



SCANDINAVIAN TOBACCO GROUP

Company Announcement 4/2020

Copenhagen, 2 March 2020

NOTICE CONVENING THE ANNUAL GENERAL MEETING OF SCANDINAVIAN TOBACCO GROUP A/S

In accordance with Article 7 of the Articles of Association, notice is hereby given of the annual general meeting of Scandinavian Tobacco Group A/S (the "Company") to be held on

Thursday 26 March 2020 at 4.30 p.m.
at IDA Conference, Kalvebod Brygge 31-33, DK-1780 Copenhagen V

Agenda

In accordance with Article 8.2 of the Articles of Association, the agenda of the meeting is as follows:

1. Report of the Board of Directors on the Company's activities during the past financial year
2. Adoption of the audited annual report

The audited annual report is available on www.st-group.com.

3. Appropriation of profit or loss as recorded in the adopted annual report

The Board of Directors proposes to the general meeting that the Company pays for the financial year 2019 a dividend of DKK 6.10 per share of DKK 1.

4. Adoption of the remuneration of the Board of Directors and Board committees

The Board of Directors proposes that the remuneration of the Board of Directors for the financial year 2020 be as follows:

- *Ordinary members of the Board of Directors shall be paid a base annual fee of DKK 400,000*
- *The chairman shall receive three times the base annual fee*
- *The vice-chairman shall receive two times the base annual fee*
- *The chairman of the Audit Committee shall receive a fee corresponding to 75 percent of the base annual fee*
- *Other members of the Audit Committee shall receive a fee corresponding to 37.5 percent of the base annual fee*

- *The chairman of each of the Remuneration Committee and Nomination Committee shall receive a fee corresponding to 25 percent of the base annual fee*
- *The members of each of the Remuneration Committee and Nomination Committee shall receive a fee corresponding to 12.5 percent of the base annual fee*

The fees for the chairmen and members of the committees are in addition to their fee as chairman, vice-chairman or member of the Board of Directors. In addition to the above, the Company may also pay social contributions and similar fees that it may be charged by foreign authorities in relation to the fees paid to members of the Board of Directors. Further, the Company may pay travel expenses and other expenses related to the work as a member of the Board of Directors.

5. Election of members to the Board of Directors

Pursuant to Article 11.1 of the Articles of Association, all members of the Board of Directors elected by the general meeting are elected for one year at a time.

The Board of Directors proposes re-election of the all of the Board members:

Nigel Northridge (Chairman), Henrik Brandt (Vice-chairman), Dianne Neal Blixt, Luc Missorten, Anders Obel, Marlene Forsell and Claus Gregersen.

Information about the nominated candidates is enclosed and is also available at the Company's website (www.st-group.com).

6. Election of auditor(s)

Pursuant to Article 16.1 of the Articles of Association, the auditor elected by the general meeting is up for election. The Board of Directors proposes to re-elect PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab in accordance with the Audit Committee's recommendation. The Audit Committee has not been influenced by any third party and no clause of a contract entered into with a third party has been imposed upon it, which restricts the general meeting's choice of certain auditors or audit firms.

7. Any proposals by the Board of Directors and/or shareholders

The Board of Directors has not received any proposals from the shareholders. The Board of Directors has submitted the following proposals:

7A. Extension of authorisations to the Board of Directors to increase the Company's share capital without pre-emptive subscription rights for the existing shareholders

The Board of Directors proposes that the existing authorisations to increase the Company's share capital without pre-emptive rights for existing shareholders set out in Articles 5.1-5.2 of the Company's Articles of Association, which expire 31 December 2020, be extended for a period of 5 years, i.e. until 26 March 2025. Except for the period, there are no other changes to the articles.

The revised wording of the proposed authorisations in Articles 5.1-5.2 shall be as follows:

“5.1 *In the period until 26 March 2025, the board of directors is authorised on one or more occasions to increase the share capital by cash contribution; contribution in kind; and/or conversion of debt by issuance of new shares of no more than nominally DKK 10,000,000. The subscription is to be made at market price.*

The new shares shall be negotiable instruments and shall be issued in the names of the holders and recorded in the names of the holders in the company's register of shareholders. The negotiability of the new shares shall not be subject to restrictions. The pre-emption rights of the existing shareholders shall not apply to the new shares. The new shares shall carry the same rights as the company's existing shares.

5.2 *In the period until 26 March 2025, the board of directors is authorised on one or more occasions to increase the share capital by cash contribution by issuance of new shares of no more than nominally DKK 1,000,000 in connection with subscription of shares by the company's or its subsidiaries' officers or employees at a subscription price below market price.*

The new shares shall be negotiable instruments and shall be issued in the names of the holders and recorded in the names of the holders in the company's register of shareholders. The negotiability of the new shares shall not be subject to restrictions. The pre-emption rights of the existing shareholders shall not apply to the new shares. The new shares shall carry the same rights as the company's existing shares.”

