



**Scandinavian Tobacco Group A/S**

**Statutory Report on Corporate Governance for the Financial Year 2019,  
cf. section 107b of the Danish Financial Statement Act**

## Statutory Report on Corporate Governance for the Financial Year 2019, cf. section 107b of the Danish Financial Statement Act

This report forms part of the management's report in Scandinavian Tobacco Group's annual report for 2019 and covers the financial year 1 January – 31 December 2019. The report contains a description of the management structure (section A), the status on the recommendations for corporate governance (section B) and a description of the main elements of Scandinavian Tobacco Group's internal control and risk management systems used in the financial reporting process (section C). The report is not covered by the auditor's report prepared in connection with the Annual Report 2019.

### A. Management Structure

The Company has a two-tier management structure consisting of the **Board of Directors** and the **Executive Management**. The Board of Directors is responsible for the overall strategic direction of the Group and supervises the Company's activities, management and organisation. The Executive Management has the responsibility for the day-to-day management of the Group. The two bodies are independent, and no one serves as a member of both. The Board of Directors appoints the CEO and other members of the Executive Management.

#### Board of Directors

The Board of Directors shall oversee that the Executive Management carries out its tasks in the appropriate way and in accordance with the guidance of the Board of Directors. The primary tasks of the Board of Directors further include ensuring that the Group has the right organisational structure, efficient business processes, including bookkeeping processes and practices, and a sound capital structure and liquidity. The Board of Directors also oversees the Company's financial development, as well as the financial planning and reporting systems.

The Board of Directors currently has seven members elected by the General Meeting and three employee-elected members. All members of the Board of Directors hold the same rights and obligations. Members elected at the annual General Meeting are up for election at the next annual General Meeting whereas employee-elected members are elected for four years. Only persons who are younger than 70 years at the time of the election may be elected by the General Meeting. All the shareholder-elected members of the Board of Directors with the exception of one are considered independent, while none of the employee-elected members are independent as defined by the Danish Recommendations on Corporate Governance. The Board of Directors elects a chairman and a vice-chairman. The chairman represents the Board of Directors in relation to the Company's shareholders and the public in all matters of an extraordinary nature or that do not relate to day-to-day operations. The chairman also chairs the meetings of the Board of Directors. The Board of Directors conducted seven board meetings in 2019 and a full-day strategy seminar.

The Board of Directors has established three committees: An Audit Committee, a Nomination Committee and a Remuneration Committee. All committees report to the Board of Directors and have rules of procedure adopted by the Board of Directors. The chairman of the Board of Directors also serves as chairman of the Nomination Committee and Remuneration Committee. The Audit Committee elects a chairman.

The **Audit Committee's** tasks include review, assessment and supervision of the Company's financial reporting, the audit process and the internal control and risk management systems. The Audit Committee also assesses the independence of the external auditor, supervises the work of the external auditor and assesses the need for an internal audit function. The CFO and the external auditor participate in meetings of the Audit

Committee, and the Chief Executive Officer may participate in meetings of the Audit Committee if requested by the Audit Committee. The Audit Committee has three members, all of them considered to be independent and having relevant financial expertise. In 2019, the Audit Committee held five meetings.

The **Nomination Committee** supports the Board of Directors' decisions with respect to the nomination of the members of the Board of Directors and the appointment of members of the Executive Management. The Nomination Committee carries out the annual evaluation of the Board of Directors, assesses the structure, size and composition of the Board of Directors and the qualification, knowledge and experience of each member of both the Board of Directors and the Executive Management. It shall report its assessments to the Board of Directors. The Nomination Committee has four members. All members of the Nomination Committee with the exception of one are considered independent. In 2019, the Nomination Committee held one meeting.

The **Remuneration Committee** provides recommendations to the Board of Directors with regard to the remuneration policy applicable to the Board of Directors and the Executive Management. The Remuneration Committee further submits proposals for the remuneration of the Board of Directors and the Executive Management. The Remuneration Committee consists of four members. All members of the Remuneration Committee with the exception of one are considered independent. In 2019, the Remuneration Committee held three meetings.

