

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

CORPORATE GOVERNANCE

GOVERNANCE REPORT

Swedish Match is subject to a variety of rules that affect its governance including the Company's Articles of Association, the Swedish Companies Act, the Rule Book for Issuers on the NASDAQ OMX Stockholm, the Swedish Code of Corporate Governance, and other applicable laws and regulations. The Articles of Association, adopted by the general meeting of shareholders, are available on the Company's website at www.swedishmatch.com.

Swedish Match applies the Swedish Code of Corporate Governance, which is available at the website of the Swedish Corporate Governance Board, www.corporategovernanceboard.se. The Company is not reporting any deviations from the Code for 2010, except with regard to the Code's regulation that auditors shall review the Company's half year or nine month report. The reason for this deviation is that the Board of Directors, with reference to the Company's stable operations, is of the opinion that the extra cost that would be incurred by such a review is not warranted and that sufficient control is achieved through the Company's internal reporting and control systems.

This Corporate Governance Report has been examined by the Company's auditors but does not represent part of the formal annual report.

General Meeting

The General Meeting constitutes the highest governing body in a limited liability company, and shareholders' right to participate in resolutions regarding the Company's

affairs are exercised at General Meetings. The Company's shareholders are informed of their legal rights to have issues addressed at General Meetings through the Company's website at www.swedishmatch.com/agm. The Company's Articles of Association do not include any limitations on how many votes each shareholder may cast at a General Meeting. Each share entitles the holder to one vote at a General Meeting. The Company does not apply any special arrangement on how the General Meeting works, neither due to provisions in the Articles of Association nor, as far as known to the Company, due to any shareholders agreement. Resolutions adopted by General Meetings are generally resolved by a simple majority. However, according to the Swedish Companies Act, certain matters are to be decided by a qualified majority.

The Annual General Meeting must be held within six months of the close of the fiscal year. At the Annual General Meeting, resolutions are adopted concerning such matters as dividends, approval of the annual report, discharge of the Board of Directors and the President from personal liability, election and compensation of the Chairman and members of the Board of Directors and, where applicable, auditors, guidelines for determination of compensation payable to senior executives, and other matters of importance to the Company. The Annual General Meeting for 2010 was held on April 27, 2010. The minutes of the meeting are available on the Company's website: www.swedishmatch.com.

Authorisation granted by the General Meeting

The General Meeting did not grant the Board of Directors to resolve that the Company shall issue new shares. For information as to the authorisation granted by the General Meeting to the Board of Directors to acquire treasury shares, see the *Report of the Board of Directors*, page 54.

Direct or indirect shareholding

No shareholder has a shareholding in the Company representing one tenth or more of the votes of all shares of the Company.

Articles of Association

The Company's Articles of Association do not include any provisions concerning the appointment and dismissal of directors and amendment of the Articles of Association.

Nominating Committee

The Nominating Committee is established according to the principles resolved by the Annual General Meeting each year. Pursuant to the decision of the Annual General Meeting 2010, the Nominating Committee shall include the Chairman of the Board of Directors and one representative of each of the four largest shareholders who wish to appoint a representative to the Committee. The four largest shareholders are identified on the basis of the known numbers of votes in due time before the date falling six months before the coming Annual General Meeting. Pursuant to instructions established by the General Meeting, the Nominating Committee's duties are to prepare and submit pro-

posals to the General Meeting concerning the election of the Chairman of the Annual General Meeting, the election of the Chairman and other members of the Board, directors' fees divided among the Chairman of the Board and other Board members, and any fees for committee work, as well as, if applicable, the election of and fees to be paid to the auditors.

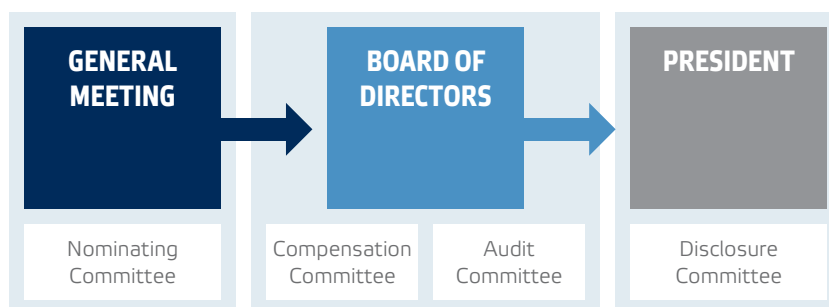
In the autumn of each year the Board of Directors commissions an external consultant to conduct an evaluation of the Board as regards the conduct and functioning of the Board's work. The Chairman of the Board informs the Nominating Committee about the outcome of the evaluation. This evaluation gives the Nominating Committee a basis from which to assess the competence and experience of the Board Members and the requirements for the future. The Nominating Committee shall meet as often as necessary to discharge its duties, and at least once per year. Proposals to the Nominating Committee can be submitted to the Nominating Committee's secretary, General Counsel Fredrik Peyron. The 2010 Annual General Meeting decided that no fees should be paid to the members of the Nominating Committee, but that any expenses of the Nominating Committee be borne by the Company.

