

## CORPORATE GOVERNANCE

# Chairman's comment



This annual report covers both our financial results and business model, and provides further insight into many of the activities we have taken over the past year, with regard to our products and markets. The report

also highlights many of the efforts we have made in the areas of sustainability. I am pleased with the steps we have taken toward our vision of a world without cigarettes in areas from market to product development. We have also geographically expanded our smokeless offerings, for example through the acquisitions of House of Oliver Twist and Gotlandssnus. Good governance is one of the most critical elements in ensuring a strong and viable organization. Further details on the activities of the Board of Directors, as well as corporate governance and risk assessment during the year are presented on pages 115–121 in the Governance report.

## Swedish Match continues to evolve and grow, along the lines of its vision of a world without cigarettes

Swedish Match's activities this year are an important step toward our vision of a world without cigarettes. The positive reception both by consumers and retailers of ZYN nicotine pouches without tobacco, both in the US and in Sweden, provides a solid platform for future growth in line with the vision. It is a positive development that more regulators and governments are beginning to recognize the importance of the concept of continuum of risk and harm reduction, and I am hopeful that more and more will realize the benefits of this approach.

Cash returns to shareholders during the year came in the form of both dividends and an ongoing share repurchase program. The Board of Directors will propose to the Annual General Meeting to increase the dividend to 10.50 SEK per share as regards 2018.

The Board is committed to active engagement with Swedish Match's management, and plays an important role in governance. Its efforts are further supported by contributions made by our various board committees.

The work this past year of the Board, the CEO, and his management team has been impressive, and has supported our efforts to have the right platforms for a well governed, strong, and dynamic company, moving toward its vision.

I am especially proud of the employees of Swedish Match whose hard work and dedication make Swedish Match such a great company.

I would also like to thank you, our shareholders, for your support of our outstanding organization.”



**Conny Karlsson**  
Chairman of the Board



# Governance report

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

Swedish Match is subject to a variety of rules that affect its governance, including the Company's Articles of Association, the Swedish Companies Act, the Rule Book for Issuers on Nasdaq Stockholm, the Swedish Code of Corporate Governance, and other applicable laws and regulations.

Internal regulations and standards that affect Swedish Match's corporate governance include the Company's Articles of Association, the Board's rules of procedure, the Board's instructions to the CEO, the Group's Code of Conduct, and other policy documents issued within the Group. The Articles of Association are adopted by the General Meeting of shareholders.<sup>1)</sup> They do not contain any limitations on the number of votes that a shareholder may cast at a General Meeting or any specific provisions concerning the appointment and dismissal of directors or regarding amendments of the Articles of Association.

Swedish Match applies the Swedish Code of Corporate Governance (the Code).<sup>2)</sup> The Code is based on the "comply or explain" principle, meaning that a company that applies the Code may deviate from regulations of the Code, but must provide explanations for each deviation. The Company is not reporting any deviations from the Code for 2018, 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 175,950,000 shares at the end of 2018. Each share carries one vote. On December 31, 2018, 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 50–51 of the 2018 Annual Report.

## Annual General Meeting 2019

Swedish Match's 2019 Annual General Meeting will be held on April 9, 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 2019

The Nominating Committee for the Annual General Meeting in 2019 was announced on the Company's website on October 7, 2018. In addition to the Chairman of the Board of Swedish Match, Conny Karlsson, the Nominating Committee consists of the following members: Tal Klausner (GIC Asset Management Private Limited), Filippa Gerstätt (Nordea Funds), Johan Strandberg (SEB Investment Management AB) and Will James (Standard Life Aberdeen PLC). Johan Strandberg serves as Chairman of the Nominating Committee.

## PROPOSALS TO THE NOMINATING COMMITTEE ARE TO BE SUBMITTED TO:

Swedish Match AB  
The Nominating Committee  
c/o General Counsel Marie-Louise Heiman  
SE-118 85 Stockholm, Sweden  
E-mail: nominating.committee@swedishmatch.com

<sup>1)</sup> Available on Swedish Match's website

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

<sup>2)</sup> Available on Swedish Corporate Governance Board's website  
[www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

<sup>3)</sup> Source: Euroclear Sweden AB.

<sup>4)</sup> More information is available on Swedish Match's website  
[www.swedishmatch.com/aggm](http://www.swedishmatch.com/aggm).

