

RULES OF PROCEDURE FOR THE AUDIT COMMITTEE

of **SCANDINAVIAN TOBACCO GROUP A/S**

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RULES OF PROCEDURE FOR THE AUDIT COMMITTEE

1. ESTABLISHMENT AND OBJECTIVE

- 1.1 The board of directors (the "**Board of Directors**") of Scandinavian Tobacco Group A/S (the "**Company**") has established, in accordance with clause 17.2 of the rules of procedure of the Board of Directors and section 31 of the Danish Act on Approved Auditors and Audit Firms (in Danish: *Revisorloven*), an audit committee (the "**Audit Committee**") under the supervision of the Board of Directors.
- 1.2 The Audit Committee will be established at the first ordinary meeting of the Board of Directors after the annual general meeting.
- 1.3 The objective of the Audit Committee is to supervise the Company's financial reporting and risk management over financial reporting in order to ensure that there is a true and fair view of the Company's assets, liabilities, financial position, results and cash flows and accordingly, that there is good financial basis for decision making. The Audit Committee shall also assess the going concern of the Company. The tasks undertaken by the Audit Committee in order to fulfil its objective are further described in clause 3 below.
- 1.4 The Audit Committee's function is merely preparatory in connection with the transaction of business by the Board of Directors. Accordingly, the setting up of the Audit Committee does not limit or render superfluous any requisite consideration by the Board of Directors, and important information required by all members of the Board of Directors must therefore be provided to all members the Board of Directors and not only to the Audit Committee. It should though be noted that the purpose of establishing the Audit Committee is to allow sufficient time for specific review of the particular matters required to fulfil the objective. The Audit Committee shall summarize such review and when required give its recommendation to the Board of Directors. Accordingly, presentations to the Board of Directors of matters reviewed by the Audit Committee will often be limited. It is each member of the Board of Directors own responsibility to ensure they have understood and been sufficiently informed about the matters prepared by the Audit Committee
- 1.5 The Board of Directors carries full responsibility for all resolutions that have been prepared by the Audit Committee.

2. MEMBERS AND COMPOSITION

- 2.1 The Audit Committee consists of a minimum of three members who are appointed by the Board of Directors.
- 2.2 Members are appointed among the members of the Board of Directors.
- 2.3 Appointments to the Audit Committee are for one-year terms. Members may be removed by the Board of Directors at any time. Any member of the Audit Committee who resigns from the Board of Directors must also resign from the Audit Committee.
- 2.4 The Audit Committee elects a chairman, save that the chairman of the Board of Directors may not serve as chairman of the Audit Committee.
- 2.5 The majority of the members of the Audit Committee must be independent.
 - 2.5.1 No member of the Audit Committee will be considered as independent if he or she (list not exhaustive):

- a) is - or has been within the last five years - a manager/executive officer of the Company or of any affiliated company;
- b) is manager of any company and there is overlapping board membership between that company and the Company;
- c) has received a significant remuneration from the Company or any affiliated company other than as member of the Board of Directors;
- d) represents the interests of a controlling shareholder;
- e) is closely related to any person who is not considered to be independent;
- f) is, or has been within the last three years, an employee or partner of the Company's external auditor;
- g) has had within the last year important business relations (as a partner, shareholder, customer, supplier or member of a governing body of a company or companies with similar relations) with the Company or any affiliated company; or
- h) has served on the Board of Directors for more than twelve years.

2.5.2 The Board of Directors determines whether any member of the Audit Committee can be deemed independent or not.

2.6 At least one member of the Audit Committee must have relevant and up-to-date economic expertise and experience to ensure that the Audit Committee's pool of combined expertise and experience is sufficient to give it up-to-date experience and insight into financial affairs and financial reporting and auditing in relation to listed companies such as the Company.

3. DUTIES

3.1 The duties of the Audit Committee in connection with **financial reporting** are:

- i. To supervise the basis and correctness of the financial information presented in the Company's annual, bi-annual and quarterly reports;
- ii. To monitor the appropriateness and efficiency of the financial reporting processes;
- iii. To assess and if necessary investigate the executive management's (the "**Management**") actions and assessments for the annual, bi-annual and quarterly financial reporting submitted to the Board of Directors, focusing particularly on:
 - a) important accounting principles and policies and the appropriateness thereof and changes thereto,
 - b) important accounting estimates, including estimated valuations, the basis thereof and changes thereto (e.g. recoverability of intangible and tangible assets, accounts receivables, deferred taxes and tax provisions, restructuring and other provisions, etc)
 - c) related party transactions,
 - d) whether the financial statements are affected by material or unusual transactions, including applied methods of recognition and measurement, and the way in which information about this is presented,
 - e) transparency of information,