Nominating Committee for the Annual General Meeting 2010

The Nominating Committee for the Annual General Meeting in 2010 comprised the following five persons: Andy Brown (Cedar Rock Capital), Mads Eg Gensmann (Parvus Asset Management), KG Lindvall (Swedbank Robur Funds), William Lock (Morgan Stanley Investment Management), and the Chairman of the Board Conny Karlsson. Mads Eg Gensmann served as Chairman of the Nominating Committee.

The Committee held two meetings during the period between the 2009 and 2010 Annual General Meetings combined with informal contacts and discussions between the members. A report on the work of the Nominating Committee was presented to the Annual General Meeting 2010.

GOVERNANCE OF THE SWEDISH MATCH GROUP



Nominating Committee for the Annual General Meeting 2011

The Nominating Committee for the Annual General Meeting in 2011 was announced on the Company's website on October 27, 2010, in connection with publishing the interim report for the third quarter. The Nominating Committee consists of the following members, in addition to the Chairman of the Board Conny Karlsson: Andy Brown (Cedar Rock Capital), Mads Eg Gensmann (Parvus Asset Management), William Lock (Morgan Stanley Investment Management), and Anders Oscarsson (AMF & AMF Funds). Mads Eg Gensmann serves as Chairman of the Nominating Committee.

Contacting the Nominating Committee

Shareholders may submit its proposals to the Company's Nominating Committee at any time. However, any proposal should be submitted to the Committee no later than two months prior to the Annual General Meeting, so that the Nominating Committee can consider proposals received with due care.

Proposals shall be submitted to:
 Swedish Match AB
 The Nominating Committee
 c/o General Counsel Fredrik Peyron
 Box 7179
 SE-103 88 Stockholm, Sweden
 E-mail: nominating.committee@swedishmatch.com

Board of Directors Composition

According to the Articles of Association, the Company's Board of Directors must consist of at least five and at most ten directors, apart from those persons who, pursuant to law, may be appointed according to other

arrangements. At the end of 2010, the Swedish Match Board of Directors consisted of seven members elected by the General Meeting plus three employee representatives and their three deputies in accordance with the Trade Union Representatives (Status at the Workplace) Act. During the year, the Board of Directors consisted of the following directors elected by the General Meeting: Conny Karlsson, Charles A. Blixt, Andrew Cripps, Karen Guerra, Arne Jurbrant, Kersti Strandqvist, and Meg Tivéus. During the year, Kenneth Ek, Eva Larsson, and Joakim Lindström served as employee representatives on the Board, with Håkan Johansson, Eeva Kazemi Vala (until April 26, 2010), Eva Norlén-Moritz (from April 27, 2010), and Gert-Inge Rang as deputies. Detailed information about individual Board members and deputies is provided on pages 114–115.

Meetings

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

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

Responsibilities of the Board of Directors

The Board of Directors is primarily responsible for establishing the Swedish Match strategic and financial Long Range Plan, monitoring the performance of the operations on an ongoing basis, ensuring that

there is a satisfactory process for monitoring the Company's compliance with laws and regulations, reviewing and approving the financial accounts, and taking decisions regarding investments and divestments.

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

The Board of Directors is responsible for ensuring that the Group's organization is appropriate for its purpose, and conducts ongoing evaluations of the financial position of the Company, of management guidelines, and of the investment of company funds. The Board also safeguards the Company's financial accounting, internal control and the quality of its financial reporting through the system for internal control described in detail in the section entitled *Risk management and internal control over financial reporting*, page 113.

Working procedures for the Board of Directors

The working procedures for the Board of Directors are established annually at the statutory Board meeting. The working procedures include instructions relating to the role of the Chairman of the Board, the division of responsibilities between the Board of Directors and the President, and the guidelines for financial reporting to the Board.