# 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/agm](http://www.swedishmatch.com/agm). 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 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.

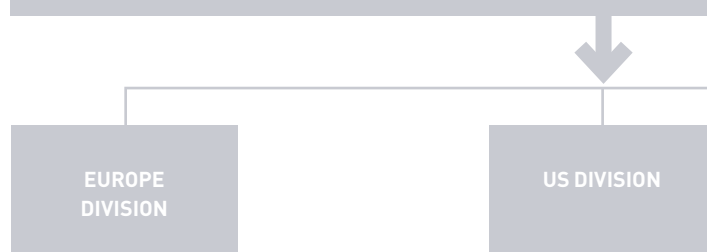
## Disclosure Committee

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 procedural routines.

## President and CEO

The President is appointed by the Board of Directors and manages the Company's operations within the framework of rules established by the Board.

With regard to the Board of Directors, the President's duties include responsibility for ensuring that the Board of Directors receives objective, comprehensive, and relevant information prior to Board meetings, thus enabling the Board to reach well-founded decisions. The President also submits proposals



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.\*

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 committees' 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 DIVISION

# GOVERNANCE OF THE SWEDISH MATCH GROUP 2018

## ANNUAL GENERAL MEETING 2018

In 2018, the Annual General Meeting was held on April 11. 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 2018 passed the following resolution, amongst others:

- An ordinary dividend of 9.20 SEK per share and a special dividend of 7.40 SEK per share, in total 16.60 SEK per share for the 2017 fiscal year.
- Re-election of Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Conny Karlsson, Pauline Lindwall, Wenche Rolfsen, 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 1,910,000 SEK, the deputy Chairman shall receive 900,000 SEK and the other Board members elected by the Meeting shall each receive 764,000 SEK. Furthermore, as compensation for committee work carried out, it was decided to allocate 270,000 SEK to the Chairman of the Compensation Committee, 310,000 SEK to the Chairman of the Audit Committee and to allocate 135,000 SEK to each of the other members of these committees.
- Withdrawal of 5,850,000 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 without the Company's holding at any time exceeding 10 percent of all shares in the Company.
- Authorization of the Board of Directors to decide on transfer of the Company's own shares and to issue new ordinary shares.
- 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 2017 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 58 of the 2018 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 2018

The Nominating Committee for the Annual General Meeting in 2018 comprised the following five members: Mark Husson (Cedar Rock Capital), Ossian Ekdahl (Första AP-fonden), Daniel Ovin (Nordea Asset Management), William James (Standard Life Investments), as well as Conny Karlsson (the Chairman of the Board). Daniel Ovin served as Chairman of the Nominating Committee.

The main task of the Committee is to propose Board members for election by the Annual General Meeting. As member of the Nominating Committee, the Chairman of the Board of Directors fulfills an important role to inform the Committee of the Company's strategy and future challenges. Such insights are necessary for the Committee to be able to assess the competence and experience that is required by the Board. In addition, the Committee

must consider independence rules applicable to the Board of Directors and its committees. When preparing proposals for the Board for the 2018 Annual General Meeting, the Nominating Committee paid particular attention to the issues of diversity and for gender balance on the board and the Committee thus applied Item 4.1 of the Swedish Corporate Governance Code as its diversity policy when preparing these proposals.

The Nominating Committee held three meetings during the period between the 2017 and 2018 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 2018.

## 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 2018, 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.

The Nominating Committee advised before the Annual General Meeting 2018 that the Nominating Committee had

applied the Swedish Corporate Governance Code, section 4.1, as diversity policy with the aim to propose a composition of Board members with complementing experiences and competencies that is diverse also in terms of age, gender and cultural/geographical background. The current Board composition is the result of the work of the Nomination Committee prior to the Annual General Meeting 2018.

Since the Annual General Meeting 2018, the Board of Directors consisted of the following directors elected by the General Meeting: Conny Karlsson, Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Pauline Lindwall, Wenche Rolfsen, and Joakim Westh. Conny Karlsson served as Chairman of the Board. Employee representatives on the Board were, Patrik Engelbrektsson, Eva Larsson (until April 2018), Pär-Ola Olausson (from April 2018), and Dragan Popovic with Niclas Bengtsson (from April 2018), Matthias Eklund (from April 2018), and Niclas Ed as deputies. Detailed information about individual Board members and deputies is provided on pages 122–123 of the 2018 Annual Report.