### **Executive Management**

The **Executive Management** is appointed by the Board of Directors appoints the CEO and other members of the Executive Management. The Executive Management, i.e. the formally registered management of the company, consists of the CEO and the CFO. The day-to-day operation of the company is managed by a wider group, namely the Executive Board.

The Executive Management prepares for the Board of Director's approval and implements the Group's overall strategy and policies. The Executive Management is responsible for the day-to-day management of the business in accordance with the guidelines and directions given by the Board of Directors and shall ensure timely reporting and provision of information to the Board of Directors and the Company's shareholders.

The CEO is the chief spokesman of the Group in matters relating to the day-to-day operations.

The report concerns the financial year 1 January – 31 December 2019

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<b>1. Communication and interaction by the company with its investors and other stakeholders</b>				
<i>1.1. Dialogue between company, shareholders and other stakeholders</i>				
<p>1.1.1. The Committee <b>recommends</b> that the board of directors ensure ongoing dialogue between the company and its shareholders, so that the shareholders gain relevant insight into the company and in order for the board of directors to be aware of the shareholders' views, interests and opinions in respect to the company.</p>	✓			<p>STG communicates with its shareholders through company announcements, information made available on the Company's website, conference calls and other activities like regular investor presentations. The Executive Management on an ongoing basis participates in investor meetings and conference calls, including after each financial statement.</p> <p>STG has an investor relations section on its website which includes share- and investor related information, company</p>

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				announcements, the financial calendar, financial reports, investor presentations as well as a number of other investor-related matters. The Board of Directors receives on a regular basis reports on meetings with investors and analysts.
1.1.2. The Committee <b>recommends</b> that the board of directors adopts policies on the company's relationship with its stakeholders, including shareholders, and that the board of directors ensures that the interests of the stakeholders are respected in accordance with company policies.	✓			<p>The Board of Directors has adopted an Investor Relations Policy to ensure that relevant, balanced and timely information is made available to investors, analysts and other stakeholders in the capital market, and to ensure that the interests of the shareholders are respected in accordance with the Company's Investor Relations Policy.</p> <p>The Investor Relations Policy is available on the Company's website.</p>

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1.1.3. The Committee <b>recommends</b> that the company publish quarterly reports.	✓			STG publishes quarterly reports. The reports are available on the Company's website.
<i>1.2. General meeting</i>				
1.2.1. The Committee <b>recommends</b> that in organising the company's general meeting, the board of directors plans the meeting to support active ownership.	✓			<p>The Board of Directors plans the general meetings to support active ownership and ensure that the shareholders have the possibility to participate and voice their opinion at the general meeting. General meetings are convened giving notice to the Company's shareholders in time for the shareholders to prepare and consider the business to be transacted in the meeting.</p> <p>The Board of Directors has decided that, until further, general meetings are conducted by physical attendance. Shareholders who cannot attend the general meeting have the possibility to vote by proxy or by post.</p>

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1.2.2. The Committee <b>recommends</b> that proxies or votes by post for the general meeting allow shareholders to consider each individual item on the agenda.	✓			STG provides a standardised proxy form which allows shareholders to consider each individual item on the agenda.
<i>1.3. Takeover bids</i>				
1.3.1. The Committee <b>recommends</b> that the company set up contingency procedures in the event of takeover bids, from the time that the board of directors has reason to believe that a takeover bid will be made. The contingency procedures should establish that the board of directors should not without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which, in reality, prevent the shareholders from deciding on the takeover bid themselves.	✓			The Board of Directors has adopted Takeover Guidelines that set forth contingency procedures in the event of takeover bids. The Guidelines prescribe that the Board of Directors will not, without the acceptance of the general meeting, attempt to counter a takeover bid by making decisions which prevent the shareholders from deciding on the bid.
<b>2. Tasks and responsibilities of the board of directors</b>				
<i>2.1. Overall tasks and responsibilities</i>				
2.1.1. The Committee <b>recommends</b> that at least once annually the board of directors consider the matters that should be included in the board's performance of its work.	✓			The Rules of Procedure for the Board of Directors contain a description of the tasks that at least once every year must