7B. *Extension of authorisation to the Board of Directors for the Company to acquire own shares*

The Board of Directors proposes that the existing authorisation for the Company to acquire own shares set out in Article 6.1 of the Company's Articles of Association, which expire 31 December 2020, be extended for a period of 5 years, i.e. until 26 March 2025. Except for the period, there are no other changes to the article.

The revised wording of the proposed authorisation in Article 6.1 shall be as follows:

“6.1 *In the period until 26 March 2025, the board of directors is authorised to allow the company to acquire its own shares of a maximum amount of nominally DKK 10,000,000 at a price deviating by no more than 10% from the listed price at the time of the acquisition.*”

7C. *Amendment of agenda set out in the Articles of Association*

The Board of Directors proposes that new item 3 is added to the agenda set out in Article 8.2 of the Company's Articles of Association due to the introduction of a new section 139b in the Danish Companies Act concerning remuneration reports. Except for new item 3, there are no other changes to the article.

The revised wording of the proposed agenda in Article 8.2 shall be as follows:

“The agenda of the annual general meeting shall include the following items:

1. The report of the board of directors on the company's activities during the past financial year.
2. Adoption of the audited annual report.
3. Presentation of and indicative voting on the remuneration report.
4. Adoption of the remuneration for the board of directors and any board committees.
5. Appropriation of profit or loss as recorded in the adopted annual report.
6. Election of directors.
7. Election of auditor(s).
8. Any proposal by the board of directors and/or shareholders."

7D. Approval of the revised remuneration policy

The Board of Directors proposes that the general meeting approves a revised remuneration policy. The revised remuneration policy applies to the Company's Board of Directors and Executive Management and has been prepared in accordance with sections 139 and 139a of the Danish Companies Act and the most recent Recommendations on Corporate Governance issued by the Danish Committee on Corporate Governance.

The remuneration policy replaces the Company's current remuneration policy adopted at the general meeting held on 15 January 2016.

If approved, the revised remuneration policy will apply to agreements on remuneration and incentive pay entered into in the financial year 2020 and subsequent financial years.

The full wording of the revised remuneration policy for the Company is attached as Annex 1 to this notice of meeting.

If the revised remuneration policy is approved, the reference to the current guidelines for incentive pay in Article 13.1 of the Company's Articles of Association will be deleted.

VOTING REQUIREMENTS

Adoption by the general meeting of the proposals in items 7A, 7B and 7C on the agenda requires adoption by at least 2/3 of both the votes cast and the share capital represented at the general meeting. The other proposals on the agenda may be adopted by a simple majority of votes, see Article 10.2 of the Articles of Association.

REGISTRATION, ADMISSION AND PROXY

Registration date

In accordance with Article 9.4 of the Articles of Association, a shareholder's right to participate in the general meeting and the number of votes, which the shareholder is entitled to cast, is determined in accordance with the number of shares held by such shareholder on 19 March 2020 at 11.59 pm (*the registration date*). The shares held by each shareholder are determined at the registration date on the basis of the shareholdings registered in the share register and in accordance with any notices on shareholding received, but not yet registered, by the Company in the share register as of the registration date.

Deadline for notice of attendance

A shareholder or its proxy wishing to attend the general meeting must give notice thereof and order admission cards on the Investor Portal at the Company's website, www.st-group.com, or by printing the admission card order form found on the website and submitting it to Computershare A/S, Lottenborgvej 26D, 2800 Kongens Lyngby, e-mail gf@computershare.dk, so that it is received by Computershare no later than 20 March 2020 11.59 pm.

Admission card

Admission cards will be issued electronically only. Thus, admission cards will not be distributed by ordinary mail. Please register the email address, to which the electronic admission card should be sent, on the Investor Portal at the Company's website, www.st-group.com, when you request the admission card.

Shareholders who have ordered admission cards for the general meeting have the following options:

- print the admission card and bring it to the general meeting, or
- bring the admission card on a smartphone or tablet, or
- collect the admission card at the general meeting upon presentation of proper ID.

Proxy and postal votes

If you are prevented from attending the general meeting, you may appoint a proxy to cast the votes carried by your shares. The proxy can be submitted directly via the Investor Portal on the Company's website, www.st-group.com, or by printing the proxy form at the website and submitting it, duly signed and dated, to Computershare A/S, Lottenborgvej 26D, 2800 Kongens Lyngby, e-mail gf@computershare.dk. The proxy must be submitted so that it is received by Computershare no later than 20 March 2020 at 11.59 pm.

Shareholders may also vote by post directly on the Investor Portal on the Company's website, www.st-group.com, no later than 25 March 2020 at 11.59 pm. Alternatively, shareholders can submit the printed, signed and dated postal vote form found at the website to Computershare A/S, Lottenborgvej 26D, 2800 Kongens Lyngby, e-mail gf@computershare.dk. Vote by post must be received by Computershare A/S no later than 25 March 2020 at 11.59 pm. Once a vote by post has been received, the vote cannot be revoked by the shareholder.

