



**Scandinavian Tobacco Group A/S**

**Statutory Report on Corporate Governance for the Financial Year 2021,  
cf. section 107b of the Danish Financial Statement Act**

## **Statutory report on corporate governance, cf. section 107 b of the Danish Financial Statements Act.**

This report constitutes a part of the management commentary on Scandinavian Tobacco Group A/S' annual report concerning the financial year 1 January – 31 December 2021. 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 2021.

## **A. Management Structure**

Scandinavian Tobacco Group A/S 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 eight 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. The next election of employee-elected members of the Board will take place in 2023. 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.

An overview of the members of the Board of Directors is available at the Company's website.

### **Board committees**

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.

### **Audit Committee**

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 members of the Audit Committee currently are: Marlene Forsell (Chairman), Dianne Blixt and Luc Missorten. All members of the Audit Committee are considered independent and have relevant financial expertise. In 2021, the Audit Committee held six meetings, and the attendance rate was 100%.

Main activities in 2021 were

- Review of the annual report and the quarterly financial statements
- Review of the main accounting principles and significant accounting estimates
- Review of the adequacy and effectiveness of the Group's internal control and risk management organisation and systems
- Review of the Group's treasury, tax and insurance policies
- Assessment of financing and capital structure
- Assessment of the need for an internal audit function
- Recommendation for the selection of external auditors, including evaluation of independence and competences
- Review of the committee's Rules of Procedure
- Status of reporting under the Group's whistleblower scheme.

The Audit Committee's Rules of Procedure can be found on the Company's website.

### **Nomination Committee**

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 currently consists of four members: Nigel Northridge (Chairman), Henrik Brandt, Luc Missorten and Claus Gregersen. All members of the Nomination Committee with the exception of Claus Gregersen qualify as being independent. In 2021, the Nomination Committee held two meetings with a 100%

attendance rate.

The main activities in 2021 included:

- Assessment of qualifications and competences required in the Board of Directors
- Evaluation of the composition of the Board of Directors
- Evaluation of the performance of the Executive Management
- Evaluation of the Board of Directors' self-evaluation and assessment of results hereof.

The Nomination Committee's Rules of Procedure can be found on the Company's website.

### **Remuneration Committee**

The Remuneration Committee provides recommendations to the Board of Directors with regard to the remuneration applicable to the Board of Directors and the Executive Management for subsequent approval by the General Meeting of Shareholders. The Remuneration Committee further submits proposals for the remuneration of the Board of Directors and the Executive Management. The Remuneration Committee currently consists of four members: Nigel Northridge (Chairman), Henrik Brandt, Luc Missorten and Claus Gregersen. All members of the Remuneration Committee with the exception of Claus Gregersen qualify as being independent of the Company. In 2021, the Remuneration Committee held four meetings with a 100% attendance rate.

Main activities in 2021 were:

- Determination of the key performance indicators and targets related to the long-term and the short-term incentive programmes and assessment of actual performance
- Determination of participants under the long-term and short-term incentive programmes
- Assessment/review of the remuneration of the Executive Management and the Board of Directors
- Approval of the Remuneration Report.

The Remuneration Committee's Rules of Procedure can be found on the Company's website.

### **Executive Management**

The Executive Management, i.e. the formally registered management of the company, is appointed by the Board of Directors. The Executive Management consists of the CEO, Niels Frederiksen, and the CFO, Marianne Rørslev Bock. The CEO is the chief spokesman of the Group in matters relating to the day-to-day operations.

The Executive Management prepares for the Board of Directors' 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 day-to-day operation of the company is managed by a wider group, namely the Executive Board. A list of the members of the Executive Board is available on the Company's website.

