

# 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. The Annual General Meeting 2016 decided to change the Articles of Association in order to enable the auditors to be appointed for a term between one and four years.

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 2016, 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 over 188,750,000 shares at the end of 2016. Each share carries one vote. On December 31, 2016, 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 are presented on pages 48–49 of the 2016 Annual Report.

## Annual General Meeting 2017

Swedish Match's 2017 Annual General Meeting will be held on May 4, in Stockholm, Sweden. 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 2017

The Nominating Committee for the Annual General Meeting in 2017 was announced on the Company's website on October 28, 2016 in connection with publishing the interim report for the third quarter. In addition to the Chairman of the Board of Swedish Match, Conny Karlsson, the Nominating Committee consists of the following members: Daniel Ovin (Nordea Asset Management), Mark Husson (Cedar Rock Capital), Ulrika Danielson (Andra AP-fonden), and William James (Standard Life Investments). Daniel Ovin 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 between one and four years. 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. The Committee's responsibilities are to a large extent set by the EU Audit and Auditor Regulation, which includes responsibility for the audit selection procedure and otherwise to assist the Nominating Committee in preparing proposals regarding election of auditors and recommendations on audit 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



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.\*

to 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).

LIGHTS  
INTERNATIONAL

SMD LOGISTICS AB

# GOVERNANCE OF THE SWEDISH MATCH GROUP 2016

## ANNUAL GENERAL MEETING 2016

In 2016, the Annual General Meeting was held on April 28. 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 2016 passed the following resolution, amongst others:

- An ordinary dividend of 8.00 SEK per share and a special dividend of 12.00 SEK per share, in total 20.00 SEK per share for the 2015 fiscal year.
- Re-election of Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Conny Karlsson, Wenche Rolfsen, Meg Tivéus, and Joakim Westh as Board members. 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 7,750,000 repurchased 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 with-

out 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 2015 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 56 of the 2016 Annual Report.

## 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 member appointed by each of the four largest shareholders who wish to appoint a member 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 2016

The Nominating Committee for the Annual General Meeting in 2016 comprised the following five members: Karim Ladha (Independent Franchise Partners), Mark Husson (Cedar Rock Capital), Johan Strandberg (SEB Investment Management), and John Hernander (Nordea Asset Management) as well as Conny Karlsson (the Chairman of the Board). Johan Strandberg served as Chairman of the Nominating Committee. The Nominating Committee held three meetings during the period between the 2015 and 2016 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 2016.

## Extraordinary Shareholders' Meeting 2016

On December 16, 2016 an Extraordinary Shareholders' Meeting was held. At the meeting it was resolved, in accordance with the proposal of the Board of Directors, to pay a special dividend of 9.50 SEK per share. The minutes of the meeting are available on the Company's website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm).

## 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 2016, 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 2016, 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 (up until July 4, 2016), Eva Larsson, and Patrik Engelbrekts-son with Eva Norlén-Moritz (ordinary board member as from July 4, 2016),

Gert-Inge Rang, and Joakim Andersson as deputies. As from July 4, 2016, Dragan Popovic has been a deputy Board member. Detailed information about individual Board members and deputies is provided on pages 118–119 of the 2016 Annual Report.

### 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 2016, the Board's work was evaluated with the assistance of an indepen-

dent 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 2016 Annual General Meeting up to and including the 2017 Annual General Meeting was paid in accordance with the resolution adopted by the 2016 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 2016, see *Note 5 Personnel*, page 75 of the 2016 Annual Report.

