



Scandinavian Tobacco Group A/S

**Statutory Report on Corporate Governance for the Financial Year 2017,
cf. section 107b of the Danish Financial Statement Act**

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This report forms part of the management's report in Scandinavian Tobacco Group's annual report for 2017 and covers the financial year 1 January 2017 - 31 December 2017. 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 2017.

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 six members elected by the General Meeting and four 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 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 2017.

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. The Audit Committee and the Remuneration Committee each elect 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 participates in meetings of the Audit Committee, and the Chief Executive Officer and the external auditor may participate in meetings of the Audit Committee if so requested by the Audit Committee. The Audit Committee has three members, all of them considered to be independent and having relevant financial expertise. In 2017, 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 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 three members. All members of the Nomination Committee are considered independent. In 2017, the Nomination Committee held four meetings.

The **Remuneration Committee** provides recommendations to the Board of Directors in regards 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 three members. All members of the Remuneration Committee are considered independent. In 2017, the Remuneration Committee held three meetings.

Executive Management

The **Executive Management** consists of the CEO and the CFO. The CEO is the chief spokesman of the Group in matters relating to the day-to-day operations. Members of the Executive Management are responsible for the day-to-day management of the business in accordance with the guidelines and directions given by the Board of Directors. The responsibilities of the Executive Management further include the preparation of the Company's overall strategy for approval of the Board of Directors, the implementation of strategies and policies and timely reporting and provision of information to the Board of Directors and the Company's shareholders.

B. Corporate Governance Recommendations

The Company is subject to the recommendations from the Danish Committee on Corporate Governance 2013 (revised by November 2014) which are available on the Committee's website: www.corporategovernance.dk.

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
1. Communication and interaction by the company with its investors and other stakeholders				
<i>1.1. Dialogue between company, shareholders and other stakeholders</i>				
1.1.1. The Committee recommends that the board of directors ensure ongoing dialogue between the company and its shareholders in order for the shareholders to gain relevant insight into the company's potential and policies, and in order for the board of directors to be aware of the shareholders' views, interests and opinions on the company	✓			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 road-shows after each financial statement. STG has an investor relations section on its website which includes share and investor

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				related information, company 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 shareholders.
1.1.2. The Committee recommends that the board of directors adopt policies on the company's relationship with its stakeholders, including shareholders and other investors, and that the board ensures that the interests of the shareholders 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 Relation Policy.</p> <p>The Investor Relations Policy is available on the Company's website.</p>

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1.1.3. The Committee recommends 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 recommends that when organizing 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 that they are able to 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</p>

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				attendance. Shareholders who cannot attend the general meeting have the possibility to access the meeting documents electronically.
1.2.2. The Committee recommends that proxies granted 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 recommends 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. According to such contingency procedures, 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 as described in the recommendations.
2. Tasks and responsibilities of the board of directors				
<i>2.1. Overall tasks and responsibilities</i>				
2.1.1. The Committee recommends that at least once a year the board of directors take a position on the matters related to the board's performance	✓			The Rules of Procedure for the Board of Directors contain a

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of its responsibilities.				description of the tasks that at least once every year must 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.
2.1.2. The Committee recommends that at least once a year the board of directors take a position on the overall strategy of the company with a view to ensuring value creation in the company.	✓			The Board of Directors determines at least once every year the Company's overall strategy.
2.1.3. The Committee recommends that the board of directors ensure that the company has a capital and share structure ensuring that the strategy and longterm value creation of the company are in the best interest of the shareholders and the company, and that the board of directors presents this in the management commentary on the company's annual report 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 recommends that the board of directors annually	✓			The Board of Directors has

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review and approve guidelines for the executive board; this includes establishing requirements for the executive board on timely, accurate and adequate reporting to the board of directors.				<p>adopted rules of procedure for the Executive Management, 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>
2.1.5. The Committee recommends that at least once a year the board of directors discuss the composition of the executive board, as well as developments, risks and succession plans.	✓			The Board of Directors annually discusses the composition of the Executive Management as well as developments, risks and succession plans.
2.1.6. The Committee recommends that once a year the board of directors discuss the company's activities to ensure relevant diversity at management levels, including setting specific goals and accounting for its objectives and progress made in achieving the objectives in the management commentary	✓			The Board of Directors annually discusses the Company's activities to ensure diversity at management levels, including setting goals to ensure equal