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				be processed by the Board of Directors. The Board of Directors annually reviews the Rules of Procedure to ensure that they match the Company's needs. The Board of Directors' recurring tasks have been organised in an annual plan.
2.1.2. The Committee <b>recommends</b> that at least once annually the board of directors consider the overall strategy of the company with a view to ensuring value creation in the company.	✓			The Board of Directors discuss at least once every year the Company's overall strategy.
2.1.3. The Committee <b>recommends</b> that the board of directors ensure that the company has a capital and share structure which supports that the strategy and long-term value creation of the company are in the best interest of the shareholders and the company, and that the board of directors explain this in the management commentary and/or on the company's website.	✓			The Board of Directors evaluates on a regular basis and at least once a year whether the Company's capital and share structure continue to be adequate and in the interests of the shareholders and account for this evaluation in the management's report in the Company's annual report.
2.1.4. The Committee <b>recommends</b> that the board of directors annually review and approve guidelines for the executive board; this includes	✓			The Board of Directors has adopted rules of procedure for the Executive Management,



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<p>establishing requirements for the executive board’s reporting to the board of directors.</p>				<p>which contain a description of the duties and responsibilities of the Executive Management, specifying amongst other the procedures for the Executive Management’s timely, accurate and adequate reporting to the Board of Directors.</p> <p>The Board of Directors annually reviews and approves the rules of procedure for the Executive Management.</p>
<p>2.1.5. The Committee <b>recommends</b> that at least once annually, the board of directors discuss the composition, developments, risks and succession plans of the executive board.</p>	✓			<p>The Board of Directors at least once annually discusses the composition of the Executive Management as well as developments, risks and succession plans.</p>
<p><i>2.2. Corporate social responsibility</i></p>				
<p>2.2.1. The Committee <b>recommends</b> that the board of directors adopt policies on corporate social responsibility.</p>	✓			<p>The Board of Directors has adopted policies on corporate social responsibility in the Company’s Code of Conduct.</p>

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				The Code of Conduct is available on the Company's website.
<i>2.3. Chairman and vice-chairman of the board of directors</i>				
2.3.1. The Committee <b>recommends</b> appointing a vice chairman of the board of directors, who will assume the responsibilities of the chairman in the event of the chairman's absence, and who will also act as effective sparring partner for the chairman.	✓			The Board of Directors has elected a chairman and a vice-chairman. The vice-chairman assumes the responsibilities of the chairman in his absence and acts as sparring partner for the chairman.
2.3.2. The Committee <b>recommends</b> that, if the board of directors, in exceptional cases, asks the chairman of the board of directors or other board members to perform special activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect should be passed to ensure that the board of directors maintains its independent, general management and control function. Resolutions on the chairman's or other board members' participation in day-to-day management and the expected duration thereof should be publicly announced.	✓			STG has set up rules for the case that the chairman performs special operating activities for the Company. The Board of Directors shall adopt a resolution to ensure its independence and general management and control function.  The Rules of Procedure currently do not account for a situation where other members of the Board of Directors than the Chairman would take such role, but if such situation should occur,

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				the Board of Directors would apply the same principles. In 2019, neither the Chairman nor other members of the Board of Directors performed operating activities for the Company.
<b>3. Composition and organisation of the board of directors</b>				
<i>3.1. Composition</i>				
<p>3.1.1. The Committee <b>recommends</b> that the board of directors annually evaluate and in the management commentary, account for:</p> <ul style="list-style-type: none"> <li>• the competencies that it must have to best perform its tasks;</li> <li>• the composition of the board of directors; and</li> <li>• the special competencies of each member.</li> </ul>	✓			The Board of Directors annually accounts for the skills it must have to best perform its tasks. In its annual evaluation of the performance of its members the Board of Directors has carried out an assessment of the competencies of its members, both individually and collectively. The composition of the Board of Directors and the special skills of each member of the Board of Directors are disclosed in the Company's annual report.