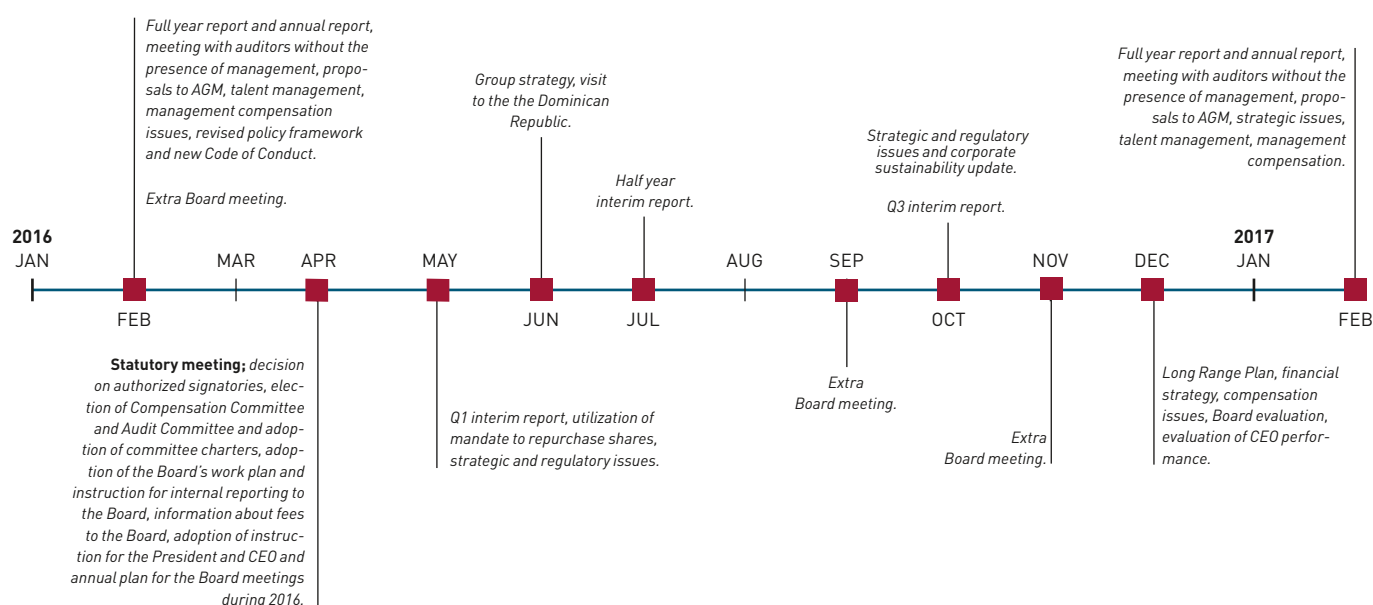
### Activities of the Board of Directors during 2016

During the period from January 1, until December 31, 2016, the Board held ten scheduled meetings and one statutory meeting. During 2017 (until and including March) one Board meeting has been held.

At all scheduled 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, 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 2016 to present the audit report and observations from the audit. At the Board meeting in June, which was held in Santiago, the Dominican



Composition of the Board and attendance 2016	Board of Directors	Audit Committee	Compensation Committee	Independent <sup>1)</sup>	Member since	Compensation, TSEK
<b>Total number of meetings</b>	<b>11</b>	<b>8</b>	<b>3</b>			
<b>Members elected by the General Meeting</b>						
Conny Karlsson (Chairman)	11		3	Yes	2006	2,000
Charles A. Blixt	11		3	Yes	2015	825
Andrew Cripps (Deputy Chairman)	11	8		Yes	2006	955
Jacqueline Hoogerbrugge	9		2	Yes	2015	825
Wenche Rolfsen	11	7		Yes	2013	825
Meg Tivéus	11	8		Yes	1999	950
Joakim Westh	11	8		Yes	2011	825
<b>Employee representatives</b>						
Kenneth Ek (until July 4, 2016)	5					
Eva Larsson	8					
Patrik Engelbrektsson	10					
Eva Norlén-Moritz (from July 4, 2016)	6					
<b>Employee representatives (deputies)</b>						
Joakim Andersson	10					
Eva Norlén-Moritz (until July 4, 2016)	4					
Gert-Inge Rang	10					
Dragan Popovic (from July 4, 2016)	5					

<sup>1)</sup> As defined in the Swedish Code of Corporate Governance.



Republic, the Board visited Swedish Match's cigar factory and met the local management who presented the business.