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on the company's annual report and/or on the website of the company.				opportunities for both genders, and in the management report in the Company's annual report gives an account on both the objectives and the progress made in achieving these objectives.
<i>2.2. Corporate social responsibility</i>				
2.2.1. The Committee recommends that the board of directors adopt policies on corporate social responsibility.	✓			The Board of Directors has adopted policies on corporate social responsibility in the Company's Code of Conduct. 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 recommends 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

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				for the chairman.
<p>2.3.2. The Committee recommends ensuring that, if the board of directors, in exceptional cases, asks the chairman of the board of directors to perform special operating activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect be passed to ensure that the board of directors maintains its independent, overall management and control function. Resolutions on the chairman's participation in day-to-day management and the expected duration hereof should be published in a company announcement.</p>	✓			<p>STG has set up rules for the case that the chairman performs special operating activities for the Company as described in the recommendations.</p> <p>In 2017, the chairman of the Board of Directors did not perform any special operating activities for STG.</p>
<p>3. Composition and organization of the board of directors</p>				
<p><i>3.1. Composition</i></p>				
<p>3.1.1. The Committee recommends that the board of directors annually accounts for</p> <ul style="list-style-type: none"> • the skills it must have to best perform its tasks, • the composition of the board of directors, and • the special skills of each member. 	✓			<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 has carried out an assessment of the skills of its members, both individually and collectively.</p>

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				The composition of the Board of Directors is reviewed by the Board annually. The composition of the Board of Directors, the special skills of each member and whether the members of the Board of Directors are considered to be independent are disclosed in STG's annual report.
3.1.2. The Committee recommends that the selection and nomination of candidates for the board of directors be carried out through a thoroughly transparent process approved by the overall board of directors. When assessing its composition and nominating new candidates, the board of directors must take into consideration the need for integration of new talent and diversity in relation to age, international experience and gender.	✓			When assessing its composition and nominating new candidates, the Board of Directors takes into consideration the need for integration of new talent and the need for diversity in relation to international experience, gender and age. The Board of Directors has established a Nomination Committee which is responsible for ensuring that the composition of the Board

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				<p>of 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>3.1.3. The Committee recommends that the notice convening the general meeting when election of members of the board is on the agenda be accompanied by a description of the nominated candidates' qualifications, including information about the candidates'</p> <ul style="list-style-type: none"> • other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises, be accompanied by the notice convening the general meeting when election of members to the board of directors is on the agenda • demanding organizational tasks, and information • about whether candidates to the board of directors are considered independent. 	✓			<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>3.1.4. The Committee recommends that the company's articles of</p>	✓			<p>STG's Articles of Association</p>

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association stipulate a retirement age for members of the board of directors.				provide that only persons that as of the date of the general meeting are younger than 70 years can be elected to the Board of Directors.
3.1.5. The Committee recommends 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 recommends 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. To be considered independent, this person may not:</p> <ul style="list-style-type: none"> • be or within the past five years have been member of the executive board, or senior staff member in the company, a subsidiary undertaking or an associate, • within the past five years, have received larger emoluments from the company/group, a subsidiary undertaking or an associate in another capacity than as member of the board of directors, • represent the interests of a controlling shareholder, • within the past year, have had significant business relations (e.g. personal 	✓			All shareholder-elected members of the Board of Directors are considered independent. Information about the individual member's independence is disclosed in STG's annual report and on the Company's website.

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<p>or indirectly as partner or employee, shareholder, customer, supplier or member of the executive management in companies with corresponding connection) with the company, a subsidiary undertaking or an associate.</p> <ul style="list-style-type: none"> • be or within the past three years have been employed or partner at the external auditor, • have been chief executive in a company holding cross-memberships with the company, • have been member of the board of directors for more than 12 years, or • have been close relatives with persons who are not considered independent. 				
<p>3.3. <i>Members of the board of directors and the number of other executive functions</i></p>				
<p>3.3.1. The Committee recommends that each member of the board of directors assesses the expected time commitment for each function in order that the member does not take on more functions than he/she can manage satisfactorily for the company.</p>	✓			<p>Before their nomination the members of 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</p>

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				more functions than they can perform their duty as a board member of STG in a manner that is satisfactory for the Company.
<p>3.3.2. The Committee recommends 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"> • the position of the relevant person, • the age and gender of the relevant person, • whether the member is considered independent, • the date of appointment to the board of directors of the member, • expiry of the current election period, • other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises and • demanding organizational tasks, and • the number of shares, options, warrants and similar in the company, and other group companies of the company, owned by the member, as well as changes in the portfolio of the member of the securities mentioned which have occurred during the financial year. 	✓			STG's annual report contains the information described in the recommendations including an information on each Board member's executive functions and demanding organizational tasks with other Danish and foreign entities.
3.4. Board committees				