LANGUAGE

In accordance with Article 9.7 of the Articles of Association the general meeting will be conducted in English. Shareholders may choose to speak in Danish or English.

SHARE CAPITAL AND VOTING RIGHTS

The Company's share capital is DKK 100,000,000, divided into 100,000,000 shares of DKK 1 each. Article 9.1 of the Articles of Association stipulates that each share of nominally DKK 1 shall carry one vote at the general meeting.

AGENDA ETC.

The complete, unabridged text of the documents to be submitted to the general meeting, including the total number of shares and voting rights as at the date of the notice, the agenda with the full text of all proposals to be submitted to the general meeting, the forms to be used for voting by proxy and by post, as well as the audited annual report and the proposed remuneration policy are available at the Company's website, www.st-group.com.

RIGHT TO INQUIRE

According to Article 9.6 of the Articles of Association, the shareholders have the right to ask questions in writing to the Company's management about matters of significance to the assessment of the annual report and the general position of the Company or the assessment of any matter to be resolved at the general meeting. Shareholders may also ask questions to the management of the Company at the general meeting.

PERSONAL DATA

In connection with the general meeting, the Company collects, processes and retains certain personal data. In this respect reference is made to the Company's Privacy Policy and Cookie Policy, which are available on the Company's website (www.st-group.com).

Scandinavian Tobacco Group A/S

The Board of Directors

For further information, please contact:

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CANDIDATES FOR THE BOARD OF DIRECTORS

Nigel Northridge (Chairman)

Independent

Born in 1956

Nationality: Irish

Joined the board in 2016 and was elected Vice-Chairman in 2016 and Chairman in 2017. Chairman of the Remuneration Committee and the Nomination Committee.

Educational background:

- HND in Business Studies from Northern Ireland Polytechnic, Sullivan Upper School, Belfast

Competencies:

- Long professional experience as an executive director in the international tobacco industry
- Experience as executive and non-executive director in managing publicly listed companies
- Sales and marketing of fast-moving consumer goods

Selected former employment positions:

- CEO of Gallaher Group PLC 2000-2007
- Held a number of sales, marketing and then general management positions within the group of Gallaher Tobacco Ltd. (subsequently Gallaher Group PLC) in the UK and overseas, before being appointed to the board of directors in 1993, a position held 1993-2000

Directorships and other offices:

- Non-Executive Chairman of Belfast City Airport and director of Board of London Irish Holdings Ltd.

Henrik Brandt (Vice-chairman)

Independent

Born in 1955

Nationality: Danish

Joined the board in 2017 and was elected Vice-chairman in 2017. Member of Remuneration Committee and Nomination Committee.

Educational background:

- MBA from Stanford University
- Master of Science (Econ), Copenhagen Business School

Competencies:

- Extensive executive and non-executive experience in leading international, publicly listed, private, and private equity businesses
- Sales and marketing of fast-moving consumer goods
- Strategic business development

Selected former positions:

- President and CEO Royal Unibrew A/S 2008-2017
- President and CEO of Unomedical a/s 2003-2008
- President and CEO of Sophus Berendsen A/S 1999-2002
- CEO of House of Prince A/S and Group Executive of Skandinavisk Tobakskompagni A/S 1992-1999
- President and CEO of Fritz Hansen A/S 1989-1992
- President and CEO of Kevi A/S 1987-1989

Directorships and other offices:

- Chairman of the board of Toms Gruppen A/S, Rockwool International A/S, Fritz Hansen A/S, Intervare A/S (and its subsidiary nemlig.com A/S) and Danish Bake Holding ApS (Ole & Steen)
- Member of the board of Ferd Holding as, Gerda & Victor B. Strands Foundation and Gerda & Victor B. Strand Holding A/S

Dianne Neal Blixt

Independent

Born in 1959

Nationality: American

Joined the board in 2016. Member of the Audit Committee

Educational background:

- Master's degree in Business Administration and Finance from University of North Carolina at Greensboro

Competencies:

- Significant experience in business analysis
- Financial management and reporting expertise
- Considerable insight into the US tobacco industry

Selected former positions:

- Member of the board of directors of Lorillard, Inc. 2011-2015
- Executive Vice President and Chief Financial Officer of Reynolds American, Inc., 2004-2007
- Various positions in Reynolds American and its subsidiaries 1988-2003
- Executive Vice President and Chief Financial Officer of R. J. Reynolds Tobacco Holdings, Inc. 2003-2004

Directorships and other offices:

- Chairperson of the board of the National Sports Media Association
- Member of the board of directors of Ameriprise Financial Services, Inc. and director on the board for the non-profit entity Reynolda House Museum of American Art