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<p>3.1.2. The Committee <b>recommends</b> that the board of directors annually discuss the company's activities to ensure relevant diversity at management levels and prepare and adopt a policy on diversity. The policy should be published on the company's website.</p>	✓			<p>The Board of Directors annually discusses diversity at management levels and has adopted a policy on diversity and inclusion which is available on the Company's website.</p>
<p>3.1.3. The Committee <b>recommends</b> that the selection and nomination of candidates for the board of directors be carried out through a thorough and transparent process approved by the board of directors. When assessing its composition and nominating new candidates, the board of directors should, in addition to the need for competencies and qualifications, take into consideration the need for integration of new talent and diversity.</p>	✓			<p>When assessing its composition and nominating new candidates, the Board of Directors according to its Rules of Procedure shall take into consideration the need for integration of new talent and the need for diversity in relation to international experience, gender, age etc.</p> <p>The Board of Directors has established a Nomination Committee which is responsible for overseeing the composition of the Board of</p>

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				<p>Directors is diversified in relation to gender, age, geographical provenance and educational and professional background.</p> <p>The Nomination Committee has developed guidelines that describe the qualifications required for members of the Board of Directors.</p>
<p>3.1.4. The Committee <b>recommends</b> that the notice convening a general meeting where the agenda includes the election of members to the board of directors, include (in addition to the statutory requirements) a description of the qualifications of nominated candidates, including information about the candidates:</p> <ul style="list-style-type: none"> <li>• other executive functions, including positions on executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign enterprises; and</li> <li>• demanding organisational tasks.</li> </ul> <p>Furthermore, it should be indicated if the candidates for the board of directors are considered independent.</p>	✓			<p>The notice of the general meeting to elect directors includes a description of the candidates' background and qualifications, including information on any executive functions and demanding organizational tasks, as well as the information whether the candidates for the Board of Directors are considered independent.</p>
<p>3.1.5. The Committee <b>recommends</b> that members of the company's executive board be not members of the board of directors and that a resigning chief executive officer be not directly elected as chairman or vice chairman for the same company.</p>	✓			<p>No member of the executive board is also a member of the Board of Directors and neither the Chairman nor Vice-chairman are directly elected</p>

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				former executives of the Company.
3.1.6. The Committee <b>recommends</b> that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.	✓			STG's Articles of Association provide that the members of the Board of Directors elected by the annual general meeting are up for election every year.
<i>3.2. Independence of the board of directors</i>				
<p>3.2.1. The Committee <b>recommends</b> that at least half of the members of the board of directors elected by the general meeting be independent persons, in order for the board of directors to be able to act independently of special interests.</p> <p>To be considered independent, this person may not:</p> <ul style="list-style-type: none"> <li>• be or within the past five years have been a member of the executive board, or senior staff member in the company, a subsidiary or an associated company;</li> <li>• within the last five years, have received significant remuneration from the company/group, a subsidiary or an associated company in a different capacity than as member of the board of directors;</li> <li>• represent or be associated with a controlling shareholder;</li> <li>• within the past year, have had significant business relations (e.g. personally or indirectly as partner or employee, shareholder, customer, supplier or member of management in companies with corresponding connection) with the company, a subsidiary or an associated company;</li> </ul>	✓			All shareholder-elected members of the Board of Directors except one are considered independent. Information about the individual member's independence is disclosed in the annual report and on the Company's website.

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<ul style="list-style-type: none"> <li>• be or within the past three years have been employed or been a partner in the same company as the auditor elected by the general meeting;</li> <li>• be part of the executive management in a company with cross-management representation in the company;</li> <li>• have been a member of the board of directors for more than 12 years; or</li> <li>• be a close relative with persons who are not considered independent.</li> </ul> <p>Even if a member of the board of directors is not covered by the above criteria, certain conditions may exist that will lead the board of directors to decide that one or more members cannot be regarded as independent.</p>				
<p><i>3.3. Members of the board of directors and the number of other management functions</i></p>				
<p>3.3.1. The Committee <b>recommends</b> that each member of the board of directors assess the expected time commitment for each function so that the member does not take on more functions than he/she can complete at a satisfactory level for the company.</p>	✓			<p>Before their nomination candidates for the Board of Directors are informed about the expected time commitment for the performance of their tasks on the Board of Directors.</p> <p>All members of the Board of Directors are expected to ensure that they are able to allocate the required time to the work of the Board and its committees, and not take on more functions than they can perform their duty as a board</p>