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<p>3.4.1. The Committee recommends that the company publish the following on the company's website:</p> <ul style="list-style-type: none"> the terms of reference of the board committees the most important activities of the committees during the year, and the number of meetings held by each committee, and the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special qualifications. 	✓			<p>The terms of reference for the Audit Committee, the Nomination Committee and the Remuneration Committee 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 2017 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>
<p>3.4.2. The Committee recommends that a majority of the members of a board committee be independent.</p>	✓			<p>All members of the three Board committees are independent.</p>
<p>3.4.3. The Committee recommends that the board of directors set up a formal <u>audit committee</u> composed such that</p> <ul style="list-style-type: none"> the chairman of the board of directors is not chairman of the audit 	✓			<p>The Board of Directors has established an Audit Committee. The Chairman of the Board is not the Chairman</p>

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<p>committee, and</p> <ul style="list-style-type: none"> between them, the members should possess such expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit aspects of companies whose shares are admitted to trading on a regulated market. 				<p>of the Audit Committee.</p> <p>The members of the Audit Committee possess the necessary expertise and experience to meet the requirements set out in the recommendations.</p>
<p>3.4.4. The Committee recommends that, prior to the approval of the annual report and other financial reports, the audit committee monitors and reports to the board of directors about:</p> <ul style="list-style-type: none"> significant accounting policies, significant accounting estimates, related party transactions, and uncertainties and risks, including in relation to the outlook for the current year. 	✓			<p>The duties of the Audit Committee are laid down in the committee's terms of reference. The Audit Committee monitors and reports to the Board of Directors about important accounting principles and policies, important accounting estimates including estimated valuations, 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 recommends that the audit committee:</p>	✓			<p>The Audit Committee annually</p>

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<ul style="list-style-type: none"> annually assesses the need for an internal audit, and in such case, makes recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function. 				<p>assesses the need for establishing an internal audit function.</p> <p>Based on the results of this assessment the Audit Committee at present does not see the need to establish an internal audit function considering the size of the Company and the expected business risk.</p>
<p>3.4.6. The Committee recommends that the board of directors establish a nomination committee chaired by the chairman of the board of directors with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> describe the qualifications required by the board of directors and the executive board, and for a specific membership, state the time expected to be spent on having to carry out the membership, as well as assess the competences, knowledge and experience of the two governing bodies combined, annually assess the structure, size, composition and results of the board of directors and the executive board, as well as recommend any changes to the board of directors, annually assess the competences, knowledge and experience of the individual members of management, and report to the board of directors 	✓			<p>The Board of Directors has established a Nomination Committee, chaired by the Chairman of the Board. The tasks of the Nomination Committee set out in the Committee's terms of reference are in accordance with the recommendations.</p>

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<p>in this respect,</p> <ul style="list-style-type: none"> consider proposals from relevant persons, including shareholders and members of the board of directors and the executive board for candidates for the board of directors and the executive board, and propose an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes. 				
<p>3.4.7. The Committee recommends that the board of directors establish a remuneration committee with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> to recommend 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, make proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensure 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 about the total amount of remuneration that members of the board of directors and the executive board receive from other companies in the group, and recommend a remuneration policy applicable for the company in general. 	✓			The Board of Directors has established a Remuneration Committee. The tasks of the Remuneration Committee set out in the Committee's terms of reference are in accordance with the recommendations.
<p>3.4.8. The Committee recommends that the remuneration committee do not consult with the same external advisers as the executive board of the</p>	✓			The Remuneration Committee does not consult with the same

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company.				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 recommends that the board of directors establish an evaluation procedure where contributions and results of the board of directors and the individual members, as well as collaboration with the executive board are annually evaluated. Significant changes deriving from the evaluation should be included in the management commentary or on the company's website.	✓			<p>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.</p> <p>Any significant changes resulting from the evaluation will be disclosed on the Company's website or in the Annual Report.</p>
3.5.2. The Committee recommends that in connection with preparation of the general meeting, the board of directors consider whether the number of members is appropriate in relation to the requirements of the company. This should help ensure a constructive debate and an effective decision-making process in which all members are given the opportunity to participate actively.	✓			The Board of Directors considers on a regular basis in connection with the preparation of the annual general meeting whether the number of directors is appropriate in relation to the

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				requirements of the Company.
3.5.3. The Committee recommends that at least once every year the board of directors evaluate the work and performance of the executive board in accordance with predefined clear criteria.	✓			The Board of Directors evaluates on a regular basis the work and the performance of the Executive Management and the individual members thereof in accordance with predefined criteria.
3.5.4. The Committee recommends that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a formalized 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.	✓			The Board of Directors and the Executive Management have established a procedure according to which their cooperation is evaluated annually through a formalized dialogue between the chairman of the Board of Directors and the Executive Management. The outcome of the evaluation is presented to the Nomination Committee and the Board of Directors. The results of the assessment and any action to be taken are discussed with the CEO.

