where and how frequently the Committee shall meet. The number of meetings in 2008 was five. The Company's auditors participated in all of the meetings of the Audit Committee in 2008 and, in connection with one of these meetings, also met with the Committee without the presence of Company representatives.

COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES AND NUMBER OF MEETINGS AND ATTENDANCE DURING 2008

	Audit Committee	Compensation Committee	Board of Directors
<b>Total number of meetings</b>	<b>5</b>	<b>4</b>	<b>9</b>
Conny Karlsson		4	8
Sven Hindrikes (resigned in April 2008)			1
Charles A. Blixt		2	9
John P. Bridendall (resigned in April 2008)			1
Andrew Cripps	5		9
Karen Guerra (newly elected in April 2008)			8
Arne Jurbrant		4	9
Kersti Strandqvist	5		9
Meg Tivéus	5	2	9
Kenneth Ek			8
Eva Larsson			8
Joakim Lindström			8
Håkan Johansson			7
Eeva Kazemi Vala			8
Gert-Inge Rang			8

### Compensation Committee

The Compensation Committee is appointed annually by the Board of Directors.

Members in 2008 were Conny Karlsson, Chairman, Arne Jurbrant, Meg Tivéus (until April 22) and Charles A. Blixt (from April 22). The Company's President presents reports on certain issues, but is not a member of the Committee and is not present when the Committee prepares decisions regarding compensation to the President.

The Committee's duties are to prepare and submit to the Board proposals for decisions on the following issues:

- (i) guidelines to be proposed to the Annual General Meeting, for determining salary and other compensation as well as other terms of employment for the Company's President and other members of Group Management Team;
- (ii) share-related incentive programs;
- (iii) salary and other compensation as well as other terms of employment for the Company's President, including annual salary review;
- (iv) other compensation and employment term matters which, by law or other regulations, the Swedish Code of Corporate Governance or established practice shall be resolved by the General Meeting or the Board of Directors.
- (v) approval of significant engagements outside the Company with respect to the President.

The Board of Directors has delegated decision-making authority to the Committee for the following issues:

- (i) calculation and payment of variable salary to the Company's President and other members of the Group Management Team;
- (ii) the allotment of options, within the framework for the call option program, as resolved by the Annual General Meeting;
- (iii) payment of funds to the Company's profit-sharing system in Sweden, pursuant to the rules stipulated by the Board for the Swedish profit-sharing system;
- (iv) salary and other compensation which, within the framework of the guidelines resolved by the Annual General Meeting, shall be paid to, and other

terms of employment that shall apply for, members of Group Management Team other than the President;

- (v) approval of significant engagements outside the Company with respect to other members of the Group Management Team than the President, and
- (vi) study fees paid to the employee representatives on the Board.

The Committee's Chairman kept the Board of Directors informed on an ongoing basis about the Committee's work and decisions during the year.

The Committee shall meet as often as necessary but at least twice annually. The number of meetings held during 2008 was four. In addition, a number of issues were dealt with by means of correspondence.

During 2008, the Committee devoted special attention to variable compensation for 2007 to be paid in 2008, establishing the structure and target parameters for variable compensation to the President and other members of the Group Management Team for 2008, proposals to the Board concerning adjustments to the President's salary and variable compensation for 2009, and determination of salaries for other members of the Group Management Team for 2009.

In addition, the Committee submitted a proposal to the Board, prior to the 2008 Annual General Meeting, to have the Company issue call options in respect of the 2007 options program and a proposal for guidelines for the determination of salary and other remuneration paid to the President and other members of Group Management Team.

### Evaluation of the work of the Board of Directors

The Board of Directors shall ensure that its work is evaluated annually. During late 2008, the Board's work was evaluated with the assistance of an independent consulting company. The Nominating Committee was informed of the result of the evaluation.

### Independence of Board members

All of the Board members are independent in relation to the Company's major shareholders as well as to the management and the Company.

### Compensation to the Board of Directors

The Nominating Committee submits proposals to the General Meeting regarding compensation to the Board of Directors. The Meeting then votes on the matter.

Directors' fees were paid during 2008 pursuant to the resolution of the Annual General Meeting in 2008. No compensation for Directorship work was paid to Directors employed by the Swedish Match Group.

Pursuant to a resolution adopted by the 2008 Annual General Meeting, compensation to the Board for the period from the 2008 Annual General Meeting up to and including the 2009 Annual General Meeting amounted to 1,575,000 SEK to the Chairman of the Board and 630,000 SEK to each member of the Board elected by the General Meeting. In addition, a total of 920,000 SEK was granted for committee work, with the Chairman of the Compensation and Audit Committees receiving 230,000 SEK each and other members serving on these committees receiving 115,000 SEK each.

For further information about Directors' fees for 2008, see Note 6 *Personnel*, page 68.

### Management President

The President is appointed by the Board of Directors, and manages the Company's operations within the framework established by the Board. The President's duties include responsibility for ensuring that the Board of Directors receives objective, comprehensive and relevant information prior to Board meetings, enabling the Board to reach well-founded decisions. The President also submits reasoned proposals for decisions by the Board. On a monthly basis, the President provides Board members with the information required to monitor the position, liquidity and development of the Company and the Group, while also providing the Chairman with ongoing information regarding the operations of the Company and the Group.