Luc Missorten

Independent

Born in 1955

Nationality: Belgian

Joined the board in 2016. Member of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Educational background:

- Law degree from the Catholic University of Leuven
- Certificate of Advanced European Studies from the College of Europe, Bruges
- Master of Laws from the University of California, Berkeley

Competencies:

- Executive and non-executive general management experience
- Substantial experience in financial management of international corporations

Selected former positions:

- CEO of Corelio NV 2007-2014
- Group CFO and Executive Vice President for Finance at UCB S.A. 2004-2007
- Executive Vice President and CFO at Inbev S.A. (now ABI) 1995-2003

Directorships and other offices:

- Chairman of the board of Ontex Group NV.
- Member of the board of Barco NV, Recitel NV/SA, GIMV NV and Mateco Sarl

Anders Obel

Independent

Born in 1960

Nationality: Danish

Joined the Board in 2018

Educational background:

- BSc in Economics and Business Administration from Copenhagen Business School

Competencies:

- Extensive experience in management of industrial and investment companies
- Strategic business development
- Economic and financial expertise

Selected former positions:

- Member of the board of directors of Forenet Kredit f.m.b.a., Nykredit Holding A/S and Nykredit Realkredit 2009-2017
- Member of the board of directors of Scandinavian Tobacco Group A/S 2010-2016
- Vice President at Gemini Consulting/Cap Gemini 1996-2002
- Various positions, including Manager, at Hambros Bank Plc., 1985-1996

Directorships and other offices:

- CEO at C.W. Obel A/S
- Chairman of the board of C.W. Obel Bolig A/S, C.W. Obel Ejendomme A/S, Obel-LFI Ejendomme A/S, Semco Maritime A/S, Semco Maritime Holding A/S, Goodvalley A/S, Anders Christen Obel ApS and Haxholm v/Anders Christen Obel
- Vice Chairman of the board of Fritz Hansen A/S and Skandinavisk Holding A/S
- Member of the board of Scandinavian Tobacco Group's Gavefond, Erhvervsinvest Management A/S, Mink-papir A/S, PAL-CUT A/S, C.W. Obels Fond, Danmark-Amerika Fondet, Fonden Det Obelske Jubilæumskollegium, Mullerupgaard- og Gl. Estrupfonden, Høvdingsgaard Fonden, Skjørringefonden, Woodmancott Fonden, Kilsmark A/S and Rexholm A/S

Marlene Forsell

Independent

Born in 1976

Nationality: Swedish

Joined the board in 2019. Chairman of the Audit Committee.

Educational background:

- Master of Science degree in Business Administration and Economics from Stockholm School of Economics

Competencies:

- Extensive experience with and insight into financial matters
- Enterprise performance management
- Reporting processes in listed companies
- Considerable insight into the tobacco industry

Selected former positions:

- Senior Vice President and CFO of Swedish Match AB 2013-2018
- Member of the board of Scandinavian Tobacco Group A/S 2014-2017
- Various positions in the Swedish Match group, including Vice President Group Reporting and Vice President Business Control 2004-2013
- Analyst Ernst & Young 2001-2004

Directorships and other offices:

- Member of the board of Kambi Group plc, Lime Technologies AB and Nobia AB

Claus Gregersen

Not independent

Born in 1961

Nationality: Danish

Joined the board in 2019. Member of the Remuneration Committee and the Nomination Committee.

Educational background:

- Bachelor of Commerce degree (HD) in Business Finance from Copenhagen Business School

Competencies:

- Board experience from international, private and public enterprises
- Management experience from Danish and international enterprises
- Extensive experience with M&A, capital markets, strategic development, risk management and operations

Selected former positions:

- CEO and Country Manager at Carnegie Investment Bank 2010-2017
- Partner, Select Partners, Asset Management 2005-2010

Directorships and other offices:

- CEO of Chr. Augustinus Fabrikker Aktieselskab
- Chairman of the board of Vækstfonden, Skandinavisk Holding A/S, Skodsborg Sundhedscenter A/S, Kurhotel Skodsborg A/S, Rungsted Sundpark A/S and Skodsborg Sundpark A/S
- Vice-Chairman of the board of Jeudan A/S
- Member of the board of Gyldendal A/S, Fritz Hansen A/S, Tivoli A/S, Axcel Future, Scandinavian Tobacco Group's Gavefond and Søren Gyldendal Fonden
- Member of the management of CAF Invest A/S, Ejendomme af 1. januar 2012 ApS and CG61 ApS



SCANDINAVIAN TOBACCO GROUP

REMUNERATION POLICY

of **SCANDINAVIAN TOBACCO GROUP A/S**

Central Business Register (CVR) no. 31 08 01 85





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REMUNERATION POLICY

1. INTRODUCTION

The board of directors ("**Board of Directors**") of Scandinavian Tobacco Group A/S (the "**Company**") has developed this remuneration policy (the "**Remuneration Policy**") applicable to the Company's Board of Directors and Executive Management. It acts as a framework around which their contractual terms and compensation are set, reviewed and managed. For the purpose of this Remuneration Policy, "**Executive Management**" means the members of management of the Company registered with the Danish Business Authority (in Danish: *Erhvervsstyrelsen*).

