

Corporate governance report

Swedish Match AB is a public Swedish limited liability company. The objective of the Company's operations, in accordance with 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 is governed on the basis of the Company's Articles of Association, the Swedish Companies Act, the listing agreement pertaining to listing of the Company's shares on the Stockholm Stock Exchange, the Swedish Code of Corporate Governance and other applicable Swedish and foreign laws and regulations.

Because of a prior listing on the American NASDAQ stock exchange, Swedish Match is subject to the regulations of the Sarbanes Oxley Act for corporate governance and internal control regarding financial reporting. These regulations also entail an obligation to report to the U.S. Securities and Exchange Commission (SEC).

The reporting in question is extensive, costly and takes up significant resources. However, the SEC has issued a proposal for new rules on termination of registration with the SEC. The new rules would, if enacted, allow the Company to terminate its registration with the SEC.

The Swedish Code of Corporate Governance, which is incorporated as a section of the listing agreement with the Stockholm Stock Exchange, was applied by Swedish Match in 2006. The Company is not reporting any deviations from the Code for 2006, except with regard to the Board of Directors' annual evaluation of its own work (see the section entitled "Evaluation of the work of the Board of Directors", page 83). This Corporate

governance report has been examined by the Company's auditors, with the exception of the report on internal control.

The Articles of Association are available in their entirety on the Company's website at www.swedishmatch.com.

General Meetings of Shareholders

A 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 have been informed via the Company's website at www.swedishmatch.com of their legal right to have issues dealt with at General Meetings. Each share entitles the holder to one vote at a General Meeting. Resolutions adopted by General Meetings are generally decided by a simple majority, although 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 of members of the Board of Directors and, as applicable, auditors, compensation to the Board of Directors and auditors, principles to be followed for determining compensation to senior executives and other matters of importance to the Company.

The Annual General Meeting for 2006 was held on April 20 and an Extraordinary General Meeting was held on December 4. The minutes of these meetings are available on the Company's website www.swedishmatch.com.

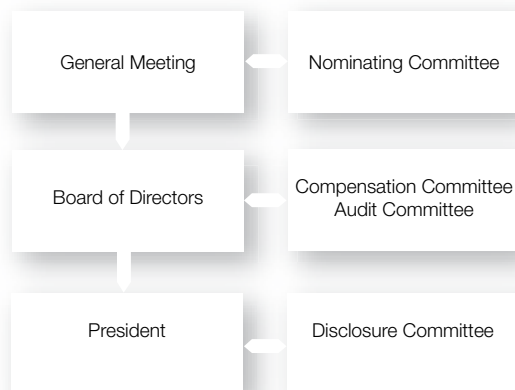
Nominating Committee

Up to the 2006 Annual General

Meeting, the Nominating Committee consisted of the members appointed to the Committee at the 2005 Annual General Meeting. These were: Bernt Magnusson (convener), Marianne Nilsson (Robur), Pernilla Klein (Third AP Fund) and Joachim Spetz (Handelsbanken Funds), with Carl Rosen (Second AP Fund) as deputy. The Nominating Committee internally appointed Joachim Spetz to be its chairman. William N. Booth (Wellington Management Company) as well as Mads Eg Gensmann and Edoardo Mercadante (Parvus Asset Management) were co-opted to participate in some of the Nominating Committee's meetings during this period.

Pursuant to a resolution adopted at the 2006 Annual General Meeting, the Nominating Committee must consist of five members. The Annual General Meeting resolved to empower the Chairman of the Board to contact the largest known shareholders in 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 mandate of the following year's Annual General Meeting. After the Chairman of the Board had contacted the Company's largest shareholders, the Nominating Committee was constituted on June 8, 2006 with William N. Booth (Wellington Management Company), Mads Eg Gensmann (Parvus Asset Management), Michael Allison (Morgan Stanley), and Andy Brown (Cedar Rock Capital) as members, in addition to Chairman of the Board Bernt Magnusson. Of the members of the Nominating Committee, only Bernt Magnusson was also a Member of the Board. Mads Eg Gensmann served as chairman of the Nominating Committee. The Company's general

Governance of the Swedish Match Group



counsel, Bo Aulin, served as secretary to the Nominating Committee.

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 fees to be paid to 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.