### Independence of Board members

According to the Nominating Committee, all 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 2018, the Board's work was evaluated with the assistance of an independent consulting company. The Nominating Committee was informed of the result of the evaluation.

### Compensation to the Board of Directors

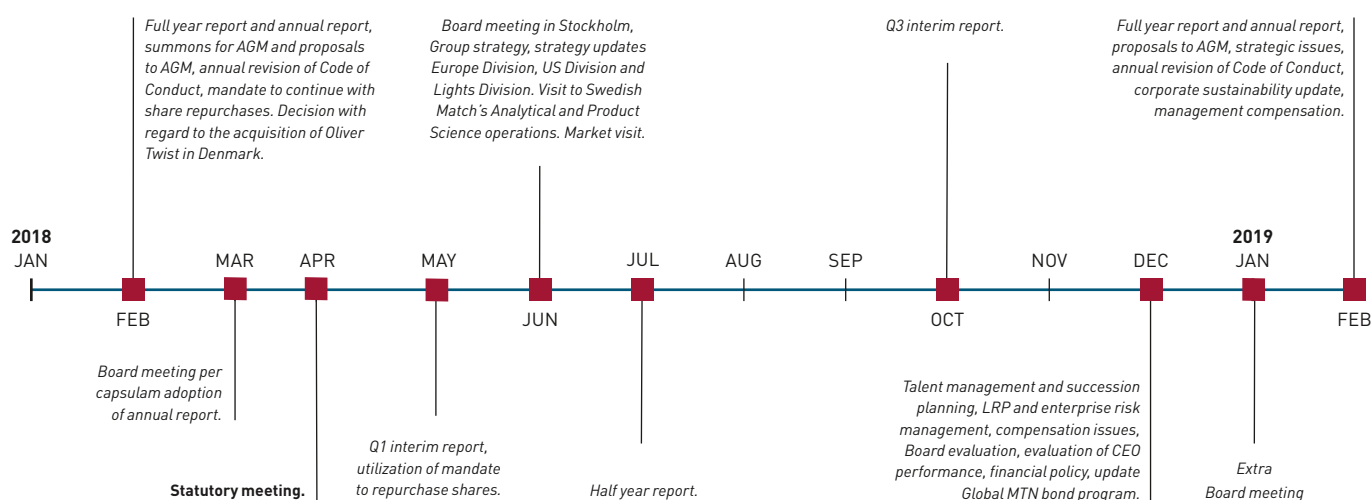
Compensation to the Board for the period from the 2018 Annual General Meeting up to and including the 2019 Annual General Meeting was paid in accordance with the resolution adopted by the 2018 Annual General Meeting. No compensation for

directorship work was paid to directors employed by the Swedish Match Group.

For further information about Directors' fees for 2018, see *Note 6 Personnel*, page 80 of the 2018 Annual Report.

### Activities of the Board of Directors during 2018

During the period from January 1, until December 31, 2018, the Board held seven scheduled meetings and one statutory meeting. During 2019 (until and including February) two Board meetings have been held.



Composition of the Board and attendance 2018	Board of Directors	Audit Committee	Compensation Committee	Independent <sup>1)</sup>	Member since	Compensation, TSEK
<b>Total number of meetings</b>	<b>8</b>	<b>6</b>	<b>2</b>			
<b>Members elected by the General Meeting</b>						
Conny Karlsson (Chairman)	8		2	Yes	2006	2,180
Andrew Cripps (Deputy Chairman)	8	6		Yes	2006	1,035
Charles A. Blixt	8		2	Yes	2015	899
Jacqueline Hoogerbrugge	8		2	Yes	2015	899
Pauline Lindwall	7			Yes	2017	764
Wenche Rolfsen	8	6		Yes	2013	899
Joakim Westh	8	6		Yes	2011	1,074
<b>Employee representatives</b>						
Patrik Engelbrektsson	7					
Eva Larsson (until April, 2018)	1					
Pär-Ola Olausson (from April, 2018)	7					
Dragan Popovic	8					
<b>Employee representatives (deputies)</b>						
Joakim Andersson (until April, 2018)	1					
Niclas Bengtsson (from April, 2018)	5					
Niclas Ed	7					
Matthias Eklund (from April, 2018)	6					
Gert-Inge Rang (until April, 2018)	1					

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

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 2018 to present the audit report and observations from the audit. At the board meeting in June, which was held in Stockholm, the Board visited Swedish Match's Analytical and Product Science operations and met with the company's employees who told about their business. The Board also made market visits in stores where Swedish Match's products are sold.