The Remuneration Policy is prepared in accordance with sections 139 and 139a of the Danish Companies Act (in Danish: *Selskabsloven*) and the Recommendations on Corporate Governance issued by the Danish Committee on Corporate Governance (in Danish: *Komitéen for god Selskabsledelse*).

The Remuneration Policy replaces the Company's remuneration policy that was adopted by the General Meeting on 15 January 2016.

2. GENERAL PRINCIPLES

2.1 Overall objectives

The Company operates on a global scale in a highly competitive, niche industry sector – one which is undergoing rapid change through aspects such as new technology, regulation, societal attitudes and consumer behaviour. It is therefore critical that the Company can:

- attract and retain high calibre, experienced and qualified individuals to its Board of Directors and Executive Management
- incentivise Executive Management to deliver the Company's strategic ambitions, and do so in a way which creates sustained shareholder value
- reward Executive Management appropriately for achieving core short- and long-term business goals, and
- focus Executive Management on managing and growing the Company to ensure its continued sustainability, and in a way which aligns with shareholders' and stakeholders' interests.

This Remuneration Policy has been developed to enable the Company to achieve these objectives.

2.2 Alignment with strategy and shareholders' interests

The Board of Directors has designed the Remuneration Policy to align with the Company's strategy and suitably reflect shareholders' interests. It does this in several ways for the remuneration of the Executive Management:



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- a significant proportion of the total remuneration package is variable, ensuring reward is linked to business performance
- the variable pay package includes longer-term strategic goals, promoting emphasis on sustainable growth
- incentive plan metrics are taken from the business plans agreed by the Board of Directors, and they are targeted in such a way as to discourage excessive risk taking or other behaviours which would not be in the Company's or shareholders' interests
- shares are used in the long-term incentive plan to give executives a stake in the business and, through share price development and capital returns, aligns their interests with those of shareholders, which is further strengthened through the requirement of executives to hold shares at a specified salary percentage
- a clawback provision ensures that remuneration can be recouped under specific circumstances.

2.3 Governance and conflicts of interests

The remuneration of the Board of Directors and Executive Management is overseen by the Remuneration Committee (the “Committee”), which is a committee of the Board of Directors. It discharges its responsibilities to shareholders in accordance with its terms of reference, which are available on the Company's website www.st-group.com. In carrying out its duties and making proposals to the Board of Directors, the Remuneration Committee will take account of statutory requirements, prevailing corporate governance standards, best practice and the feedback from shareholders and other relevant third parties.

Measures are in place to avoid conflicts of interest from occurring. No member of the Executive Management will be present during a Committee meeting when his or her own personal remuneration is being discussed. External impartial third parties are used when appropriate. The Remuneration Committee and the Board of Directors use remuneration advisers that are not the same as those that are used by Executive Management concerning their own remuneration.

The Remuneration Policy and the remuneration of the Board of Directors are approved by shareholders at the General Meeting. The remuneration of the Executive Management is approved by the Board of Directors based on proposals from the Remuneration Committee and is disclosed in the Company's annual remuneration report.

2.4 Temporary exceptions

In order to safeguard the Company's interests, the Board of Directors may in individual extraordinary cases, and based on a recommendation of the Remuneration Committee, determine that it is appropriate to make a temporary exception to clause 4.5 (that PSUs are converted into shares) and clause 4.9, last sentence (the 100% maximum) .

Should making such an exception be necessary, the Board of Directors is obliged to explain the reasons behind the exception at the Company's next General Meeting and include a description thereof in the remuneration report presented at that General Meeting. The exceptions could be for reasons of unforeseen



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company or individual circumstances and would only be made if it is considered necessary and in the interests of shareholders.

3. THE BOARD OF DIRECTORS

3.1 Appointment term and notice period

Members of the Board of Directors are elected for one year at a time by the General Meeting. Employee-elected members of the Board of Directors are elected for a four-year term.

3.2 Fees

Members of the Board of Directors receive a fixed annual base fee, which is paid to them in cash. Ordinary Board members receive a fixed amount, while the Chairman and the Vice-chairman receive multiples thereof. To reflect the additional time commitment and responsibility of chairing or attending a Board committee, fixed annual fees are additionally paid to Board members who undertake such supplementary duties.

If the Board of Directors instructs a Board member to perform specific ad hoc tasks beyond the Board member's ordinary duties, or if there is a temporary increase in the time required to carry out their normal duties, such Board member may receive separate supplementary fixed remuneration in this regard. Such remuneration shall be subject to the prior or subsequent approval by the General Meeting and shall be reported in the Remuneration Report.