The working procedures stipulate that the Company shall have an Audit Committee and a Compensation Committee.

Activities of the Board of Directors during 2010

The number of Board meetings during 2010 was eight, of which six were scheduled meetings, and one was a statutory meeting. The Board of Directors elected at the 2010 Annual General Meeting held its 2010 statutory meeting on the same day as the Annual General Meeting, when decisions were made concerning the working procedures for the Board and instructions for the Compensation and Audit Committees. In addition, customary decisions were made concerning the election of the secretary (General Counsel Fredrik Peyron) and authorized signatories, and the appointment of members of the Compensation and Audit Committees.

In addition to a financial review of the business and distribution of surplus funds, the Board during the year devoted considerable time to the Company's strategy and organization, management benefit structures, and the transaction with the Scandinavian Tobacco Group. All of the meetings held during the year followed an approved agenda. Prior to each meeting, a proposed agenda and, where applicable, documents relevant to the items on the agenda were sent to the Board. The Company's auditors attended the Board meeting in February to

present the audit report and observations from the audit. In conjunction with the Board's meetings in June, the Board visited the Owensboro plant in the US, and in December the Board visited the factory in Kungälv, Sweden.

Chairman of the Board

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

The Chairman's other responsibilities include forwarding the owners' opinions to the Board of Directors. During 2010, Conny Karlsson served as Chairman of the Board.

Audit Committee

The Audit Committee is appointed annually by the Board of Directors. In 2010, the members were Meg Tivéus, (Chairman), Andrew Cripps, and Kersti Strandqvist. Although the Committee's work is primarily of a preparatory and advisory nature, the Board of Directors delegates decision making authority on specific issues to the Committee. The Committee is responsible for overseeing procedures for accounting and financial reporting and for the organization of internal control. It also keeps itself informed regarding the audit of the Group's accounting records. Its reviews focus on the quality and integrity of the Group's financial statements and related disclosure, the effectiveness of the Company's internal audit function, the auditors' qualifications and independence, the Group's compliance with applicable laws and regulations and, as required, related party transactions. In conjunction with the Audit Committee's review of the financial reports, the members of the Audit Committee also discuss accounting issues relating to the Company's financial reporting. The Audit Committee also establishes guidelines by which services other than auditing may be secured from the Company's auditors. The Audit Committee

COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES AND NUMBER OF MEETINGS AND ATTENDANCE DURING 2010

	Board of Directors	Audit Committee	Compensation Committee
Total number of meetings	8	5	3
Conny Karlsson (Chairman)	8		3
Charles A. Blixt	8		3
Andrew Cripps (Deputy Chairman)	8	5	
Karen Guerra	8		2
Arne Jurbrant	8		1
Kersti Strandqvist	8	4	
Meg Tivéus	8	5	
Kenneth Ek	8		
Eva Larsson	7		
Joakim Lindström	8		
Håkan Johansson	7		
Eva Norlén-Moritz (from April 2010)	6		
Gert-Inge Rang	8		
Eeva Kazemi Vala (until April 2010)	2		

also discusses other important issues relating to the Company's financial reporting and reports its observations to the Board.

Decision making authority has been delegated to the Committee by the Board pertaining to:

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

The Chairman of the Committee kept the Board of Directors informed on an ongoing basis of the work and decisions of the Committee throughout the year.

In consultation with Committee members, the Chairman of the Committee shall decide where and how frequently the Committee shall meet. The number of meetings in 2010 was five. The Company's auditors participated in all of the meetings of the Audit Committee in 2010 and, at two of these meetings, also met with the Committee without the presence of Company representatives. The head of Internal Audit met separately with the Committee without the presence of management at two of the Committee meetings.

Compensation Committee

The Compensation Committee is appointed annually by the Board of Directors. Members in 2010 were Conny Karlsson, (Chairman), Charles A. Blixt, Karen Guerra (from April 27, 2010), and Arne Jurbrant (until April 26, 2010). The Company's President presents reports on certain issues, but is not a member of the Committee and is not present when the Committee prepares decisions regarding compensation to the President.