## B. Status on compliance with the Danish Recommendations on Corporate Governance

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
1. Interaction with the company’s shareholders, investors and other stakeholders			
1.1. Communication with the company’s shareholders, investors and other stakeholders			
1.1.1. The Committee recommends that the management through ongoing dialogue and interaction ensures that shareholders, investors and other stakeholders gain the relevant insight into the company's affairs, and that the board of directors obtains the possibility of hearing and including their views in its work.	<u>YES</u>  STG’s Executive Management engages in continuous communications with investors, analysts and other stakeholders through company announcements, meetings, investor presentations, conference calls and other activities directed at investors, including regular presentations on the Company’s main activities, its strategy and ambitions throughout the year and roadshows after each financial statement.  In November 2021, STG held its first Capital Markets Day for		

1) If the company does not comply with a recommendation, the company must specifically explain; *why* the company has decided not to comply with the recommendation, and *which* approach the company has chosen instead. A comprehensive explanation answers both questions and is considered as compliant. Thus, it is important that the company answers both questions in its explanation

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
	<p>investors and analysts to create insights to STG for both existing and potential new investors.</p> <p>The information gained at these events is channelled back to the Board of Directors via the Executive Management and the Head of Investor Relations.</p>		
<p><b>1.1.2. The Committee recommends</b> that the company adopts policies on the company's relationships with its shareholders, investors and if relevant other stakeholders in order to ensure that the various interests are included in the company's considerations and that such policies are made available on the company's website.</p>	<p><u>YES</u></p> <p>The Board of Directors has adopted an Investor Relations Policy that lays down the main principles for the communication with investors, analysts and other stakeholders in the capital market and ensures that relevant, balanced and timely information is made available to the capital market and that the interests of the shareholders are taken into account. The Investor Relations Policy is available on the Company's website.</p>		
<p><b>1.1.3. The Committee recommends</b> that the company publishes quarterly reports.</p>	<p><u>YES</u></p>		



Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
	STG publishes quarterly reports. The reports are available on the Company's website.		
<b>1.2. The general meeting</b>			
<b>1.2.1. The Committee recommends</b> that the board of directors organises the company's general meeting in a manner that allows shareholders, who are unable to attend the meeting in person or are represented by proxy at the general meeting, to vote and raise questions to the management prior to or at the general meeting. The Committee recommends that the board of directors ensures that shareholders can observe the general meeting via webcast or other digital transmission.	<p><u>YES</u></p> <p>Shareholders who cannot attend the general meeting or are represented by proxy at the general meeting have the possibility to vote and submit questions in writing prior to the general meeting.</p> <p>According to the articles-of-association, the Company's general meetings may by decision of the Board of Directors be held as completely electronic meetings. STG's annual general meeting 2021 was a physical meeting webcast via the Company's shareholder portal.</p>		
<b>1.2.2. The Committee recommends</b> that proxies and postal votes to be used at the general meeting enable the shareholders to consider each individual item on the agenda.	<p><u>YES</u></p> <p>STG provides a standardised proxy form which allows</p>		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
	shareholders to consider each individual item on the agenda.		
<b>1.3. Takeover bids</b>			
<b>1.3.1. The Committee recommends</b> that the company has a procedure in place in the event of takeover bids, containing a “road map” covering matters for the board of directors to consider in the event of a takeover bid, or if the board of directors obtains reasonable grounds to suspect that a takeover bid may be submitted. In addition, it is recommended that it appears from the procedure that the board of directors abstains from countering any takeover bids by taking actions that seek to prevent the shareholders from deciding on the takeover bid, without the approval of the general meeting.	<u>YES</u>  The Board of Directors has adopted guidelines that set forth contingency procedures in the event of a takeover bid. 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>1.4. Corporate Social Responsibility</b>			
<b>1.4.1. The Committee recommends</b> that the board of directors adopts a policy for the company’s corporate social responsibility, including social responsibility and sustainability, and that the policy is available in the management commentary and/or on the company’s website. The Committee recommends that the board of directors ensures compliance with the policy.	<u>YES</u>  The Board of Directors has adopted policies on corporate social responsibility including both social responsibility and sustainability in the Company’s Code of Conduct and pertaining policies.		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
	The Board of Directors has adopted a Sustainability strategy to ensure compliance with the policies and to strengthen the Company's corporate social responsibility engagement, priorities and actions. The Company's 2021 Sustainability Report is available on the Company's website.		
<b>1.4.2. The Committee recommends</b> that the board of directors adopts a tax policy to be made available on the company's website.	<u>YES</u> The Board of Directors has adopted a Tax Policy. The Tax Policy is available on the Company's website.		
<b>2. The duties and responsibilities of the board of directors</b>			
<b>2.1. Overall tasks and responsibilities</b>			
<b>2.1.1. The Committee recommends</b> that the board of directors in support of the company's statutory objects according to its articles of association and the long-term value creation considers the company's purpose and ensures and promotes a good culture and sound values in the company. The company should provide an account thereof in the management commentary and/or on the company's website.	<u>YES</u> The Board of Directors has defined and considers on an ongoing basis the Company's purpose with a view to ensuring long-term value creation in the Company. The Company has as part of its strategy defined		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
	<p>corporate values setting the framework for a good corporate culture.</p> <p>The Company gives account of its purpose, strategic direction and values in the management commentary in the Annual report and on its website.</p>		
<b>2.1.2. The Committee recommends</b> that the board of directors at least once a year discusses and on a regular basis follows up on the company's overall strategic targets in order to ensure the value creation in the company.	<p><u>YES</u></p> <p>The Board of Directors discusses at least once every year the Company's overall strategy.</p>		
<b>2.1.3. The Committee recommends</b> that the board of directors on a continuous basis takes steps to examine whether the company's share and capital structure support the strategy and the long-term value creation in the interest of the company as well as the shareholders. The Committee recommends that the company gives an account thereof in the management commentary.	<p><u>YES</u></p> <p>The Board of Directors evaluates on a regular basis and at least once a year whether the Company's capital and share structure continues to be adequate and in the interests of the shareholders and accounts for this evaluation in the management's report in the Company's annual report.</p>		
<b>2.1.4. The Committee recommends</b> that the board of directors prepares and on an annual basis reviews guidelines for the executive	<p><u>YES</u></p>		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
management, including requirements in respect of the reporting to the board of directors.	The Board of Directors has adopted Rules of Procedure for the Executive Management, which contain a description of the duties and responsibilities of the Executive Management, specifying among other the procedures for the Executive Management's timely, accurate and adequate reporting to the Board of Directors. The Board of Directors annually reviews and adopts the Rules of Procedure for the Executive Management.		
<b>2.2. Members of the board of directors</b>			
<b>2.2.1. The Committee recommends</b> that the board of directors, in addition to a chairperson, appoints a vice chairperson, who can step in if the chairperson is absent and who can generally act as the chairperson's close sparring partner.	<u>YES</u>  In accordance with the Company's articles-of-association, the Board of Directors has elected a chairman and a vice-chairman. The vice-chairman assumes the responsibilities of the chairman in his absence..		
<b>2.2.2. The Committee recommends</b> that the chairperson in cooperation with the individual members of the board of directors ensures that the	<u>YES</u>		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
members update and supplement their knowledge of relevant matters, and that the members' special knowledge and qualifications are applied in the best possible manner.	As part of the annual Board evaluation, the chairman discusses with each Board member how specific knowledge and skills are continuously updated and complemented. The special knowledge and qualifications of the respective Board member are also taken into account when considering the composition of the Board committees.		
<b>2.2.3. The Committee recommends</b> that if the board of directors, in exceptional cases, requests a member of the board of directors to take on special duties for the company, for instance, for a short period to take part in the daily management of the company, the board of directors should approve this in order to ensure that the board of directors maintains its independent overall management and control function. It is recommended that the company publishes any decision on allowing a member of the board of directors to take part in the daily management, including the expected duration thereof.	<u>YES</u>  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, the Board of Directors		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
	would apply the same principles. In 2021, neither the Chairman nor other members of the Board of Directors performed operating activities for the Company.		
<b>3. The composition, organisation and evaluation of the board of directors</b>			
<b>3.1. Composition</b>			
<b>3.1.1. The Committee recommends</b> that the board of directors on an annual basis reviews and in the management commentary and/or on the company's website states <ul style="list-style-type: none"> <li>• which qualifications the board of directors should possess, collectively and individually, in order to perform its duties in the best possible manner, and</li> <li>• the composition of and diversity on the board of directors.</li> </ul>	<p><u>YES</u></p> <p>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 carries out an assessment of the competencies of its members, both individually and collectively in order to ensure that the Board of Directors has the appropriate number of members with the required qualifications and experience at all times.</p> <p>The composition and diversity of the Board of Directors and the special skills of each member of</p>		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
	the Board of Directors are disclosed in the Company's annual report.		
<b>3.1.2. The Committee recommends</b> that the board of directors on an annual basis discusses the company's activities in order to ensure relevant diversity at the different management levels of the company and adopts a diversity policy, which is included in the management commentary and/or available on the company's website.	<p><u>YES</u></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>		
<b>3.1.3. The committee recommends</b> that candidates for the board of directors are recruited based on a thorough process approved by the board of directors. The Committee recommends that in assessing candidates for the board of directors – in addition to individual competencies and qualifications – the need for continuity, renewal and diversity is also considered.	<p><u>YES</u></p> <p>The Board of Directors has established a thorough process for the recruitment of candidates to the Board of Directors. When recruiting new candidates, the Board of Directors according to its Rules of Procedure shall take into consideration the need for continuity, integration of new talent and the need for diversity. The Board of Directors has established a Nomination Committee which is responsible for overseeing that the composition of the Board of</p>		



Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
	Directors ensures continuity, renewal and diversity.		
<b>3.1.4. The Committee recommends</b> that the notice convening general meetings, where election of members to the board of directors is on the agenda - in addition to the statutory items - also includes a description of the proposed candidates' <ul style="list-style-type: none"> <li>• qualifications,</li> <li>• other managerial duties in commercial undertakings, including board committees,</li> <li>• demanding organisational assignments and</li> <li>• independence.</li> </ul>	<u>YES</u>  The notice of the general meeting to elect directors includes a description of the candidates' professional background and qualifications, information on any other executive functions and demanding organizational tasks, as well as the information whether the candidates for the Board of Directors are considered independent		
<b>3.1.5. The Committee recommends</b> that members to the board of directors elected by the general meeting stand for election every year at the annual general meeting, and that the members are nominated and elected individually.	<u>YES</u>  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. The members are nominated and elected individually.		
<b>3.2. The board of director's independence</b>			
<b>3.2.1. The Committee recommends</b> that at least half of the members of the board of directors elected in general meeting are independent in	<u>YES</u>		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
<p>order for the board of directors to be able to act independently avoiding conflicts of interests.</p> <p>In order to be independent, the member in question may not:</p> <ul style="list-style-type: none"> <li>• be or within the past five years have been a member of the executive management or an executive employee in the company, a subsidiary or a group company,</li> <li>• within the past five years have received large emoluments from the company/group, a subsidiary or a group company in another 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 a business relationship (e.g. personally or indirectly as a partner or an employee, shareholder, customer, supplier or member of a governing body in companies with similar relations) with the company, a subsidiary or a group company, which is significant for the company and/or the business relationship,</li> <li>• be or within the past three years have been employed with or a partner in the same company as the company's auditor elected in general meeting,</li> <li>• be a CEO in a company with cross-memberships in the company's management,</li> <li>• have been a member of the board of directors for more than twelve years, or</li> <li>• be closely related to persons, who are not independent, cf. the above-stated criteria.</li> </ul> <p>Even if a member of the board of directors does not fall within the above-stated criteria, the board of directors may for other reasons decide that the member in question is not independent.</p>	<p>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.</p>		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
<p><b>3.2.2. The Committee recommends</b> that members of the executive management are not members of the board of directors and that members retiring from the executive management do not join the board of directors immediately thereafter.</p>	<p><u>YES</u></p> <p>No member of the Executive Management is also a member of the Board of Directors, and none of the members are directly elected former executives of the Company.</p>		
<b>3.3. Members of the board of directors and the number of other managerial duties</b>			
<p><b>3.3.1. The Committee recommends</b> that the board of directors and each of the members on the board of directors, in connection with the annual evaluation, cf. recommendation 3.5.1., assesses how much time is required to perform the board duties. The aim is for the individual member of the board of directors not to take on more managerial duties than the board member in question is able to perform in a satisfactory manner.</p>	<p><u>YES</u></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. 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 the effective performance of its tasks and not take on more functions than they can perform their duty as a board member of STG in a manner that is satisfactory for the Company. The annual</p>		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
	evaluation of the Board of Directors includes an opportunity for each individual and the Board of Directors to assess that the members have sufficient time to perform their duties in a satisfactory manner.		
<b>3.3.2. The Committee recommends</b> that the management commentary, in addition to the statutory requirements, contains the following information on the individual members of the board of directors: <ul style="list-style-type: none"> <li>• position, age and gender,</li> <li>• competencies and qualifications relevant to the company,</li> <li>• independence,</li> <li>• year of joining the board of directors,</li> <li>• year of expiry of the current election period,</li> <li>• participation in meetings of the board of directors and committee meetings,</li> <li>• managerial duties in other commercial undertakings, including board committees, and demanding organisational assignments, and</li> <li>• the number of shares, options, warrants, etc. that the member holds in the company and its group companies and any changes in such holdings during the financial year.</li> </ul>	<p><u>YES</u></p> <p>STG's annual report contains the information described in the recommendations including information on each Board member's management functions with other Danish and foreign entities etc. as well information on participation in meetings of the Board of Directors and committees. The Annual Report and the Remuneration Report include information on their holding of shares in the Company.</p>		
<b>3.4. Board committees</b>			
<b>3.4.1. The Committee recommends</b> that the management describes in the management commentary:	<u>YES</u>		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