The Company does not provide any incentive-based remuneration nor retention or termination benefits, or retirement benefits for appointments to its Board of Directors. Employee-elected members of the Board of Directors may receive such remuneration and benefits in connection with their employment within the wider Company.

The Company may pay and cover social security charges and similar taxes imposed by foreign authorities in relation to Board members' fees.

3.3 Review process

The remuneration of the Board of Directors is assessed annually. The amounts and structure of their fees are benchmarked against other relevant international companies of similar size and complexity, taking into account the industry sector and the location of the Company's head office. The review process also takes into consideration prevailing governance practice, the roles' scope, time commitments and the expertise required of the Board members. Fee recommendations are referred to the Board of Directors. The final proposal is approved by the General Meeting for the current financial year.

3.4 Expenses

Expenses incurred by members of the Board of Directors in performing their duties, such as travel, subsistence and accommodation, will be reimbursed by the Company. Expenses relating to any training that Board members receive would also be reimbursed.

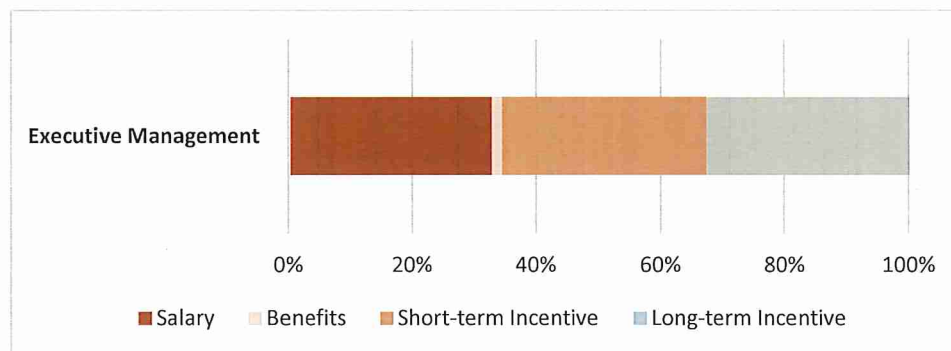


4. EXECUTIVE MANAGEMENT

4.1 Principal terms

The remuneration package consists of a fixed annual base salary, benefits, a short-term incentive and a long-term incentive; the relative proportions of these components are noted in the table below. The combination of these various components aims to create a balanced package – one which reflects the performance of both the Company and the individual executive, as well as the roles' respective scope. The remuneration components are each set at a level to be market competitive and, in the case of incentives, also competitive against different performance scenarios. The relative size of the various components of the remuneration package could vary, but the balance will remain weighted towards variable pay.

Table to show the configuration of the Executive Management's total remuneration package, at maximum



Notes to the table:

1. Benefits are noted in accordance with the broad limit specified in section 4.3 below.
2. Incentives reflect the overall maximum opportunities as specified in sections 4.4 and 4.5 below, excluding share price development and dividends, and assume that the plans' performance KPIs are achieved in full.

4.2 Annual base salary and pension

As is common in Denmark for executive positions, the base salary is usually inclusive of company-provided pension allowance, but alternatively the executive may be enrolled in a company pension scheme or receive a separate allowance.

Salaries are usually reviewed annually but it is at the discretion of the Board of Directors whether any increase is applied. Salaries may be adjusted outside of the normal review cycle in exceptional circumstances, for example, to reflect any material change in role, responsibility, person capability or company context such as a significant acquisition.

Salaries are set at a level to attract and retain individuals who have the necessary skills, experience, attributes and qualifications to successfully lead the business. When determining a salary or reviewing it, the



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Remuneration Committee will consider a number of dimensions including the role's scope, the individual's experience and expertise, the Company's operating conditions, Company performance, external economic indicators and relevant market benchmark assessments. Individual performance is also taken into account, as is information on the broader salary review budgets used elsewhere in the organisation. Market data will be carefully selected using industry peer groups and companies of a similar size, scale and complexity both inside and outside the Nordics. The impact of pay decisions on other elements of the remuneration package is additionally evaluated.

4.3 Benefits and expenses

In line with local market practice, members of the Executive Management may receive a range of employment benefits, including but not limited to paid annual leave, company car or transportation allowance, telephony, internet access, health and related insurances, training and education etc. as approved by the Board of Directors. Where relevant, members of the Executive Management may also receive relocation-related benefits, including relocation costs and allowances for housing or school tuition fees.

The value of the employment benefits represents only a small part of the total remuneration of the individual members of the Executive Management, typically no more than 5% of their annual base salary.

Expenses incurred by Executive Management related to business travel, conferences, education and similar are reimbursed in line with the Company's relevant policies.