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

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

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

- (i) calculation and payment of variable salary to the Company's President and other members of the Group Management Team;
- (ii) payment of funds to the Company's profit-sharing system in Sweden, pursuant to the rules stipulated by the Board for the Swedish profit-sharing system;
- (iii) salary and other compensation which, within the framework of the guidelines resolved by the Annual General Meeting, shall be paid to, and other terms of employment that shall apply for, members of Group Management Team other than the President, including performance criteria, and targets in any long term incentive plan;

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

In addition, the Committee shall monitor and evaluate

- (i) programs for variable remuneration, both ongoing and those that have ended during the year, for the Group Management Team, and
- (ii) the application of the guidelines for remuneration that the Annual General Meeting is legally obliged to establish, as well as the current remuneration structures and levels in the Company.

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

The Committee shall meet as often as necessary but at least twice annually. There were three meetings held during 2010.

During 2010, the Committee devoted special attention to determination of variable compensation for 2009 to be paid in 2010, proposals to the Board concerning adjustments to the President's salary and variable compensation for 2011 and determination of salaries and variable compensation for other members of the Group Management Team for 2011. In addition, the Committee submitted a proposal to the Board, prior to the 2010 Annual General Meeting, to have the Company issue call options in respect of the 2009 options program and a proposal for guidelines for the determination of salary and other remuneration paid to the President and other members of Group Management Team.

Evaluation of the work of the Board of Directors

The Board of Directors shall ensure that its work is evaluated annually. During the autumn of 2010, the Board's work was evaluated with the assistance of an independent consulting company. The Nominating Committee was informed of the result of the evaluation.

MEMBERS OF THE COMMITTEES OF THE BOARD OF DIRECTORS 2010

COMPENSATION COMMITTEE

Conny Karlsson
(Chairman)
Charles A. Blixt
Karen Guerra

AUDIT COMMITTEE

Meg Tivéus
(Chairman)
Andrew Cripps
Kersti Strandqvist

Independence of Board members

All of the Board members are considered to be independent under the rules of the Swedish Code of Corporate Governance in relation to the Company's major shareholders and in relation to the management and the Company.

Compensation to the Board of Directors

The Nominating Committee submits proposals to the General Meeting regarding compensation to the Board of Directors. The Meeting then votes on the matter. Directors' fees were paid during 2010 pursuant to the resolution of the Annual General Meeting in 2010. No compensation for directorship work was paid to Directors employed by the Swedish Match Group.

Pursuant to a resolution adopted by the 2010 Annual General Meeting, compensation to the Board for the period from the 2010 Annual General Meeting up to and including the 2011 Annual General Meeting should amount to 1,575,000 SEK to the Chairman of the Board, 745,000 SEK to the deputy Chairman and 630,000 SEK to each member of the Board elected by the General Meeting. In addition, a total of 920,000 SEK was granted for committee work, with the Chairman of the Compensation and Audit Committees receiving 230,000 SEK each and other members serving on these committees receiving 115,000 SEK each.

For further information about Directors' fees for 2010, see *Note 7 Personnel*, page 74.

¹⁾ For changes in the Group Management Team after December 31, 2010, see page 117.

Management President

The President is appointed by the Board of Directors, and manages the Company's operations within the framework established by the Board. The President's duties include responsibility for ensuring that the Board of Directors receives objective, comprehensive and relevant information prior to Board meetings, enabling the Board to reach well founded decisions. The President also submits reasoned proposals for decisions by the Board. On a monthly basis, the President provides Board members with the information required to monitor the position, liquidity and development of the Company and the Group, while also providing the Chairman with ongoing information regarding the operations of the Company and the Group. During 2010, Lars Dahlgren served as President and CEO.

Group Management Team¹⁾

In 2010, the Swedish Match Group Management Team consisted of Lars Dahlgren, President and CEO; Mats Adamson, Senior Vice President Group Human Resources (until April 30, 2010); Henrik Brehmer, Senior Vice President Corporate Communications (until October 6, 2010); Rich Flaherty, President of US Sales Division; Lennart Freeman, Executive Vice President and President of Swedish Match International until October 3, 2010 and thereafter President of Lights; Emmett Harrison, Senior Vice President Corporate Communications and Sustainability (from October 7, 2010), Elisabeth Hellberg, Senior Vice President

Group Human Resources (from October 4, 2010); Martin Källström, President of Smokefree Division; Lars Olof Löfman, President of Other Operations until October 3, 2010 and thereafter President of Swedish Match Distribution AB; Jonas Nordquist, President of Scandinavia Sales Division; Fredrik Peyron, Senior Vice President Legal Affairs, and Joakim Tilly, CFO and Senior Vice President Group Finance and IT.