The Board has in recent years devoted considerable time to work on the strategic assessment of Scandinavian Tobacco Group (STG). In 2015 the market was informed that Swedish Match, along with the other shareholder of STG, evaluated a possible IPO of the company. In early 2016, the intention to list STG on the Danish stock exchange was announced and in February 2016, STG was listed on Nasdaq Copenhagen. In conjunction with the listing Swedish Match divested part of its holding of STG and in September the same year, Swedish Match divested additional shares in STG. In accordance with Swedish Match's financial policy, the Board proposed that the excess cash derived from these divestments and which were not needed in the Company's operations would be returned to shareholders. The Board therefore proposed to the AGM 2016 that a special dividend of 12 SEK per share should be distributed to the shareholders in addition to the ordinary dividend of 8 SEK per share. Further, the Board proposed to the Extraordinary General Meeting on December 16, 2016 that a special dividend of 9.50 SEK per share would be distributed to the shareholders, which was approved by the shareholders.

#### **Audit Committee**

In 2016, 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 eight meetings were held in 2016, of which three were related to the audit tender process. The Company's auditor, as well as the head of the Internal Audit, participated in all of the meetings of the Audit Committee in 2016 and, at two of these meetings, also met with the committee without the presence of the management of the Company.

According to EU Audit and Auditor Regulation<sup>1)</sup>, Swedish Match was obliged to initiate an audit tender process during 2016. According to the Regulation the Audit Committee is responsible for the selection procedure and the tender process. The

proposal to the shareholders at the Annual General Meeting 2017 for the appointment of auditors will include a recommendation and preference made by the Audit Committee.

#### **Compensation Committee**

Following the AGM and the statutory meeting, the members of the Compensation Committee in 2016 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 2016.

During 2016, the committee devoted special attention to determination of variable compensation for 2015 to be paid in 2016, and on targets relevant to variable compensation, proposals to the Board concerning adjustments of the President's salary and variable compensation for 2017, and determination of salaries and variable compensation for other members of the Group Management Team for 2017. 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 2016, 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; Marie-Louise Heiman, Senior Vice President Group Legal Affairs; Fredrik Lagercrantz, Senior Vice President Business Control; Lars Olof Löfman, Senior Vice President Product Supply Innovation, Scandinavia Division; Fredrik Peyron, Senior Vice President Regulatory Affairs and Group Communication (as from May 16, 2016); and Joakim Tilly, President Scandinavia Division.

Detailed information about the President and Chief Executive Officer Lars Dahlgren is provided on page 120 of the 2016 Annual Report. 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 2016 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 75 of the 2016 Annual Report. For information concerning compensation and other benefits to the Group Management Team, see *Note 5 Personnel*, page 75 of the 2016 Annual Report.

#### **Audit and auditors**

The accounting firm KPMG AB was elected by the General Meeting as the Company's external auditors for the period from 2016 up to and including the Annual General Meeting in 2017. During 2016, 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 2016, see *Note 6 Audit fees*, page 78 of the 2016 Annual Report.

#### **Disclosure Committee**

Members of the Disclosure Committee during 2016 were the heads of Business Control, Investor Relations and Corporate Sustainability, Corporate Control, as well as Group Legal Affairs.

<sup>1)</sup> Regulation (EU) no 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities (the "Regulation") and applicable transitional rules regarding appointment of auditors.

## 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

pertaining to financial reporting are properly mitigated. These standardized controls are reviewed and updated annually. In addition, each operating unit is charged with the responsibility to assess company-specific risks and identify additional key internal controls not covered by the standardized system of controls.

### Control activities

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

### Information and communication

The information and communication component includes the systems and procedures that support the identification, capture, and exchange of information in a form and timeframe that enable personnel to carry out their responsibilities and reliable financial reports to be generated. Management has established communication channels and forums to allow for an effective information flow relating to business conditions and changes affecting financial reporting.

### Monitoring

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

Internal Audit's work is based on 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 16, 2017

The Board of Directors of  
Swedish Match AB

## Auditors' report on the Corporate Governance report

To the general meeting of the shareholders in Swedish Match AB (publ.), Corporate Identity Number 556015-0756

### Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the year 2016 on pages 111–117 and that it has been prepared in accordance with the Annual Accounts Act.

### The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard *RevU 16 The auditor's examination of the corporate governance statement*. This means that our examination of the corporate governance statement 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. We believe that the examination has provided us with sufficient basis for our opinions.

### Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 second paragraph of the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, March 16, 2017

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&S.O.

*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 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, Lamb Weston Holdings Inc.