- f) material adjustments resulting from audit,
- g) compliance with applicable laws, accounting standards, and Nasdaq Copenhagen A/S' Rules for Issuers of Shares,
- h) the results of Management's investigation of and follow-up on incidents of fraud (if any),
- i) The correctness and fairness of the management commentary; and
- j) uncertainties and risks, including in relation to the outlook;
- iv. To review and assess - prior to the Board of Directors' review of and statement on the annual report - reports on the internal control and risk management systems and draft management report of the Board of Directors in the annual report;
- v. To investigate the circumstances of any resignation of external auditors and advice on steps to be taken in that regard; and
- vi. To assess the need for establishing an internal audit function.

3.2 The duties of the Audit Committee in relation to the **external audit** are:

- i. To make a critical assessment of the independence, objectivity and competence of external auditors; (which includes to consider any findings from the national competent authorities during their last inspection of the statutory auditor or firm);
- ii. To submit recommendations to the Board of Directors for its recommendation to the general meeting on the appointment of external auditors;
- iii. To set a policy on the engagement and approval of non-auditing services rendered by the external auditors in order to ensure that such services do not jeopardize the auditor's independence and are in accordance with applicable legislation. Then monitoring the nature and extent of such services to ensure that they do not fall outside the set policy.;
- iv. To submit proposals to the Board of Directors concerning agreements with the external auditors and the remuneration related thereto, including remuneration for non-auditing services, for approval by the Board of Directors;
- v. To review and assess the external auditors' audit plan etc. and follow the progress of such and review and assess material comments resulting from the audit and to follow up on management's corrective actions relating to such; and
- vi. To report to the Board of Directors its view on how the audit has contributed to the integrity of the financial reporting as well as what role the AC has had in the audit;

3.3 The duties of the Audit Committee in connection with **risk management** are:

- i. To review and monitor the Company's risk assessment and risk management processes in relation to financial reporting and financial risks. The risk assessment and risk management of other risks shall only be reviewed and monitored by the Audit Committee if specifically decided by the Board of Directors.
- ii. To review and monitor the Company's risk assessment and risk management processes in relation to financial reporting include in particular;
 - a. Assessing and reviewing the external auditor's and management's risk assessment over financial reporting
 - b. Assessing and reviewing the Company's framework for internal control over financial reporting including IT General Controls (ITGC) and the effectiveness and compliance of such. This includes assessing and reviewing the policies and support systems used, means and

- frequency and extent as well as integrity of monitoring and testing, results of monitoring and testing and follow up on corrective actions
- c. Assessing and reviewing the sensitivity of critical estimates and judgements affecting the financial reporting
 - d. Assessing and reviewing the assumptions and basis for guidance and related sensitivities
- iii. To review and monitor the Company's risk assessment and risk management processes in relation to financial risks include in particular
 - a. Reviewing and assessing the currency exposure, both transactional and translational
 - b. Reviewing and assessing the liquidity risk
 - c. Reviewing and assessing the financing and refinancing risk
 - d. Setting a policy for hedging, financial instrument to use, minimum cash requirements and leverage
 - iv. To assess and review the Company's methods for identifying and managing risks (not limited to risks over financial reporting and financial risks). However, the Audit Committee shall only assess and review the identified risks to the extent it is needed for reporting in the Annual Report and in order to review and assess the Company's insurance coverage. Otherwise the risks identified, other than risks over financial reporting and financial risk, shall be assessed and reviewed by the Board of Directors if not specifically delegated to the Audit Committee;
 - v. To review and assess the Company's insurance policies and insurance coverage
 - vi. To review significant incidents of all risks and the incident response activities performed
 - vii. To follow-up on planned risk reducing or mitigating activities for risk relating to financial reporting or financial risk (if not specifically delegated by the Board of Directors relating to other risks)

3.4 The Duties of the Audit Committee in relation to Capital structure and shareholder distributions

- 3.4.1. To review and assess the capital structure from a shareholder value creation perspective considering financial risks, future cash generation and future investment needs.
- 3.4.2. To assess shareholder distributions in relation to distributable earnings, available funds and future cash flows, ensuring shareholder distributions do not jeopardize the going concern of the company.

3.5 The duties of the Audit Committee in relation to business Ethics

- 3.5.1. To ensure there are systems in place for employees to report any suspicion of incidents of fraud or other misconduct.
- 3.5.2. To ensure all reporting of suspicion of incidents of fraud or other misconduct are investigated and responsibly responded to by management.