<ul style="list-style-type: none"> <li>the board committees' most significant activities and number of meetings in the past year, and</li> <li>the members on the individual board committees, including the chairperson and the independence of the members of the committee in question.</li> </ul> <p>In addition, it is recommended that the board committees' terms of reference are published on the company's website.</p>	<p>The most important activities of the three Board committees and the number of meetings held by each committee during the financial year as well as the respective committee members, including the chairmen and the independence of the committee members are described in section A of this document, the Company's Statutory Corporate Governance report, in the Annual Report and on the Company's website.</p> <p>The terms of reference for the Audit Committee, the Nomination Committee and the Remuneration Committee are laid down in the Rules of Procedure for each of the committees which are available on the Company's website.</p>		
<p><b>3.4.2. The Committee recommends</b> that board committees solely consist of members of the board of directors and that the majority of the members of the board committees are independent.</p>	<p><u>YES</u></p> <p>The three board committees solely consist of members of the Board of Directors. The majority of the members of all three</p>		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
	Board committees are independent.		
<p><b>3.4.3. The Committee recommends</b> that the board of directors establishes an audit committee and appoints a chairperson of the audit committee, who is not the chairperson of the board of directors. The Committee recommends that the audit committee, in addition to its statutory duties, assists the board of directors in:</p> <ul style="list-style-type: none"> <li>• supervising the correctness of the published financial information, including accounting practices in significant areas, significant accounting estimates and related party transactions,</li> <li>• reviewing internal control and risk areas in order to ensure management of significant risks, including in relation to the announced financial outlook,</li> <li>• assessing the need for internal audit,</li> <li>• performing the evaluation of the auditor elected by the general meeting,</li> <li>• reviewing the auditor fee for the auditor elected by the general meeting,</li> <li>• supervising the scope of the non-audit services performed by the auditor elected by the general meeting, and</li> <li>• ensuring regular interaction between the auditor elected by the general meeting and the board of directors, for instance, that the board of directors and the audit committee at least once a year meet with the auditor without the executive management being present.</li> </ul> <p>If the board of directors, based on a recommendation from the audit committee, decides to set up an internal audit function, the audit committee must:</p>	<p><u>YES</u></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>The responsibilities and tasks of the Audit Committee are laid down in Rules of Procedure, which are available on the Company's website. The Audit Committee supervises the Company's financial reporting and risk management. This includes the monitoring of and reporting on the Company's accounting principles, important accounting estimates and related parties transactions as well as the review of internal control and risk areas , including in relation to the outlook for the current year, all in accordance with the recommendations.</p> <p>The Audit Committee annually assesses the need for</p>		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
<ul style="list-style-type: none"> <li>• prepare terms of reference and recommendations on the nomination, employment and dismissal of the head of the internal audit function and on the budget for the department,</li> <li>• ensure that the internal audit function has sufficient resources and competencies to perform its role, and</li> <li>• supervise the executive management's follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>	<p>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 Board of Directors, based on a recommendation from the Audit Committee at present does not see the need to establish an internal audit function.</p>		
<p><b>3.4.4. The Committee recommends</b> that the board of directors establishes a nomination committee to perform at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• describing the required qualifications for a given member of the board of directors and the executive management, the estimated time required for performing the duties of this member of the board of directors and the competencies, knowledge and experience that is or should be represented in the two management bodies,</li> <li>• on an annual basis evaluating the board of directors and the executive management's structure, size, composition and results and preparing recommendations for the board of directors for any changes,</li> <li>• in cooperation with the chairperson handling the annual evaluation of the board of directors and assessing the individual management members' competencies, knowledge, experience and succession as well as reporting on it to the board of directors,</li> </ul>	<p><u>YES</u></p> <p>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>		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
<ul style="list-style-type: none"> <li>handling the recruitment of new members to the board of directors and the executive management and nominating candidates for the board of directors' approval,</li> <li>ensuring that a succession plan for the executive management is in place,</li> <li>supervising executive managements' policy for the engagement of executive employees, and</li> <li>supervising the preparation of a diversity policy for the board of directors' approval.</li> </ul>			
<p><b>3.4.5. The Committee recommends</b> that the board of directors establishes a remuneration committee to perform at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>preparing a draft remuneration policy for the board of directors' approval prior to the presentation at the general meeting,</li> <li>providing a proposal to the board of directors on the remuneration of the members of the executive management,</li> <li>providing a proposal to the board of directors on the remuneration of the board of directors prior to the presentation at the general meeting,</li> <li>ensuring that the management's actual remuneration complies with the company's remuneration policy and the evaluation of the individual member's performance, and</li> <li>assisting in the preparation of the annual remuneration report for the board of directors' approval prior to the presentation for the general meeting's advisory vote.</li> </ul>	<p><u>YES</u></p> <p>The Board of Directors has established a Remuneration Committee. The tasks of the Remuneration Committee are set out in the Committee's Rules of Procedure in accordance with the recommendations.</p>		
<b>3.5. Evaluation of the board of directors and the executive management</b>			



Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
<p><b>3.5.1. The Committee recommends</b> that the board of directors once a year evaluates the board of directors and at least every three years engages external assistance in the evaluation. The Committee recommends that the evaluation focuses on the recommendations on the board of directors' work, efficiency, composition and organisation, cf. recommendations 3.1.-3.4. above, and that the evaluation as a minimum always includes the following topics:</p> <ul style="list-style-type: none"> <li>• the composition of the board of directors with focus on competencies and diversity</li> <li>• the board of directors and the individual member's contribution and results,</li> <li>• the cooperation on the board of directors and between the board of directors and the executive management,</li> <li>• the chairperson's leadership of the board of directors,</li> <li>• the committee structure and the work in the committees,</li> <li>• the organisation of the work of the board of directors and the quality of the material provided to the board of directors, and</li> <li>• the board members' preparation for and active participation in the meetings of the board of directors.</li> </ul>	<p><u>YES</u></p> <p>The Board of Directors conducts an annual evaluation of the Board of Directors in accordance with the recommendations.</p>		
<p><b>3.5.2. The Committee recommends</b> that the entire board of directors discusses the result of the evaluation of the board of directors and that the procedure for the evaluation and the general conclusions of the evaluation are described in the management commentary, on the company's website and at the company's general meeting.</p>	<p><u>YES</u></p> <p>The Board of Directors discusses the results of the annual evaluation of the Board of Directors . The 2021 evaluation procedure was conducted as an internal process without external assistance. The process and results of the evaluation are</p>		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
	described in the management commentary of the Annual Report, on the Company's website and will be presented by the Chairman at the general meeting.		
<b>3.5.3. The Committee recommends</b> that the board of directors at least once a year evaluates the work and results of the executive management according to pre-established criteria, and that the chairperson reviews the evaluation together with the executive management. In addition, the board of directors should on a continuous basis assess the need for changes in the structure and composition of the executive management, including in respect of diversity, succession planning and risks, in light of the company's strategy.	<p><u>YES</u></p> <p>The Board of Directors evaluates on a regular basis the work and results of the Executive Management in accordance with pre-defined criteria, including the need for any changes to the structure and composition of the Executive Management, taking into account diversity, succession planning and risks, in light of the company's strategy. The Chairman reviews the evaluation with the Executive Management.</p>		
<b>4. Remuneration of management</b>			
<b>4.1. Remuneration of the board of directors and the executive management</b>			