*Previous positions:* Interim General Counsel, Krispy Kreme Doughnuts Inc; Executive Vice President and General Counsel, Reynolds American Inc.

*Own and related parties' shares:* 3,000

**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.

*Other board assignments:* Non-executive Board Member of Ikea Industry Board.

*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:* 3,200

**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; Vice Chairman of Moberg Pharma; Board member of Bioarctic AB and Smartfish AS, Norway.

*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

Holdings of own and related parties shares as of December 31, 2016. For a detailed report of remuneration and benefits for the Board of Directors, refer to Note 5 Personnel.





Meg Tivéus

**MEG TIVÉUS**

Born 1943. M.Sc. in Economics and Business 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 Group AB, Saab AB and CGI 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, Qliro 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**

Eva Norlén-Moritz replaced Kenneth Ek as an employee representative from July 2016. Dragan Popovic is a new deputy member from July 2016.

**Secretary to the Board of Directors**

Since 2015, Marie-Louise Heiman, Senior Vice President Group Legal Affairs and General Counsel is secretary to the Board.

**EMPLOYEE REPRESENTATIVES**

Eva Norlén-Moritz

Patrik Englebretsson

Eva Larsson

**PATRIK ENGLEBRETTSSON**

Born 1965. Board member since 2013. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman of the Trade Union Association at the snus factory in Gothenburg, Sweden. Logistic Technician 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

**EVA NORLÉN-MORITZ**

Born 1960. Board member since 2016 (deputy until July 2016). 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

**EMPLOYEE REPRESENTATIVES (DEPUTIES)**

Joakim Andersson

Dragan Popovic

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

**DRAGAN POPOVIC**

Born 1973. Deputy member since July 2016. 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. Area Manager Production at Swedish Match's snus factory in Gothenburg.

*Previous positions:* Area Manager loose snus, Area Manager portion snus Original, Area Manager Pilot Plant and Machine Operator, at Swedish Match's snus factory in Gothenburg.

*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 2008. 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



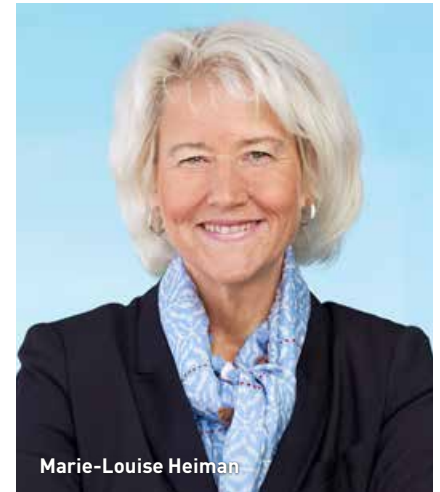
Marlene Forsell

## MARLENE FORSELL

Chief Financial Officer and Senior Vice President, Group Finance, 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.

*Board assignments:* Board member of Scandinavian Tobacco Group AS. *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:* 2,500



Marie-Louise Heiman

## MARIE-LOUISE HEIMAN

Senior Vice President, Group 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:* 3,025



**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**

Senior Vice President, Product Supply Innovation, 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



**Fredrik Peyron**

**FREDRIK PEYRON**

Senior Vice President, Regulatory Affairs and Group Communications. Joined Swedish Match in 2016. Member of the Group Management Team since 2016. Born 1967. Bachelor of Law (LLB), Lund University. *Previous positions:* Group Vice President, Legal Affairs, General Counsel and Secretary, Autoliv; Senior Vice President, Legal Affairs and General Counsel, Swedish Match AB; Vice President Corporate Affairs, Swedish Match AB; Legal Counsel, Akzo Nobel; Associate, Mannheimer Swartling law firm. *Own and related parties' shares:* 2,500



**Joakim Tilly**

**JOAKIM TILLY**

President, Scandinavia Division, Swedish Match since 2013. Joined Swedish Match in 2004. 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**

Fredrik Peyron was appointed Senior Vice President, Regulatory Affairs and Group Communications in May 2016.

Holdings of own and related parties shares as of December 31, 2016. For a detailed report of remuneration and benefits for senior executives, refer to Note 5 Personnel.