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				member of STG in a manner that is satisfactory for the Company.
<p>3.3.2. The Committee <b>recommends</b> that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the board of directors:</p> <ul style="list-style-type: none"> <li>• the position of the relevant person;</li> <li>• the age and gender of the person in question;</li> <li>• the person's competencies and qualifications that are relevant to the company;</li> <li>• whether the member is considered independent;</li> <li>• the member's date of appointment to the board of directors;</li> <li>• expiry of the current election term;</li> <li>• the member's participation in the meetings on the board of directors and committee meetings;</li> <li>• other management functions, including memberships in executive boards, boards of directors, and supervisory boards, including board committees in Danish and foreign enterprises and demanding organisational tasks; and</li> <li>• the number of shares, options, warrants and similar owned by the member in the company and other group companies, as well as changes to the member's portfolio of the mentioned securities which have occurred during the financial year.</li> </ul>	✓			STG's annual report contains the information described in the recommendations including information on each Board member's executive functions and demanding organizational tasks with other Danish and foreign entities.
<p>3.3.3. The Committee <b>recommends</b> that the annual evaluation procedure, cf. section 3.5, include an evaluation of what is regarded as a reasonable level for the number of other management functions, where</p>	✓			In connection with the annual evaluation procedure the Nomination Committee makes an assessment of the reasonableness of the number



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the number, level and complexity of the other individual management functions are taken into account.				of other management functions held by each board member.
<b>3.4. Board committees</b>				
<p>3.4.1. The Committee <b>recommends</b> that the company publish the following on the company's website:</p> <ul style="list-style-type: none"> <li>• the terms of reference of the board committees;</li> <li>• the most important activities of the committees during the year and the number of meetings held by each committee; and</li> <li>• the names of the members of each committee, including the chairmen of the committees, as well as information regarding which members are independent members and which members have special competencies.</li> </ul>	✓			<p>The terms of reference for the Audit Committee, the Nomination Committee and the Remuneration Committee are available in the rules of procedure for each of the committees which are available on the Company's website.</p> <p>The Company's website also contains an overview over the most important activities of the three Board committees in 2019 as well as the names of the members of each committee, including the chairmen, and information on the independence and special qualifications of the committee members.</p>
3.4.2. The Committee <b>recommends</b> that a majority of the members of a board committee be independent.	✓			The majority of the members of all three Board committees are independent.

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<p>3.4.3. The Committee <b>recommends</b> that the members of the board of directors set up among its members an <u>audit committee</u> and that a chairman is appointed who is not the chairman of the board of directors.</p>	✓			<p>The Board of Directors has established an Audit Committee. The Chairman of the Board is not the Chairman of the Audit Committee.</p>
<p>3.4.4. The Committee <b>recommends</b> that, prior to the approval of the annual report and other financial reports, the audit committee monitor and report to the board of directors about:</p> <ul style="list-style-type: none"> <li>• significant accounting policies;</li> <li>• significant accounting estimates;</li> <li>• related party transactions; and</li> <li>• uncertainties and risks, including in relation to the outlook for the current year.</li> </ul>	✓			<p>The duties of the Audit Committee are laid down in the committee's rules of procedure. The Audit Committee monitors and reports to the Board of Directors about important accounting principles and policies, important accounting estimates, related party transactions as well as uncertainties and risks, including in relation to the outlook for the current year.</p>
<p>3.4.5. The Committee <b>recommends</b> that the audit committee:</p> <ul style="list-style-type: none"> <li>• annually assesses the need for an internal audit function and, in such a case, presents mandates and recommendations on selecting, appointing and removing the head of any internal audit function and on the budget of the internal audit function;</li> <li>• ensure that if an internal audit has been established, a description of its functions is approved by the board of directors;</li> </ul>	✓			<p>The Audit Committee annually assesses the need for establishing an internal audit function. Considering the size of the Company and the expected business risk as well as the existing control set-up, the</p>