Compensation to Group Management

The 2010 Annual General Meeting established certain guidelines for determining salary and other compensation to the President and other members of the Group Management Team. For information on the guidelines established at the Annual General Meeting, see *Note 7 Personnel*, page 74. For information concerning compensation and other benefits to the Group Management Team and the Company's option programs, see *Note 7 Personnel*, page 74.

Audit and auditors

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

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

SWEDISH MATCH ORGANIZATION²⁾

PRESIDENT & CEO



²⁾ Organization structure as of March, 2011.

The duties of the external auditors include auditing the management of the Board and President as well as the Company's annual accounts and accounting records. The external auditors report continuously to the Board's Audit Committee and, in conjunction with preparation of the annual accounts, they also report their observations from the audit to the Board. During 2010, in addition to auditing, KPMG AB provided consultancy services to the Group, primarily with regard to tax and transactional services in relation to the STG transaction, including due diligence reports. In addition, consulting services regarding general tax services, and testing of IT controls were provided.

For information concerning compensation to the Swedish Match auditors during 2010, see *Note 8 Audit fees*, page 78.

Disclosure Committee

The President has appointed a Disclosure Committee whose primary responsibility is to ensure that all external reporting, including interim reports, annual reports, and press releases with content that could have an impact on the share price or that contains financial information, is prepared in accordance with the Group's prevailing routines. Members of the Committee during 2010 were the heads of Business Control, Corporate Communications and Sustainability, Group Reporting and Tax, and Legal Affairs. The head of Legal Affairs served as the Chairman of the Committee.

Risk management and internal control over financial reporting

The Board of Directors is responsible for internal control over financial reporting pursuant to the Swedish Companies Act. The Audit Committee has a specific responsibility for monitoring the effectiveness of risk management and internal control regarding the financial reporting.

Control environment

The basis for internal control over financial reporting is the control environment that has been documented and communicated in governing documents such as internal policies on business ethics, delegation of authority, related party transactions, and fraud response. In addition, a set of policies and

instructions for accounting and reporting, as well as for internal control and IT security, have been established. All policies are regularly updated and distributed through a system where key individuals confirm implementation within their area of responsibility. Fundamental to creating an effective control environment is the establishment of clear decision making and review structures. Swedish Match has established a system of regular review meetings between the Group, operating units, and local management where the Group values are reinforced.

Risk assessment

The Group applies a risk assessment and a risk management method to ensure that the risks to which the Group is exposed are managed within the established framework. Based on the risk assessment, the Group defines a standardized system of controls to ensure that essential risks pertaining to financial reporting are properly mitigated. These standardized controls are reviewed and updated annually. In addition, each operating unit is charged with the responsibility to assess company specific risks and identify additional key internal controls not covered by the standardized system of controls.

Control activities

Based on the framework of Group policies and instructions, the heads of Swedish Match operating units are charged with the responsibility to establish the internal controls over financial reporting. Control activities are established in all business processes and systems supplying information to the financial reports in order to safeguard the reliability of the information.

Information and communication

Management has established communication channels and forums to allow for an effective information flow relating to business conditions and changes affecting the financial reporting.

Monitoring

The Group monitors compliance with governing documents in the form of internal policies and instructions, and evaluates the effectiveness of the control structure. The Group Internal Audit department is established with the primary task to indepen-

dently evaluate the effectiveness of internal control. Internal Audit's work is based on risk driven plans as well as triggered by specific changes and events. The head of Internal Audit reports directly to the CFO and to the Chairman of the Audit Committee.

Financial reports are provided on a monthly, quarterly, and annual basis to Group and operating unit management through a common reporting and consolidation system. Financial and operating management review the financial information to validate completeness and accuracy. The Board receives monthly reports, and the financial status of the Group is discussed at every scheduled Board meeting. The Disclosure Committee monitors the sufficiency of financial reports with regard to disclosure requirements.

Stockholm, February 22, 2011

The Board of Directors of
Swedish Match AB

Auditors' report of the Corporate Governance Report

To the annual meeting of the shareholders
in Swedish Match AB (publ.)
Corporate identity number 556015-0756

It is the Board of Directors who is responsible for the Corporate Governance Report for the year 2010, pages 108–113, and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the Corporate Governance Report has been prepared and is consistent with the annual accounts and the consolidated accounts, we have read the Corporate Governance Report and assessed its statutory content based on our knowledge of the company. In our opinion, the Corporate Governance Report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm, 9 March 2011
KPMG AB

Thomas Thiel
Authorized Public Accountant