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
4.1.1. The Committee recommends that the remuneration for the board of directors and the executive management and the other terms of employment/service are considered competitive and consistent with the company's long-term shareholder interests.	<p><u>YES</u></p> <p>The Board of Directors considers the remuneration of the Board of Directors and the Executive Management, as well as other terms of employment, are both competitive and compatible with the long-term interests of the Company's shareholders. The general principles for the remuneration of the Board of Directors and the Executive Management are laid down in the Remuneration Policy. The Remuneration Policy is published on the Company's website as is the Remuneration Report 2021.</p>		
4.1.2. The Committee recommends that share-based incentive schemes are revolving, i.e. that they are periodically granted, and that they primarily consist of long-term schemes with a vesting or maturity period of at least three years.	<p><u>YES</u></p> <p>A share-based long-term incentive programme is in place for the members of the Executive Management, where performance share units are granted annually with a three year performance period.</p>		
4.1.3. The Committee recommends that the variable part of the remuneration has a cap at the time of grant, and that there is	<p><u>YES</u></p>		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
transparency in respect of the potential value at the time of exercise under pessimistic, expected and optimistic scenarios.	The variable part of the remuneration has a cap at the time of grant and the transparency is given to the Board of Directors in accordance with the recommendations. Details are available in the Company's 2021 Remuneration Report.		
<b>4.1.4. The Committee recommends</b> that the overall value of the remuneration for the notice period, including severance payment, in connection with a member of the executive management's departure, does not exceed two years' remuneration including all remuneration elements.	<u>YES</u> Pursuant to the Remuneration Policy termination payments for members of the Executive Management shall not exceed an amount corresponding to 24 months' remuneration.		
<b>4.1.5. The Committee recommends</b> that members of the board of directors are not remunerated with share options and warrants.	<u>YES</u> The remuneration of the members of the Board of directors does not include share options or warrants.		
<b>4.1.6. The Committee recommends</b> that the company has the option to reclaim, in whole or in part, variable remuneration from the board of directors and the executive management if the remuneration granted, earned or paid was based on information, which subsequently proves to	<u>YES</u> The Company has the right to reclaim in full or in part variable components of remuneration that were paid on the basis of		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
be incorrect, or if the recipient acted in bad faith in respect of other matters, which implied payment of a too large variable remuneration.	information that later prove to be incorrect and if the recipient acted in bad faith in respect of other matters, which implied payment of a too large variable remuneration.		
<b>5. Risk management</b>			
<b>5.1. Identification of risks and openness in respect of additional information</b>			
<b>5.1.1. The Committee recommends</b> that the board of directors based on the company's strategy and business model considers, for instance, the most significant strategic, business, accounting and liquidity risks. The company should in the management commentary give an account of these risks and the company's risk management.	<u>YES</u> The Board of Directors considers the main risks based on the Company's strategy and business model and accounts for such risks in the management commentary in the Annual Report.		
<b>5.1.2. The Committee recommends</b> that the board of directors establishes a whistleblower scheme, giving the employees and other stakeholders the opportunity to report serious violations or suspicion thereof in an expedient and confidential manner, and that a procedure is in place for handling such whistleblower cases.	<u>YES</u> STG has established a groupwide whistleblower scheme, enabling employees to report confidentially possible or suspected wrongdoings. There is a process in place to ensure an expedient and confidential handling of reported matters.		

Recommendation	The company <u>complies</u>	The company <u>explains</u> <sup>1</sup>	
		<i>why</i>	<i>how</i>
	The Audit Committee has the overall responsibility for the whistleblower scheme. It is the intention to open the whistleblower scheme for other stakeholders than employees.		

## 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 prevent, 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.