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<ul style="list-style-type: none"> <li>ensure that if an internal audit has been established, adequate resources and competencies are allocated to carry out the work; and</li> <li>monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>				Audit Committee at present does not see the need to establish an internal audit function.
<p>3.4.6. The Committee <b>recommends</b> that the board of directors establish a <u>nomination committee</u>, which is at least, responsible for the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>describing the qualifications required by the board of directors and the executive board and for a given position, indicating the time expected to be spent carrying out a specific position, as well as assessing the competencies, knowledge and experience found in the two governing bodies;</li> <li>annually assessing the structure, size, composition and results of the board of directors and the executive board and recommend any changes to the board of directors;</li> <li>annually assessing the competencies, knowledge, experience and succession of the individual members of management and report to the board of directors in this respect;</li> <li>recommending candidates for the board of directors and the executive board; and</li> <li>proposing an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes.</li> </ul>	✓			The Board of Directors has established a Nomination Committee. The tasks of the Nomination Committee set out in the Committee's rules of procedure are in accordance with the recommendations.
<p>3.4.7. The Committee <b>recommends</b> that the board of directors establish a <u>remuneration committee</u>, which is at least, responsible for the following preparatory tasks:</p>	✓			The Board of Directors has established a Remuneration Committee. The tasks of the Remuneration Committee set out in the Committee's terms

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<ul style="list-style-type: none"> <li>recommending the remuneration policy (including the "General Guidelines for incentive-based Remuneration") to the board of directors and the executive board for approval by the board of directors prior to approval by the general meeting;</li> <li>making proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensuring that the remuneration is in compliance with the company's remuneration policy and the assessment of the performance of the persons concerned. The committee should have information on the total remuneration that members of the board of directors and the executive board receive from other companies in the group;</li> <li>recommending a remuneration policy applicable for the company in general; and</li> <li>assisting with the preparation of the annual remuneration report.</li> </ul>				of reference are in accordance with the recommendations.
3.4.8. The Committee <b>recommends</b> that the remuneration committee do not consult with the same external advisers as the executive board of the company.	✓			The Remuneration Committee does not consult with the same external advisers as the Executive Management.
<i>3.5. Evaluation of the performance of the board of directors and the executive board</i>				
3.5.1. The Committee <b>recommends</b> that the board of directors establish an evaluation procedure for an annual evaluation of the board of directors and the individual members. External assistance should be obtained at least every third year. The evaluation should inter alia include: <ul style="list-style-type: none"> <li>contribution and results;</li> <li>cooperation with the executive board;</li> <li>the chairman's leadership of the board of directors;</li> </ul>	✓			The Rules of Procedure for the Board of Directors prescribe an annual evaluation of the performance and achievements of the Board of Directors and the Executive Management and of the individual members of the Board of Directors.

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<ul style="list-style-type: none"> <li>• the composition of the board of directors (including competencies, diversity and the number of members);</li> <li>• the work in the committees and the committee structure; and</li> <li>• the organisation and quality of the material that is submitted to the board of directors.</li> </ul> <p>The evaluation procedure and the general conclusions should be described in the management commentary and on the company's website. The chairman should account for the evaluation of the board of directors, including the process and general conclusions on the general meeting prior to the election of the board of directors.</p>				<p>The 2019 evaluation procedure was conducted with external assistance. The results are described in the annual report and on the Company's website and will be presented by the Chairman at the general meeting.</p>
<p>3.5.2. The Committee <b>recommends</b> that at least once annually, the board of directors evaluate the work and performance of the executive board in accordance with pre-defined criteria. Furthermore, the board of directors should evaluate the need for changes to the structure and composition of the executive board, in light of the company's strategy.</p>	✓			<p>The board of Directors evaluates on a regular basis the work and performance of the Executive Management and the individual members thereof in accordance with pre-defined criteria, including the need for any changes to the structure and composition of the Executive Management.</p>
<p>3.5.3. The Committee <b>recommends</b> that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a formalised dialogue between the chairman of the board of directors and the chief executive officer, and that the outcome of the evaluation be presented to the board of directors.</p>	✓			<p>The Board of Directors and the Executive Management evaluate at least annually their cooperation through a dialogue between the Chairman and the CEO. The Chairman presents the</p>