Proposals to the Nominating Committee can be submitted to the Nominating Committee's secretary, Bo Aulin. As part of the process for nominating Board members prior to the 2006 Annual General Meeting, the Board ensured that its work during 2005 was evaluated and the Nominating Committee was informed of the results of the evaluation. The Nominating Committee appointed following the 2006 Annual General Meeting has also, through private interviews with each Board member, performed an evaluation of the Board. Since the appointment of the Company's auditors covers the period up to and including the 2008 Annual General Meeting, the Nominating Committee has not had to address the question of choosing auditors this year. The Nominating Committee has, at

both the 2006 Annual General Meeting and the 2006 Extraordinary General Meeting, proposed altered compensation for the Board (see the section entitled "Compensation to the Board of Directors" on page 83).

The Nominating Committee shall meet as often as necessary to discharge its duties, and at least once per year. During 2006, the Nominating Committee held four meetings prior to the Annual General Meeting and two meetings thereafter.

The 2006 Annual General Meeting decided that no fees be paid to the members of the Nominating Committee but that expenses of the Nominating Committee should 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 2006, Swedish Match's Board of Directors consisted of eight members elected by the General Meeting plus three employee representatives and their two deputies.

In 2006, the Board of Directors consisted of the following directors elected by the General Meeting: Bernt Magnusson, Jan Blomberg (who served

up until the 2006 Annual General Meeting), Sven Hindrikes, Tuve Johannesson (resigned as director on October 24, 2006), Arne Jurbrant, Karsten Slotte, Kersti Strandqvist, Meg Tivéus, Andrew Cripps and Conny Karlsson (the last two having been elected by the 2006 Annual General Meeting). The employee representatives on the Board for the year were Kenneth Ek, Eva Larsson and Joakim Lindström with Håkan Johansson, Eeva Kazemi Vala and Stig Karlsson (who resigned in January 2006) as deputies.

Meetings

The Board of Directors is called to one statutory and five ordinary meetings per year. Three of the ordinary meetings are coordinated with the dates of the financial information for the first and third quarters and of the year-end report. In addition, the Board meets in August/September and in December to discuss the strategic plan and the operational budget. 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. In addition to the ordinary Board meetings, the Board is called to additional meetings convened at the discretion of any director or of the President.

Responsibilities of the Board of Directors

The Board of Directors is primarily responsible for Swedish Match's general and long-term strategies and goals, establishing the budget and business plans, reviewing and approving the financial accounts, establishing overall policies and making 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 principles

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 Company's procedures and of the guidelines for the management and investment of Company funds. The Board also safeguards the Company's financial accounting and internal control and the quality of its financial reporting through the system for internal control that is described in detail in the section entitled "Report on internal control" on page 85.

Working procedures for the Board of Directors

The working procedures for the Board of Directors are established annually at the statutory 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 guidelines for financial reporting to the Board. The working procedures also stipulate that the Company must have an Audit Committee and a Compensation Committee.

Activities of the Board of Directors during 2006

The number of Board meetings during 2006 was seven, of which six were scheduled meetings and one an extraordinary meeting held by means of correspondence. Of the ordinary meetings, six were in Stockholm and one in Richmond, Virginia, USA.

The Board of Directors sitting at the end of 2006 held its 2006 statutory meeting on the same day as the Annual General Meeting, whereby 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 Bo Aulin) and authorized signatories. Members of the Compensation Committee and Audit Committee were also appointed.

In addition to reviewing the business in relation to the budget and strategic plan and strengthening the

Company's internal control systems, the Board devoted considerable time to considering 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 meeting in August, visits were made to the Group's production facilities in Owensboro (Kentucky, USA) and Santiago (Dominican Republic).

All of the meetings held during the year followed an approved agenda. Prior to each meeting, an agenda plan and documents relevant to every point on the agenda were sent to the Board. Bo Aulin, the Company's general counsel and also Board secretary, and Chief Financial Officer Lars Dahlgren attended all of the Board meetings held during the year. The Company's auditor 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, in all essential respects, for organizing and directing the Board's work and for 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 and ascertains that the Board of Directors continuously receives the information required for upholding the quality of the Board's work and 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.

The Chairman of the Board during 2006 was Bernt Magnusson, who has announced that he will not stand for re-election at the 2007 Annual General Meeting.

Audit Committee

The Audit Committee is appointed annually by the Board of Directors. Members during 2006 were Jan Blomberg (member and also chairman until April 20), Meg Tivéus (chairman as of April 20), Andrew Cripps (as of April 20), Karsten Slotte and Kersti

Strandqvist.

