Tax Policy for 2025

Updated in December 2024

Scandinavian Tobacco Group Tax Policy

Scandinavian Tobacco Group is a world leading manufacturer of cigars and traditional pipe tobacco with regional strong positions in the fine-cut tobacco category.

Due to the nature of our business, we have many transactions among the Scandinavian Tobacco Group business units in different countries. We are subject to various Danish and foreign taxes, including direct and indirect taxes imposed on our global activities, such as corporate income tax, withholding tax, customs duty, excise tax, value added tax and other taxes.

This policy sets forward the principles for our global tax management. The policy is owned by the SVP Corporate Finance, sponsored by the CFO, and annually approved by the Audit Committee and Board of Directors.

The Tax Policy relates to the financial year 2025 and specifically fulfills the duty of Scandinavian Tobacco Group United Kingdom Limited under Paragraph 19 (2), Schedule 19, Finance Act 2016.

Guiding principles

Our tax policy is built on the following guiding principles:

Responsible tax:

At STG we are committed to running our business in a way that contributes to the UN Sustainable Development Goals (SDG). Tax payments are important contributor in particular target 16.6 on the development of effective, accountable, and transparent institutions. We are committed to paying all applicable taxes in the countries in which we do business. In addition to paying corporate income tax, we also pay a significant amount of withholding taxes, excise duties, VAT and other taxes.

Responsibility is embedded in Scandinavian Tobacco Group's core values and how we do business. Our tax policy is an integrated part of our focus on having a meaningful and recognizable impact in our business and the world around us. Our must-win battle and enhanced sustainability agenda **Rolling Responsibly** envelops our aspiration to craft a better tomorrow – by elevating our communities and anchoring climate action in our culture.

As part of our sustainable approach to tax, we are committed to managing taxes in a responsible way. In recognition of this, we for instance do not use artificial structures or tax havens to reduce our tax payments.

Our tax affairs must be legally compliant. We aim at complying not only with the letter but also with the spirit of the law.

When making decisions on tax, we will not take a position in our tax returns unless we feel comfortable that the position we take will be upheld in a court of law if challenged by a tax authority. Where laws allow for different interpretations, we engage local advisors to assist us in understanding our obligations to ensure that we are compliant with the intention of existing regulations.

Transparency

We are cooperative with the tax authorities in all the jurisdictions where we operate on a basis of transparency and respect.

As part of our sustainable approach to tax, our tax affairs must withstand the test of daylight. We do not speculate on detection risk. Through our Whistleblower Hotline we provide opportunities for employees to raise any issues of concern, with full confidentiality.

Controls

We have a continuous focus on identifying, monitoring, and mitigating tax risks – and keeping proper controls in place to ensure compliance. We aim at having critical transactions covered by an agreement with the tax authorities where possible.

Applying our guiding principles

Management of tax risks

The tax outcomes are taken into consideration in all important business decisions.

Implementation of tax policies and handling of daily tax matters is the responsibility of the Group CFO & the SVP Corporate Finance. Working closely together with HQ Tax team, local finance managers, our commercial teams as well as external advisors to ensure tax compliance and awareness of tax risks. Processes relating to different taxes are allocated to specialist functions to ensure that key risks are identified and monitored, and mitigating controls are in place.

Interpretation of tax legislation and case-law is complex and may change over time. Consequently, we have continuous focus on evaluating our processes and controls to ensure that we remain in compliance with the law and international tax standards. The key risks are monitored for changes in business and tax legislation, and processes and controls are updated accordingly.

We ensure that the internal governance processes are observed for measuring risks in the jurisdictions where we have business operations, including the United Kingdom.

Our attitude to tax planning

Scandinavian Tobacco Group seeks to reduce the tax risk arising from its operations. We structure our tax affairs based on sound commercial principles and in accordance with our tax policy and relevant tax legislations. We seek external advice where appropriate.

We use tax reliefs, allowances and incentives in the manner intended in the different jurisdictions where we operate, solely supporting business-driven activities.

As a global company, a fundamental prerequisite for running our operations across many countries and affiliates is to trade products and services across borders within the Scandinavian Tobacco Group affiliates. Such cross-border trading is subject to transfer pricing regulations.

Transfer pricing legislation has the purpose of ensuring a fair split of corporate tax revenue between jurisdictions by restricting multinational companies from artificially shifting profits between jurisdictions. Many countries have implemented standards developed by OECD in their domestic transfer pricing regulations. We follow the OECD principles on transfer-pricing and any local requirements if they deviate from the OECD standard.

We structure our tax transfer pricing in a way where the expected tax outcomes are consistent with economic reality.

We operate several so-called principal structures for transfer pricing purposes. A principal structure means that all legal entities, except for the principals, perform their functions on contract on behalf of the principals. As a result, entities contracted by the principals are allocated an operating profit according to a benchmarked net profit margin based on activity performed.

Relationship with tax authorities

It is our policy to be transparent and proactive in our dealings with the tax authorities in all jurisdictions where we operate. Where relevant, we arrange regular meetings and have regular communication with the tax authorities.

We are committed to transparency in all matters with the tax authorities. We realise that there will be areas where we have a different legal interpretation than the applicable tax authority or where the tax rules or regulations are unclear. Where this occurs in material matters, we will engage in proactive discussions with the tax authorities or ask for a tax ruling to settle such matters.

Any errors in our tax returns are fully disclosed to the tax authorities within a reasonable period after they have been identified.