In April 2018, Swedish Match acquired House of Oliver Twist A/S, a Danish privately owned company active in smokeless tobacco on the European market, and in August, Swedish Match acquired a majority share in Gotlands Snus AB, a privately held Swedish company located in Romakloster on the island of Gotland, Sweden. Gotlands Snus develops, produces and sells both snus and pouch products with neither nicotine nor tobacco and has sales in Sweden, the US, Asia and parts of Europe.

### Audit Committee

In 2018, the members of the Audit Committee were Joakim Westh, (Chairman), Andrew Cripps, and Wenche Rolfsen.

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 six meetings were held in 2018. The Company's auditor, as well as the head of the Internal Audit, participated in all meetings of the Audit Committee in 2018 and, at two of these meetings, also met with the committee without the presence of the management of the Company.

### Compensation Committee

Following the AGM and the statutory meeting, the members of the Compensation Committee in 2018 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. Two meetings were held in 2018.

During 2018, the committee devoted special attention to determination of variable compensation for 2017 to be paid in 2018, and on targets relevant to variable compensation, proposals to the Board concerning adjustments of the President's salary and variable compensation for 2019, and determination of salaries and variable compensation for other members of the Group Management Team for 2019. 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 2018, 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 (up until March 9, 2018); Thomas Hayes, Vice President and Chief Financial Officer, US Division (up until March 9, 2018) and thereafter as Senior Vice President and Chief Financial Officer; Marie-Louise Heiman, Senior Vice President Group Legal Affairs; Lars Olof Löfman, Senior Vice President R&D, Europe Division; Fredrik Peyron, Senior Vice President Regulatory Affairs and Group Communication; Håkan

Söderberg, President, Lights Division and Joakim Tilly, President, Europe Division.

Detailed information about the President and Chief Executive Officer Lars Dahlgren, including his and related persons shareholding in the Company, is provided on page 124 of the 2018 Annual Report. Lars Dahlgren has no significant shareholdings and partnerships in companies with which Swedish Match has important business relations.

### Compensation to the Group Management Team

The 2018 Annual General Meeting established certain guidelines for determining salary and other compensation to the President and other members of the Group Management Team. For information on the guidelines established at the Annual General Meeting, see *Note 6 Personnel*, page 80 of the 2018 Annual Report. For information concerning compensation and other benefits to the Group Management Team, see *Note 6 Personnel*, page 80 of the 2018 Annual Report.

### Audit and auditors

The accounting firm Deloitte AB was elected by the General Meeting 2017 as the Company's external auditors for the period from 2017 up to and including the Annual General Meeting in 2019. During 2018, in addition to auditing, Deloitte AB provided consultancy services to the Group to a large part related to tax services.

Peter Ekberg, authorized public accountant, served as auditor in charge. For information concerning compensation to the Swedish Match's auditors during 2018, see *Note 7 Audit fees*, page 83 of the 2018 Annual Report.

### Disclosure Committee

Members of the Disclosure Committee during 2018 included the heads of Group Legal Affairs, Investor Relations and Corporate Sustainability, as well as Regulatory Affairs and Group Communication.

## 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. It includes the Swedish Match Code of Conduct and internal policies and instructions on delegation of authority, accounting and reporting, internal control and information security. All governing documents are regularly updated and distributed to key individuals who implement them within their area of responsibility. Fundamental to creating an effective control environment is the Board of Directors', the Audit Committee's and management's unyielding dedication to reliable financial reporting. Swedish Match has established clear decision-making and review structures, including 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 reliable financial recordkeeping, transparent financial reporting and

disclosure, and protection of physical and immaterial assets. 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 to meet the requirements of the standardized system of controls as well as to mitigate material company specific financial reporting risks. 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. The Swedish Match Code of Conduct encourages employees to raise compliance concerns promptly and prohibits retribution for doing so.