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				outcome to the Board of Directors.
<b>4. Remuneration of management</b>				
<i>4.1. Form and content of the remuneration policy</i>				
<p>4.1.1. The Committee <b>recommends</b> that the board of directors prepare a remuneration policy for the board of directors and the executive board, which includes</p> <ul style="list-style-type: none"> <li>• a detailed description of the components of the remuneration for members of the board of directors and the executive board;</li> <li>• the reasons for choosing the individual components of the remuneration;</li> <li>• a description of the criteria that form the basis for the balance between the individual components of the remuneration; and</li> <li>• an explanation for the correlation between the remuneration policy and the company’s long-term value creation and relevant related goals.</li> </ul> <p>The remuneration policy should be approved by the general meeting at least every fourth year and upon any material amendments and it should be published on the company’s website.</p>	✓			<p>The Board of Directors has adopted a remuneration policy that lays down the general principles for the remuneration for members of the Board of Directors and the Executive Management in accordance with the recommendations.</p> <p>The remuneration policy has been approved by the general meeting and is available on the Company’s website. An updated version of the remuneration policy will be presented for approval by the 2020 annual general meeting. The remuneration policy shall be approved by the general meeting at least every four years and upon any material amendments.</p>

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
				The remuneration policy is published on the Company's website.
<p>4.1.2. The Committee <b>recommends</b> that if the remuneration policy includes variable components;</p> <ul style="list-style-type: none"> <li>• limits should be set on the variable components of the total remuneration package;</li> <li>• a reasonable and balanced composition should be maintained between remuneration for members of management and the value creation for shareholders in the short and long term;</li> <li>• clarity should be established about performance criteria and measurability for the award of variable components;</li> <li>• variable remuneration should not only consist of short-term remuneration components, and long-term remuneration components must have a vesting or maturity period of at least three years; and</li> <li>• the company should have the ability to reclaim, in full or in part, variable components of remuneration that were paid on the basis of information, which subsequently are found to be incorrect.</li> </ul>	✓			The criteria for variable components described in the Company's remuneration policy comply with the recommendations.
<p>4.1.3. The Committee <b>recommends</b> that remuneration of members of the board of directors does not include share options or warrants.</p>	✓			The remuneration of the members of the Board of Directors does not include share options or warrants.
<p>4.1.4. The Committee <b>recommends</b> that if, in relation to long-term incentive programmes, a share-based remuneration is used, the programmes should have a vesting or maturity period of at least three</p>	✓			A share-based long-term incentive programme is used for the members of the Executive Management,

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
years after being allocated and should be roll-over programmes, i.e. the options should be granted periodically.				where performance share units are granted periodically with a three year performance period.
4.1.5. The Committee <b>recommends</b> that the total value of the remuneration relating to the notice period, including severance pay, does not exceed two years of remuneration, including all components of the remuneration.	✓			Pursuant to the remuneration policy termination payments for members of the Executive Management shall not exceed an amount corresponding to 24 months remuneration.
<i>4.2. Disclosure of remuneration</i>				
4.2.1. The Committee <b>recommends</b> that the company's remuneration policy and compliance with this policy be explained and justified annually in the chairman's statement at the company's general meeting.	✓			The remuneration policy and compliance with this policy was explained and justified in the Chairman's report at the annual general meeting in 2019.
4.2.2. The Committee <b>recommends</b> that shareholders at the general meeting consider proposals for approval of remuneration for the board of directors for the current financial year.	✓			The proposals for the remuneration for the Board of Directors for the current financial year are approved by the shareholders at the annual general meeting.
4.2.3. The Committee <b>recommends</b> that the company prepares a remuneration report that includes information on the total remuneration	✓			The Company's 2019 remuneration report lives up



Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<p>received by each member of the board of directors and the executive board from the company and other companies in the group and associated companies for the last three years, including information on the most important content of retention and resignation arrangements and that the correlation between the remuneration and company strategy and relevant related goals be explained.</p> <p>The remuneration report should be published on the company's website.</p>				<p>to the recommendations in terms of content and is published on the Company's website.</p>
<p><b>5. Financial reporting, risk management and audits</b></p>				
<p><i>5.1. Identification of risks and transparency about other relevant information</i></p>				
<p>5.1.1. The Committee <b>recommends</b> that the board of directors consider and in the management commentary account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management.</p>	<p>✓</p>			<p>The Board of Directors in the management report review and account for the most important strategic and business-related risks associated with the realisation of the Company's strategy and overall goals and the risks associated with the financial reporting, as well as the management of such risks.</p>
<p><i>5.2. Whistleblower scheme</i></p>				