Although the Committee's work is primarily of a preparatory and advisory nature, the Board of Directors may in special cases delegate decision-making authority to the Committee. The Committee is responsible for overseeing procedures for accounting and financial reporting as well as for overseeing the auditing of the Group's accounting records. Its reviews focus on the quality and correctness of the Group's financial accounting and the associated reporting, work on internal financial controls within the Group, the auditors' work, their qualifications and independence, the Group's compliance with the stipulations of applicable statutes and other rules and regulations and, as required, transactions between the Group and related parties. The Audit Committee is also responsible for approving any consultancy services performed by the auditors in addition to their audits. The Audit Committee also discusses other important issues relating to the Company's financial reporting and reports its observations to the Board.

In addition to supervising the Company's accounting records, financial reporting and auditing, the Committee devoted special attention during 2006 to the Company's internal control over financial reporting.

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.

The Committee must meet at least six times a year. The number of meetings during 2006 was six. The Company's auditors participated in all of the meetings of the Audit Committee during 2006 and, in connection with two of these meetings, also met with the Committee without the presence of Company representatives.

Compensation Committee

The Compensation Committee is appointed annually by the Board of Directors. Members during 2006 were Bernt Magnusson (chairman), Jan Blomberg (until April 20), Conny Karlsson (as of April 20) and Arne Jurbrant.

Although the Committee's work is primarily of a preparatory and

advisory nature, the Board of Directors has granted it decision-making authority concerning certain matters in limited areas (such as matters involving compensation to the Group management, apart from the President) and may also delegate decision-making authority to the Committee in other special cases.

The Committee's duties are primarily the following. The Committee must prepare and submit proposals to the Board regarding matters of principle involving the President's salary, pension benefits, bonus, other compensation and terms of employment and make decisions regarding corresponding terms for other members of Group management. The Committee must also address other matters involving salaries and terms of employment that are of a principled character or that are otherwise of greater weight or can affect a wider circle within the Company – for example, regarding bonus programs, options programs and profit-sharing systems. In addition, the Committee must prepare the Board of Directors' proposals regarding the principles for compensation and other terms of employment for Group management, which must then be submitted to the General Meeting for approval.

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 during 2006 was eight, of which three were by telephone.

During 2006, the Committee devoted special attention to the establishment of variable compensation for 2005 to be paid in 2006, establishing the structure and target parameters for variable compensation to the President and other members of the Group management for 2006, as well as principles for future variable compensation, proposals to the Board concerning adjustments to the President's salary for 2007 and determination of salaries for other members of the Group management for 2007. In addition, the Committee submitted a proposal to the Board, prior to the 2006 Annual General Meeting, to have the Company issue call options in respect of the 2005 options program and a proposal regarding options program for senior executives and key personnel of the Company for 2006. Before the Extraordinary General Meeting in December 2006, the Committee provided the Board with proposals to be submitted to the Meeting regarding options programs for senior executives and key personnel of the Company for 2007 and regarding new principles for compensation and other terms of employment for members of the Group management.

The Committee's work regarding levels and structures for compensation

to Group management was performed with the support of external expertise.

Evaluation of the work of the Board of Directors

The Board of Directors must ensure that its work is evaluated annually. During late 2005, the Board undertook an evaluation by means of answers to a questionnaire filled out by each director, which formed the basis of the Nominating Committee's work and evaluation of the Board leading up to the 2006 Annual General Meeting. The questionnaire included judgments about the individual directors and the quality of the Board's work in general.

The Nominating Committee appointed following the 2006 Annual General Meeting also performed an evaluation of the Board. The evaluation was performed by means of individual interviews with each and every Board member. In view of the evaluation performed by the Nominating Committee, the Board of Directors did not consider it necessary to undertake an evaluation of its own in 2006.

Independence of Board members

All of the Board members are independent in relation to the Company's major shareholders. The President, Sven Hindrikes, in his capacity as a Company employee, is not independent in relation to the Company. Nor is the Chairman of the Board, Bernt Magnusson, independent in relation to the Company according to the Swedish Code of Corporate Governance, since he has been a member of the Board for more than 12 years. All other members are considered independent in relation to the Company.

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

Directors' fees were paid during 2006 pursuant to the resolutions of the 2005 and 2006 Annual General Meetings and the Extraordinary General Meeting of December 4, 2006. No compensation for Directorship work was paid to Directors employed by Swedish Match.