### Monitoring

The Group monitors compliance with governing documents in the form of internal policies and instructions, and

evaluates the effectiveness of the control structure. 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 reports with regard to disclosure requirements.

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.

Stockholm, February 12, 2019

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 financial year 2018-01-01 – 2018-12-31 on pages 114–125 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 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, March 14, 2019

Deloitte AB

Peter Ekberg  
Authorized Public Accountant



# Board of Directors 2018

**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 Cake 0 emission AB. Non-Executive Board member of 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&S0.  
*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 and Audit Committee Chair of the Howden Joinery Group plc and Boparan Holdings Ltd.  
*Previous positions:* Director of Corporate Finance, Rothmans International; Director of Investments, British American Tobacco; President, Laurens International SA. Board member of a number of European consumer products businesses.  
*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 Chairman, Atrium Coal Limited; 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. Member of the Compensation Committee.  
*Other board assignments:* Non-Executive Board member of Ikea Industry AB, Dometic AB, Broadview BV and BA Glass.  
*Previous positions:* President Operations, Cloetta AB; 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

**Pauline Lindwall**



**PAULINE LINDWALL**

Born 1961. BSc., University of Växjö. Board member since 2017.  
*Other board assignments:* Non-Executive Board member of McKesson Europe AG and Duni AB.  
*Previous positions:* Category Director Coffee, France and Southern Europe Mondelez International; Country Business Manager, Nestlé Nutrition Germany & Austria; Country Business Manager, Nestlé Nutrition Indonesia; Nordic Marketing Director, Nestlé Nordic; Head of Nestlé Innovation, Out of Home Coffee UK; Nordic Marketing Manager, Nestlé Coffee & Beverages.  
*Own and related parties' shares:* 2,165

Holdings of own and related parties shares as of December 31, 2018. For a detailed report of remuneration and benefits for the Board of Directors, refer to Note 6 Personnel.

**Wenche Rolfsen****WENCHE ROLFSEN**

Born 1952. M.Sc. in Pharmacy and Ph.D. in Pharmacology from Uppsala University. Board member since 2013. Member of the Audit Committee.

*Other board assignments:* Chairman of Index Pharmaceuticals and Bioarctic AB; Board member of Recipharm AB.

*Previous positions:* Vice President 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

**Joakim Westh****JOAKIM WESTH**

Born 1961. M.Sc. Royal Institute of Technology and M.Sc. Aeronautics and Astronautics MIT. Board member since 2011. Chairman of the Audit Committee.

*Other board assignments:* Chairman of the Board of Amexci AB. Board member and Chairman of the Audit Committee of Saab AB; Board member and Chairman of the HR Committee of CGI Inc; Non-Executive Board member of Absolent Group AB.

*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

**AUDITOR**

Deloitte AB, Peter Ekberg,  
Authorized Public Accountant.  
Swedish Match auditor since 2017.

**SECRETARY**

Marie-Louise Heiman,  
Senior Vice President Group Legal  
Affairs and General Counsel.  
Secretary to the Board since 2015.

**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**

Pär-Ola Olausson replaced Eva Larsson as an employee representative. Matthias Eklund and Niclas Bengtsson replaced Joakim Andersson and Gert-Inge Rang as new deputy members.

**EMPLOYEE REPRESENTATIVES****Patrik Engelbrektsson****Pär-Ola Olausson****Dragan Popovic****PATRIK ENGELBREKTSSON**

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

*Previous positions:* Mill worker, Machine Operator, Forklift driver at Swedish Match's snus factory in Gothenburg.

*Own and related parties' shares:* 0

**PÄR-OLA OLAUSSON**

Born 1972. Board member since 2018. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Vice Chairman of IF Metall's Trade Union Association at Swedish Match's match factory in Tidaholm, Sweden. Technical support at Swedish Match's match factory in Tidaholm.

*Own and related parties' shares:* 0

**DRAGAN POPOVIC**

Born 1973. Board member since 2017. 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 Pilot Plant and Machine Operator, at Swedish Match's snus factory in Gothenburg.

*Own and related parties' shares:* 0

**EMPLOYEE REPRESENTATIVES (DEPUTIES)****Niclas Bengtsson****Niclas Ed****Matthias Eklund****NICLAS BENGTTSSON**

Born 1969. Deputy member since 2018. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Vice President Group Tax at Swedish Match's headquarters, Stockholm, Sweden.