4.4 Short-term incentive

The short-term incentive arrangement ("**Bonus Plan**") gives focus to the Company's annual priorities and is intended to contribute to the execution of strategy.

Bonus payments can be up to 100% of annual base salary.

The amount of bonus payable is based on performance against key performance indicators ("**KPIs**") which are targeted against the financial year in question. These KPIs are defined annually by the Board of Directors on the recommendation of the Remuneration Committee and can be both financial and non-financial in nature. In determining the performance criteria, the Board of Directors takes into consideration the strategic and operational business plans, in addition to the longer-term sustainability of the Company. The Remuneration Committee will evaluate not only performance against each KPI, but also how the KPIs have been achieved, referencing the Company's values, leadership principles and ethical standards.

Financial performance will typically focus on areas such as profit, cashflow, return on investment and elements of the balance sheet. Non-financial performance can be aligned to specific business objectives such as organisational transformation, or metrics connected to, for example, employee engagement, market share or ESG matters. The KPIs are generally targeted against the performance of the Company and the individual, but they could also relate to the performance of a business division or a specific event, such as an acquisition or disposal. The KPIs can form part of a performance scorecard which is cascaded through the Company to lower management levels. Financial performance will typically account for the larger proportion of the Bonus Plan in years when non-financial KPIs are used.

The KPIs will be targeted against a threshold, on-target and maximum level of performance. The specific targets are intended to promote achievement of the operating plan, with stretch targets aligned to out-



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performance. Awards arising from the Bonus Plan are paid out in cash after adoption of the annual report by the shareholders at the General Meeting.

If an executive joins the Company or is promoted to the Executive Management during the financial year, any bonus award that might be due would be calculated on a pro-rata basis for time served in the role.

4.5 Long-term incentive

The long-term incentive scheme links the reward of Executive Management with the performance of the organization on a long-term horizon, taking into consideration the Company's long-term sustainability. It is also designed to strengthen the executives' retention through the issue of rolling annual grants which are performance based. Shares in the Company are awarded, which aims to ensure a high degree of alignment of the Executive Managements' interests with those of shareholders.

Under the long-term incentive scheme, members of the Executive Management receive an annual grant of Performance Share Units ("PSUs"). The size of the Executive Management's PSU grant is based on a percentage of their current annual base salary divided by the market price of a share of the Company at the time of grant. No payment is due for the grant of a PSU award.

The value of PSUs granted to an executive at the time of the grant will not exceed 100% of the annual base salary then applicable, even assuming a maximum level of performance under the scheme.

If the Company distributes dividends to its shareholders during the performance period, members of the Executive Management will receive additional PSUs equivalent to the dividend that corresponds to the number of PSUs granted to the executive. This approach further aligns Executive Management's interests with that of the shareholders. With approval from the Board of Directors, the size of a PSU grant can be adjusted proportionately during the performance period to reflect changes in the Company's capital structure.

The vesting of shares under the PSUs is subject to the fulfilment in part or in full of one or more KPIs linked to the Company's performance, as defined by the Board of Directors upon a recommendation from the Remuneration Committee.

The KPIs are usually measured over three financial years and are targeted to promote stretching yet achievable levels of performance. The KPIs are generally financial in nature but could also include market or strategic measures and assessed on an absolute or relative basis. If performance is not reached at a threshold level, no shares will vest and no compensation in lieu of them will be provided if this occurs. No additional remuneration is made if the maximum target is exceeded. The Remuneration Committee may recommend to the Board of Directors that the performance period is increased or that a holding period is applied to any vested shares such that the total time of each grant cycle is up to five years in duration.

Newly-recruited members of the Executive Management will, in their first year of employment, receive a grant of PSUs, which can be adjusted to reflect when the employment began within the performance period.

If the executive terminates the employment, and the termination is not caused by the Company's material breach, or if the Company terminates the employment with or without notice due to the executive's gross misconduct, any granted PSUs will lapse from the date of the notice.



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Executives who are under notice are excluded from receiving a grant of PSUs unless to do so would breach local employment law.

If the Company terminates the executive's employment subject to his or her notice period for other reasons than misconduct on the part of the executive, or if the employment terminates at a point in time at which the executive is entitled to old-age pension, the PSUs shall continue on unchanged terms as if the employment had continued, but pro-rated to the period of active service. In the event, that the executive dies during the term of employment, his/her estate/beneficiaries shall have the right to succeed in the PSUs. Performance will normally be measured at the usual time. The Remuneration Committee will exercise judgement in the case of other leaving reasons.

In the event of a change in control over the Company, the Board of Directors may decide to allocate shares corresponding to some or all of the PSUs that have been granted, having regard to performance against the KPIs. Upon completion of a change in control, any remaining PSUs shall terminate without notice and without compensation. Alternatively, the Board of Directors may determine to roll over any unvested PSUs into a new plan.