Composition of the Board of Directors and committees and number of meetings and attendance during 2006

	Audit Committee	Compensation Committee	Board of Directors
Total no. of meetings*	6	8	6*
Bernt Magnusson		8	6
Sven Hindrikes			6
Jan Blomberg (declined re-election in April 2006)	1	3	1
Andrew Cripps (newly elected in April 2006)	5		5
Tuve Johannesson (resigned in October 2006)			3
Arne Jurbrant		8	6
Conny Karlsson (newly elected in April 2006)		5	5
Karsten Slotte	6		5
Kersti Strandqvist	6		6
Meg Tivéus	6		6
Kenneth Ek			6
Eva Larsson			6
Joakim Lindström			6
Håkan Johansson			6
Eeva Kazemi Vala			6
Stig Karlsson (resigned in January 2006)			

* Excl. one held by means of correspondence.

Pursuant to a resolution adopted by the 2005 Annual General Meeting, compensation to the Board for the period from the 2005 Annual General Meeting up to and including the 2006 Annual General Meeting amounted to 750,000 SEK to the Chairman of the Board and 300,000 SEK to each of the regular Directors. In addition, a total of 400,000 SEK was granted for committee work. Pursuant to a resolution of the 2006 Annual General Meeting, compensation to the Board for the period from the 2006 Annual General Meeting up to and including the 2007 Annual General Meeting would amount to 875,000 SEK to the Chairman of the Board and 330,000 SEK to each of the regular Directors. In addition, a total of 500,000 SEK was to be paid for committee work. In accordance with this resolution, compensation of 540,000 SEK was paid to the Chairman and 205,000 SEK to each of the other Directors elected by General Meetings for the period from the Annual General Meeting in 2006 up to and including the Extraordinary General Meeting on December 4, 2006. In addition to these fees, fees for committee work amounted to a total of 310,000 SEK for the same period.

In view of the increased complexity of the Board's work, and with the aim of increasing the Board members' ownership of the Company and of facilitating the recruitment of international talent to the Board, the Nominating Committee has declared that the directors' fees calculated on a yearly basis should be raised to 1.5 MSEK for the Chairman and 0.6 MSEK for the other directors elected by General Meetings (excluding directors who are employees of Swedish Match) and that these directors should be required to acquire Swedish Match shares for the entire net amount of the fees they receive. Additionally, the Board of Directors should be allotted 875,000 SEK as compensation for committee work. In application of these principles, the Extraordinary General Meeting of December 2006 resolved that directors' fees for the period from the time of said resolution up to and including the next

Annual General Meeting should be paid in a total amount of 575,000 SEK to the Chairman and 230,000 SEK to each of the other directors elected by General Meetings. Compensation for committee work totaling 335,000 SEK should also be paid for the period, of which the chairmen of the Compensation and Audit Committees should each receive 75,000 SEK and the other members serving in these committees 37,000 SEK each. Board directors employed by Swedish Match would not receive any directors' fees.

In agreement with the Nominating Committee's statement of principles, the Board of Directors established, in December 2006, principles governing Board directors' ownership of shares in the Company, from which it follows that all directors who receive directors' fees following the Extraordinary General Meeting of December 2006 must acquire shares in the Company for an amount corresponding to the fees received following the Extraordinary General Meeting less income tax. Directors must furthermore refrain from divesting these shares for a period of 12 months following their acquisition and, during the period of 13 to 24 months following their acquisition, no more than half of the shares so acquired may be divested.

For more information about Directors' fees for 2006, see Note 5, page 51.

Group 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 an information base that is as objective, comprehensive and relevant as possible prior to Board meetings and otherwise, enabling the Board to reach well-founded decisions. The President also reports to the Board and submits reasoned proposals for decisions by the Board. In addition, the President provides Board members, on a monthly basis, 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 2006, Sven Hindrikes served as President and CEO.

Group Management Team

The Group Management Team of Swedish Match for 2006 consisted of Sven Hindrikes, President and CEO, Bo Aulin, Senior Vice President, Secretary and General Counsel, Corporate Affairs, Lars Dahlgren, Chief Financial Officer and Senior Vice President, Group Finance and IS/IT, Lennart Freeman, Executive Vice President and President of the North America Division, Lars-Olof Löfman, President of the North Europe Division, Göran Streiffert, Senior Vice President, Group Human Resources, and Jarl Uggla, President of the International Division.