*Previous positions:* Tax Director Group Finance, Swedish Match; Manager, Ernst & Young; Tax Litigation Officer, the Swedish Tax Agency.

*Own and related parties' shares:* 285

**NICLAS ED**

Born 1968. Deputy member since 2017. Appointed by the Council for Negotiation and Co-operation (SACO) within Swedish Match. Deputy Chairman of the Trade Union Association (Sälj-klubben) within Swedish Match Europe Division. Sales Representative, Swedish Match Europe Division.

*Previous positions:* Sales Representative, JC - Brothers; Sales support, Skandia; Sales Representative, Eltte; Sales Representative, Nikko.

*Own and related parties' shares:* 0

**MATTHIAS EKLUND**

Born 1980. Deputy member since 2018. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Board member of the Swedish Food Workers' Trade Union Association (Livs) at SMD Logistics in Kungsängen, Sweden. Warehouse worker at SMD Logistics in Kungsängen.

*Previous positions:* Warehouse worker, Swedish Match Distribution in Solna.

*Own and related parties' shares:* 0

# Group Management 2018



## 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:* 40,550

Lars Dahlgren



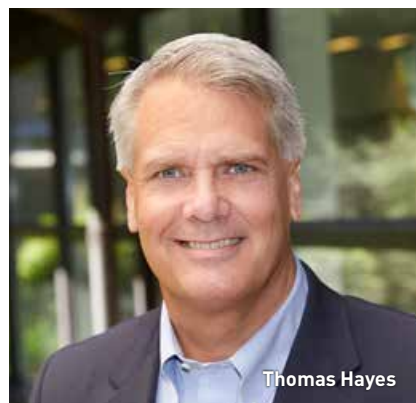
Richard Flaherty

## 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



Thomas Hayes

## THOMAS HAYES

Chief Financial Officer and Senior Vice President, Group Finance, Swedish Match since 2018. Joined Swedish Match in 2006. Member of the Group Management Team since 2017. Born 1966. B.S. in Accounting from Wake Forest University, USA.

*Previous positions:* Vice President and Chief Financial Officer, Swedish Match US Division; Chief Financial Officer Swedish Match International Division; Controller and Chief Accounting Officer, Chesapeake Corporation; Managing Director, PricewaterhouseCoopers.

*Own and related parties' shares:* 3,565



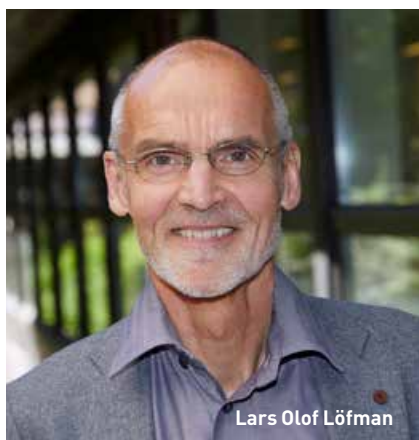
Marie-Louise Heiman

## 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 (LLM), 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



Lars Olof Löfman

**LARS OLOF LÖFMAN**

Senior Vice President R&D, Europe Division, Swedish Match since 2017. 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 Innovation, 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, Sweden.

*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



Håkan Söderberg

**HÅKAN SÖDERBERG**

President, Lights Division, Swedish Match since 2017. Joined Swedish Match in 2007. Member of the Group Management Team since 2017. Born 1969. M.Sc BA from the University of Stockholm, Sweden.

*Previous positions:* COO Lights International Division, Swedish Match; COO Continental Europe Division Netherlands, Swedish Match; Vice President Finance & IT International Division Netherlands, Swedish Match; Regional Finance Director Belgium, AstraZeneca; CFO South Africa, AstraZeneca; Director, Finance Supply chain and Logistics England, AstraZeneca; Director, Business logistics and Finance, AstraZeneca; Corporate controller, Astra AB.

*Own and related parties' shares:* 1,998



Joakim Tilly

**JOAKIM TILLY**

President, Europe 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 2018**

Thomas Hayes was appointed as Chief Financial Officer as of March 10, 2018. Marlene Forsell left the Group Management Team on March 9, 2018.