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4. Remuneration of management				
<i>4.1. Form and content of the remuneration policy</i>				
<p>4.1.1. The Committee recommends that the board of directors prepare a clear and transparent remuneration policy for the board of directors and the executive board, including</p> <ul style="list-style-type: none"> • a detailed description of the components of the remuneration for members of the board of directors and the executive board, • the reasons for choosing the individual components of the remuneration, and • a description of the criteria on which the balance between the individual components of the remuneration is based. <p>The remuneration policy should be approved by the general meeting and 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.</p>
<p>4.1.2. The Committee recommends that, if the remuneration policy includes variable components,</p> <ul style="list-style-type: none"> • limits be set on the variable components of the total remuneration package, • a reasonable and balanced linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long terms, • there be clarity about performance criteria and measurability for award of 	✓			<p>The criteria for variable components described in STG's remuneration policy comply with the recommendations. STG's remuneration policy contains a limit for performance-based remuneration which is set at</p>

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variable components, <ul style="list-style-type: none"> • there be criteria ensuring that qualifying periods for variable components in remuneration agreements are longer than one calendar year, and • an agreement is made which, in exceptional cases, entitles the company to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proved to be misstated. 				maximum 80% of the fixed annual salary of the member of the Executive Management and is dependent on specific performance criteria measured over a period of three years.
4.1.3. The Committee recommends that remuneration of members of the board of directors does not include share options.	✓			The remuneration of the members of the Board of Directors does not include share options.
4.1.4. The Committee recommends that if share-based remuneration is provided, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should have a maturity of at least three years from the date of allocation.	✓			The Board of Directors has approved a share-based incentive programme for the members of the Executive Management, following the trading price of the shares with a three-year performance period.
4.1.5. The Committee recommends that agreements on termination payments should not amount to more than two years' annual remuneration.	✓			Pursuant to the remuneration policy termination payments for members of the Executive Management shall not exceed an amount corresponding to

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				24 months remuneration.
<i>4.2. Disclosure of the remuneration policy</i>				
4.2.1. The Committee recommends 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 STG's annual general meeting 2017.
4.2.2. The Committee recommends that the proposed remuneration for the board of directors for the current financial year be approved by the shareholders at the general meeting.	✓			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 recommends that the total remuneration granted to each member of the board of directors and the executive board by the company and other companies in the group, including information on the most important contents of retention and retirement/resignation schemes, be disclosed in the annual report and that the linkage with the remuneration policy be explained.	✓			The total remuneration paid to each member of the Board of Directors and the Executive Management is disclosed in STG's annual report and linked to the Company's remuneration policy.

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
5. Financial reporting, risk management and audits				
<i>5.1. Identification of risks and transparency about other relevant information</i>				
5.1.1. The Committee recommends that the board of directors in the management commentary review and 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.	✓			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.
<i>5.2. Whistleblower scheme</i>				
5.2.1. The Committee recommends that the board of directors decide whether to establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.	✓			STG has established a group-wide whistleblower scheme, enabling group employees to report possible or suspected wrongdoings via a confidential channel. The Audit Committee has the overall responsibility for the whistleblower scheme and for reviewing the

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
				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 recommends that the board of directors ensure regular dialogue and exchange of information between the auditor and the board of directors, including that the board of directors and the audit committee at least once a year meet with the auditor 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 recommends that the audit agreement and auditors' fee be agreed between the board of directors and the auditor on the basis of a recommendation from the audit committee.	✓			The audit agreement and auditor's fee is agreed between the Board of Directors and the auditor on the basis of the proposals 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, Guidelines for Internal Control, 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, inventories and pension obligations.

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 any 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 that the accounting and internal control compliance is established, as well as set up procedures that aim to ensure a consistent and structured approach to internal controls within the Group's subsidiaries, including ensuring that internal policies, guidelines, etc. always are available 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 Executive Management and those who have ownership of the processes and includes monthly reviews of financial results compared with budgets and plans.