Remuneration to Group management Up until the 2006 Annual General Meeting, the Company lacked general principles or guidelines established by a General Meeting regarding compensation and other terms of employment for Group management. Such principles were established prior to this date by the Board of Directors. The 2006 Annual General Meeting established certain principles regarding compensation and other terms of employment for Group management. These principles were in all essential respects a codification of what had been applied during 2005. For information on the principles established by the Annual General Meeting, see Note 5, page 51.

At the Extraordinary General Meeting of December 4, 2006, new principles were established for determining salary and other compensation to the President and other members of Group management. The principles are to apply to the compensation and other terms of employment of Group management (that is to say, the President, Divisional Presidents and Senior Vice Presidents in charge of Group functions reporting directly to the President) stipulated in

agreements entered into as of January 1, 2007. For information on these principles, see Note 5, page 51.

For information concerning the remuneration and other benefits to the President and the Group Management, and the Company's options program, see Note 5, page 53.

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 together with a maximum of the same number of deputy auditors or one or two auditing firms. Additionally, the Board of Directors has the right to appoint, in special situations, one or more special auditors or one auditing firm to review the presentations or plans as drawn up by the Board of Directors pursuant to the Swedish Companies Act in such situations.

The accounting firm KPMG Bohlins AB, with Thomas Thiel as auditor in charge, was elected by the General Meeting as the Company's external auditors for the period from 2004 up to and including the Annual General Meeting in 2008.

In addition to the auditing, KPMG provided consultancy services to the Group, primarily with regard to taxes, during 2006, as they did, to some extent, during the years 2004 and 2005.

For information concerning compensation to Swedish Match's auditors during 2006, see Note 6, page 54.

Financial reporting

The quality of the Company's financial reporting is ensured by having the Audit Committee review the financial reports issued by the Company. In connection with the review, the Committee's members discuss the various accounting issues that may be of relevance to the particular report. In addition, the members of the Audit Committee continuously receive reports concerning the internal control work conducted within the Group.

The tasks of the external auditors include examination of the management of the Board of Directors and President, as well as the Company's

annual report and accounts. The external auditors report continuously to the Audit Committee of the Board of Directors and, in connection with the annual report, the external auditors report their observations from the audit to the Board of Directors.

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 2006 were the heads of Investor Relations, Internal Control, Corporate Communications and Group Corporate Affairs, with the last mentioned (Bo Aulin) as chairman.

During 2006, seven meetings were held.

Report on internal control

The Board of Directors is responsible pursuant to the Swedish Companies Act and the Swedish Code of Corporate Governance for internal control. This report has been prepared in accordance with the Swedish Code of Corporate Governance, sections 3.7.2 and 3.7.3, and is thereby limited to internal control regarding financial reporting. The report does not constitute a part of the formal annual report documents.

The basis for internal control with regard to financial reporting comprises a control environment with organization, decision-making channels, 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 with regard to attestation rights and auditing and reporting instructions.

The Company applies a risk-evaluation and risk-management method in order to ensure that the risks

to which the Company is exposed are managed within the frameworks that have been established. Risks that have been identified in connection with financial reporting are managed via the Company's control structure as documented in the process and internal control specifications.

The Company monitors compliance with governing documents in the form of internal policies, guidelines, manuals and codes, as well as the effectiveness of the control structures. Since the Company is registered with the U.S. Securities and Exchange Commission (SEC) because of a prior listing on the American NASDAQ stock exchange, it has applied the principles relative to internal control over financial reporting pursuant to the American Sarbanes Oxley Act.

Monitoring of the Company's information and communication channels is also performed with the aim of ensuring that these are appropriate with regard to financial reporting. The Disclosure Committee follows up the sufficiency of the financial reports with regard to disclosure requirements. The results of the Company's risk-management process are addressed by the Board of Directors.

The Board receives monthly reports and at every ordinary Board meeting, the financial status of the Company and the Group is discussed. In addition, the Board's various committees fulfill important functions as part of the Board's follow-up activities.

The Company has evaluated the need for a special internal auditing function based on the Group's operations. As a result of the existence of a department for internal control within the Company, the task of which is to ensure the internal control, the Board of Directors is satisfied that there does not presently exist any need for an internal auditing function within the Company.

Stockholm, February 13, 2007

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