4.6 Clawback / adjustment of remuneration

In the event incentive remuneration has been provided to a member of the Executive Management based on data or accounts that were materially and manifestly misstated or due to a mis-calculation or other error, the Company shall have the right to reclaim/claw-back remuneration that was awarded based partly or wholly on such information. In addition to the clawing back of remuneration, the Board of Directors also has the right to make proportionate adjustments by offsetting other remuneration including salary, bonuses yet to be paid and unvested PSU grants.

The recoupment or offsetting of remuneration that is paid and/or vested is subject to the application of any applicable legislation and contractual terms that are in place governing awards made prior to the adoption of this Remuneration Policy.

4.7 Share ownership

Members of the Executive Management are required to build a holding of shares in the Company, subject to terms determined by the Board of Directors. The shareholding levels are noted below:

- CEO: 100% of annual base salary
- other members of the Executive Management: 35% of annual base salary

The holding is accumulated over a period and, once the level has been reached, it must be maintained until the executive leaves the Company. PSUs do not count towards the holding. During the accumulation period, shares may be sold to cover tax and any other statutory liabilities associated with their acquisition, and for other circumstances as may be determined by the Remuneration Committee.

4.8 Notice periods, termination and severance

Employment agreements with members of the Executive Management are normally ongoing (i.e. without a fixed term) and the notice period on the part of the Company for the members of Executive Management can be up to 24 months. The Board of Directors will have regard to relevant corporate governance practice



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and may incorporate shorter notice periods for new appointments. The notice period on the part of the individual members of the Executive Management shall be at least six months.

The Board of Directors envisages that only in exceptional circumstances would change of control benefits (e.g. prolonged termination notice or right to terminate the employment with rights as if terminated by the company) be provided in the future to new members of the Executive Management. Full disclosure of such terms would be given to shareholders in the remuneration report, as is the case for the current members of the Executive Management.

The aggregate severance pay, if any, during the notice period, including salary during the notice period (but excluding any incentive programs granted prior to termination and any potential compensation for a non-competition clause) cannot exceed an amount corresponding to 24 months of total remuneration. The Board of Directors may determine that the severance pay is remitted on a phased monthly basis and that mitigation applies, i.e. to offset, if other remunerative work is initiated prior to the expiry of the notice period.

In order to protect the Company's interests, members of the Executive Management are normally subject to a non-competition restriction covering the tobacco industry sector of up to 24 months without compensation. The Board of Directors can waive or amend the terms of the restricted covenant, including potential payment of compensation, but will not lengthen the duration of it.

4.9 Exceptional recruitment remuneration

The Board of Directors may award newly-appointed members of the Executive Management an extra-ordinary one-off cash and/or share-based award in connection with their recruitment, which could be with or without performance conditions attached. This could be to compensate for items such as forfeited remuneration or costs associated with the executive leaving an appointment to join the Company. As a point of principle, any exceptional remuneration would be subject to ongoing employment for a specified time period and only made where loss could be substantiated, or it was in shareholders' interests. An exceptional award may not exceed 100% of the Executive's annual maximum total remuneration.

4.10 Exceptional legacy remuneration

The Company's remuneration report contains full disclosure of the legacy compensatory payments to Mr Frederiksen in lieu of a contractual early retirement benefit.

5. RELATIONSHIP TO THE REMUNERATION PAID TO EMPLOYEES

In preparing the Remuneration Policy the Board of Directors considered the remuneration and employment terms of the Company's other employees. The Board of Directors is comfortable that there is an appropriate alignment of the principles on how pay and other package elements are set and reviewed for executives with those of the wider organisation. This is particularly so when taking into consideration market practice for comparable listed companies as well as the roles, overall responsibility, duties and qualifications of the individual members of the Board of Directors and the Executive Management compared to the Company's other employees.

The short-term incentive program offered to the Executive Management and that offered to a wider group of



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key employees are aligned in terms of the areas they measure and how performance is assessed. The long-term incentive programme is specific to the Executive Management and a senior leadership team and is consistent across the participating group in terms of its KPIs and structure. The Executive Management's notice periods are longer than those that apply to other employees in the Company. The Board considers the terms appropriate in light of prevailing market practice.

6. ADOPTION, PUBLICATION, REVIEW AND AMENDMENT OF THE REMUNERATION POLICY

The Remuneration Policy has been approved by the shareholders of the Company at the annual General Meeting held on 26 March 2020. The Remuneration Policy is applicable to incentive programs with respect to the financial year 2020 and subsequent financial years.

The Remuneration Policy is available on the Company's website (www.st-group.com) where its date of adoption also appears.

The Remuneration Policy will be reviewed by the Remuneration Committee on an annual basis. All changes to the Company's Remuneration Policy must be adopted by the Board of Directors. Material changes must be approved by the Company's shareholders at a General Meeting. The Remuneration Policy must be approved by the General Meeting at least once every four years.

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