3.6 Other duties of the Audit Committee

- 3.6.1 At the Company's general meetings, the chairman of the Audit Committee must be available to answer questions about the Audit Committee's rules of procedure and activities.

3.6.2 The Audit Committee must also monitor any other matters relating to the duties referred to in clauses 3.1 to 5 that it deems necessary, in its discretion, and perform any other duties that the Board of Directors delegates to it.

4. MEETINGS

4.1 Meetings of the Audit Committee will be held as often as the chairman deems necessary and if requested by a member of the Audit Committee, the Chief Financial Officer or by the Company's external auditor, subject to a minimum of four meetings per year.

4.2 Meetings of the Audit Committee will be convened by the chairman of the Audit Committee. In the chairman's absence, meetings will be convened by an independent member of the Audit Committee.

4.3 Before the beginning of every financial year, the Audit Committee must prepare a meeting schedule for the next financial year.

4.4 The Chief Financial Officer and the external auditors will attend meetings of the Audit Committee, except where the chairman of the Audit Committee specifically requests otherwise and subject to clause 4.6.

4.5 If so requested by the Audit Committee, meetings of the Audit Committee will be attended by the Company's external auditor and Chief Executive Officer.

4.6 There must be at least one meeting per year attended by the external auditor without the attendance of the Chief Executive Officer or the Chief Financial Officer.

4.7 Copies of all meeting agendas must be sent to the Board of Directors for information.

4.8 The chairman of the Audit Committee presides over the Audit Committee's meetings.

4.9 The Audit Committee constitutes a quorum when more than half of its members are present.

4.10 The Audit Committee has no independent decision-making power. The Audit Committee only passes resolutions where recommendations are to be made to the Board of Directors. All resolutions by the Audit Committee must be passed by a simple majority of votes.

5. AUTHORITY

5.1 The Board of Directors authorises the Audit Committee to:

- i. investigate and assess all matters that fall within the guidelines set out in these rules of procedure;
- ii. obtain all necessary information from the members of the Executive Management and employees;
- iii. obtain information from the Company's external auditor elected by the general meeting; and
- iv. obtain the advice, guidance and assistance from external advisers that the Audit Committee deems to be necessary or appropriate for performing its duties.

6. RESSOURCES AND BUDGET

6.1 The Company must make available to the Audit Committee the resources required for the performance of the Committee's duties, including outside legal, accounting and other professional advice and assistance.

7. REPORTING TO THE BOARD OF DIRECTORS

- 7.1 Minutes of all meetings of the Audit Committee must be prepared as soon as possible and no later than two weeks after the meeting.
- 7.2 The Audit Committee's reasoned recommendations to the Board of Directors must be set out in the minutes.
- 7.3 Minutes of the meetings of the Audit Committee must be shared with the Board of Directors. At the next meeting of the Board of Directors, the chairman of the Audit Committee reports from the most recent meeting in the committee, including on any recommendations to the Board of Directors as also set out in the minutes.
- 7.4 Meetings of the Board of Directors to consider the Audit Committee's recommendations must be organised to enable the chairman of the Audit Committee or an independent member of the Audit Committee appointed by the chairman to attend the meeting.
- 7.5 At least every six months, the Audit Committee must report its activities, etc. to the Board of Directors, including in connection with the Audit Committee's duties under clause 3 of these rules of procedure.

8. PUBLICATION OF INFORMATION ABOUT THE AUDIT COMMITTEE

- 8.1 The Company must publish the following information in its annual report and on its website:
- i. that the Company has established an Audit Committee;
 - ii. the names of the members of the Audit Committee;
 - iii. the name of the chairman of the Audit Committee;
 - iv. which members of the Audit Committee are independent members, see clause 2.5 of these rules of procedure; and
 - v. which members have knowledge about and experience in audit matters (see clause 2.6 of these rules of procedure).
- 8.2 The Audit Committee must ensure that the information about the Audit Committee as set out in the Company's annual report or on the Company's website is true and accurate.

9. REMUNERATION

- 9.1 The members of the Audit Committee shall receive remuneration for their work. The remuneration shall be determined by the General Meeting.

The Board of Directors shall review these Rules of Procedures annually taking into consideration any amendments suggested by the Audit Committee.

As adopted by the Board of Directors on 8 December 2020.

The Board of Directors:

Nigel Northridge

Dianne N. Blixt

Henrik Brandt

Marlene Forsell

Claus Gregersen

Lindy Larsen

Hanne Malling

Luc Missorten

Anders Obel

Mogens Olsen