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
5.2.1. The Committee <b>recommends</b> that the board of directors establish a whistleblower scheme for expedient and confidential notification of serious wrongdoing or suspicions thereof.	✓			STG has established a group-wide whistleblower scheme, enabling group employees to report confidentially possible or suspected wrongdoings. The Audit Committee has the overall responsibility for the whistleblower scheme and for reviewing the effectiveness of actions taken in response to concerns raised under the whistleblower scheme.
<i>5.3. Contact to auditor</i>				
5.3.1. The Committee <b>recommends</b> that the board of directors ensure regular dialogue and exchange of information between the auditor elected by the general meeting and the board of directors, including that the board of directors and the audit committee meet with the auditor elected by the general meeting at least once annually without the executive board present. This also applies to the internal auditor, if any.	✓			The Board of Directors ensures a regular dialogue and exchange of information between the auditor and the Board of Directors. The Board of Directors and the Audit Committee meet at least once a year with the auditor without the Executive Management present.
5.3.2. The Committee <b>recommends</b> that the audit agreement and auditor's fee be agreed by the board of directors and the auditor elected	✓			The audit agreement and auditor's fee are agreed by the Board of Directors and the auditor is elected by the

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
by the general meeting based on a recommendation from the audit committee.				general meeting on the basis of a recommendation from the Audit Committee.

## C. Internal Control and Risk Management Systems related to the Financial Reporting Process

### Overall Control Environment

The overall responsibility for the Group's control environment rests with the Board of Directors. The Audit Committee is responsible for monitoring the internal control and risk management systems related to the financial reporting process. The Executive Management sees to the implementation and application of the appropriate control systems.

The foundation for the assurance and internal control systems related to the financial reporting is a set of policies and procedures in key areas including the Code of Conduct, Finance Manual, Internal Control Policy, Delegation of Authority Guidelines, etc. The policies and procedures apply to all subsidiaries within the Group.

The internal control and risk management systems are designed to mitigate rather than eliminate the risks identified in the financial reporting process. Internal controls related to the financial reporting process are established to detect, mitigate and correct material misstatements in the consolidated financial statements.

### Risk Assessment

The risk assessment process in relation to the financial reporting process is assessed annually and approved by the Audit Committee.

The purpose of the risk assessment is to identify the processes in the financial reporting, which could contain significant misstatements. The risk assessment is carried out as a top-down approach and covers the most significant processes with high risk seen from a consolidated group perspective. Based on the risk assessment, we implement measures and controls to mitigate the identified risks in the relevant processes.

The significant risk areas are line items that include significant accounting estimates such as goodwill, trademarks, deferred taxes and inventories.

### **Control Activities**

Scandinavian Tobacco Group has implemented formalised financial reporting processes for the budget process, quarterly forecasts and monthly reporting on actual performance. The accounting information reported by all Group companies is reviewed both by controllers with in-depth knowledge of the individual companies and by IFRS accounting specialists.

The entities in the Group are dependent on IT systems. Weaknesses in the system controls or IT environment are compensated for by manual controls in order to mitigate significant risk relating to the financial reporting.

The Executive Management has established central functions for internal control and verification in order to ensure that relevant legislation and other financial reporting requirements are complied with.

### **Information and Communication**

The Executive Management has established information and communication systems to ensure proper accounting and internal control compliance, and has set up procedures that aim to ensure a consistent and structured approach to internal controls within the Group's subsidiaries, including access to internal policies, guidelines, etc. for all subsidiaries on the Company's intranet.

The procedures ensure an ongoing dialogue with subsidiaries around the requirements and prioritizing of an effective internal control environment and the planned activities. The progress is regularly reported to Executive Management and the Audit Committee.

### **Monitoring**

The Audit Committee's monitoring covers the internal control environment which is monitored continuously. Monitoring of the internal control environment is covered by our internal control function's policy. Monitoring involves both formal and informal procedures used by the Executive Management and those who have ownership of the processes and includes monthly reviews of financial results compared with budgets/forecasts and plans.