Sven Hindrikes served as President and CEO until June 1, 2008, when he left his position and Lars Dahlgren was appointed new President and CEO.

### Group Management Team

In 2008, Swedish Match's Group Management Team consisted of Sven Hindrikes, President and CEO, until June 1, 2008; Lars Dahlgren, Senior Vice President Group Finance and IS/IT up to and including May 31, 2008 and thereafter President and CEO; Bo Aulin, Senior Executive Advisor; Mats Adamson, Senior Vice President Group Human Resources; Patrik Andersson, President of North Europe Division (up to and until June 14, 2008); Henrik Brehmer, Senior Vice President Corporate Communications; Rich Flaherty, President of North America Division (from November 12, 2008); Lennart Freeman, Executive Vice President and President of North America Division up to and until November 12, 2008 and thereafter President of the newly formed division Swedish Match International; Lars-Olof Löfman, Senior Vice President of Global Smokefree Products; Fredrik Peyron, Senior Vice President Legal Affairs; Joakim Tilly, Senior Vice President Group Finance and IS/IT (from June 1, 2008); Jarl Ugglå, President of International Division (up to and until November 11, 2008); and Torbjörn Åkeson, Acting President of North Europe Division (from June 15, 2008).

### Compensation to Group Management

The 2008 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 6 *Personnel*, page 68.

For information concerning compensation and other benefits to the Group Management Team and the Company's options program, see Note 6 *Personnel*, page 68.

### Audit and auditors

The auditors are elected by the General Meeting. According to the Articles of Association, the number of authorized public auditors must be one or two with a maximum of one or two deputy auditors or one or two auditing firms.

The accounting firm KPMG AB was elected by the General Meeting as the Company's external auditors for the period from 2008 up to and including the Annual General Meeting in 2012. Thomas Thiel, authorized public accountant, serves as auditor in charge.

The duties of the external auditors include reviewing the management of the

Board and President and the Company's annual accounts and accounting records. The external auditors report continuously to the Board's Audit Committee and, in conjunction with preparation of the annual accounts, they also report their observations from the audit to the Board.

During 2008, in addition to auditing, KPMG AB provided consultancy services to the Group, primarily with regard to taxes. For information concerning compensation to Swedish Match's auditors during 2008, see Note 7 *Audit fees*, page 72.

### Disclosure Committee

The President has appointed a Disclosure Committee whose primary responsibility is to ensure that all external reporting, including interim reports, annual reports and press releases whose content could have an impact on the share price or that contains financial information, is prepared in accordance with the Group's prevailing routines. Members of the Committee during 2008 were the Company's Senior Executive Advisor, Bo Aulin, who also served as the Chairman of the Committee, and the heads of Corporate Communications, Investor Relations, Internal Control and Legal Affairs.



## Report on internal control

The Board of Directors is responsible for internal control pursuant to the Swedish Companies Act and the Swedish Code of Corporate Governance. This report on internal control was prepared in accordance with the Swedish Code of Corporate Governance section 10.5 and 11.2, and is limited to internal control regarding financial reporting. The report is a separate section in the Corporate Governance Report. The report on internal control is not a part of the official Annual Report and has not been examined by the Company's auditors.

### Control environment

The basis for internal control with regard to financial reporting is the control environment including organization, decision-making structures, powers and responsibilities that have been documented and communicated in governing documents such as internal policies, guidelines, manuals and codes (for example, the division of duties between the Board of Directors on the one hand and the President and the other entities that the Board establishes on the other), instructions for

attestation rights and instructions for accounting and reporting.

### Risk assessment

The Group applies a risk assessment and risk management method to ensure that the risks to which the Group is exposed are managed within the established framework. Risks identified in connection with financial reporting are managed within the Group's control structure.

The Group has defined a standardized system of controls to ensure that essential risks pertaining to financial reporting are properly mitigated.

### Control activities

The Group monitors compliance with governing documents in the form of internal policies, guidelines, manuals and codes, and evaluates the effectiveness of the control structure. The evaluation of internal controls is conducted through tests performed by internal control resources, the central department for internal control, external consultants or, in certain instances, through self-assessment. The central department for internal control, which fulfils the role of an Internal Audit function

as regards evaluation of controls and processes within the Group, reports the results from the evaluation and other internal control issues to the Audit Committee and Group Management.

### Information and communication

The Board receives monthly reports, and the financial status of the Group is discussed at every scheduled Board meeting. In addition, the Board's various committees carry out important functions as part of the Board's monitoring activities and report to the Board.

### Monitoring

Monitoring of the Group's information and communication channels is performed to ensure that these are appropriate with regard to financial reporting. The disclosure Committee monitors the sufficiency of financial reports with regard to disclosure requirements.

*Stockholm, February 17, 2009*

**The Board of Directors of  
Swedish Match AB**

