

## PROTOCOL OF ANNUAL GENERAL MEETING IN SCANDINAVIAN TOBACCO GROUP A/S

(CVR no. 31080185)

On 10 April 2019, at 4.30 p.m. CET, the Annual General Meeting in Scandinavian Tobacco Group A/S (the "Company" or "STG") took place at "Axelborg", Copenhagen.

Nigel Northridge, chairman of the Board of Directors, welcomed the shareholders and others to the meeting. Mr. Northridge noted that the General Meeting would be conducted in English, however, the Board of Directors had resolved that questions and comments could be made in the Danish language. The chair of the meeting would provide on-going summary translation of the business conducted. In addition, a full translation into Danish of the Board of Directors' report, cf. item 1 on the agenda, had been made available and would also be uploaded on the Company's website.

Christian Lundgren had been appointed as chair of the meeting by the Board of Directors in accordance with Article 10.1 of the Articles of Association.

A total of 150 attendance cards had been issued. Present or represented were a total of 63,758,723 shares, equal to 63.99 % of the total voting rights in the Company.

The chair of the meeting announced that the meeting had been duly convened and constituted a quorum for the transaction of business as set out in the agenda, and that the agenda, the full text of all proposals to be submitted to the General Meeting and the annual report including the audited financial statement etc. had been made available for inspection by the shareholders no less than three weeks before the date of the meeting.

The agenda was 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
3. Appropriation of profit or loss as recorded in the adopted annual report
4. Adoption of the remuneration of the Board of Directors and any board committees
5. Election of members to the Board of Directors
6. Election of auditor(s)
7. Any proposals by the Board of Directors and/or shareholders

### **1. Report of the Board of Directors on the Company's activities during the past financial year**

The chairman of the Board of Directors, Nigel Northridge presented the report of the Board of Directors.

Mr. Northridge started by noting that he was pleased to be reporting for the second time as chairman of the Board of Directors, particularly as STG continues to be a company in good shape. STG had taken significant steps towards achieving the vision as STG in 2018 continued the modernisation and development while seeing good progress on the strategy.

STG had in 2018 delivered net sales of DKK 6,718 million and EBITDA before special items of DKK 1,304 million. This equalled a 0.4 % organic growth in net sales and 3.5 % organic growth in EBITDA and in accordance with the financial guidance for the year. Net profit for the year was DKK 666 million while free cash flow before acquisitions was DKK 668 million.

The chairman noted that the Board of Directors had proposed a dividend of DKK 6.00 per share, which was an increase of 4.3 % compared to 2017 and an increase in the ordinary dividend for the third executive year. The overall dividend for 2018

amounted to DKK 600 million, which, noted the chairman, was testament of the strong underlying business and cash flow in STG.

Mr. Northridge proceeded with an overview of the performance of STG's five main categories (handmade and machine-made cigars, pipe tobacco, fine-cut tobacco as well as accessories and contract manufacturing). He noted that each category has its own scope and challenges and STG is working diligently to deliver on the opportunities available in each category. The chairman further noted that STG has a strong, balanced business - and stated that there are opportunities to make the business even stronger.

The chairman laid out the Company's model for creating shareholder value, i.e.: Moderate to stable growth in net sales, increasing earnings and strong cash flows. Mr. Northridge noted that STG also wishes to continue to successfully contribute to industry consolidation by making value-adding acquisitions.

Mr. Northridge gave an overview of the groupwide transformational program; Fuelling the Growth. The chairman described that the program will make STG a stronger and more competitive company better equipped to achieve the vision of becoming the undisputed global leader in cigars and pipe tobacco. The chairman further stated that the program represents an acceleration of the on-going modernisation of STG and is intended to increase shareholder value. Mr. Northridge proceeded with an overview and status on the progress made in 2018 in relation to the business priorities as well as the six must win battles of STG.

The chairman thanked Søren Bjerre-Nielsen for his service to STG over the years and presented Marlene Forsell and Claus Gregersen as new candidates to the Board of Directors. The chairman also thanked Kurt Asmussen, employee representative on the Board of Directors since 2011, for his years on the Board representing the employees of STG.

Mr. Northridge went on to the evaluation and remuneration of the Board of Directors and the Executive Management and explained that during the second half of the year, the Board of Directors had carried out an evaluation of the performance of the Board of Directors and its collaboration with the Executive Management. The evaluation did not identify a need for any significant changes to the way the Board works.

Mr. Northridge stated that the Executive Management remuneration had been discussed in the past year by the Board of Directors and the objective is to align Executive Management's remuneration with the goals for value creation in STG. For that purpose, the total remuneration package consists of a fixed base salary and both short-term and long-term incentive programmes. The chairman noted that the total cost of remuneration for the Executive Management for the year 2018 amounted to DKK 62.1 million compared to DKK 40.5 million in 2017. The chairman mentioned that the increase was driven by the extension of the Executive Management to eight members, a higher bonus pay-out following better results, increased cost in relation to the share-based incentive programme and severance payments. The Chairman mentioned that the remuneration of the Executive Management is consistent with the Company's remuneration policy and the Board of Directors finds it appropriate.

Mr. Northridge explained that a remuneration report had been published for the first time in order to increase transparency on remuneration for the Executive Management and the Board of Directors. The chairman mentioned that the remuneration report can be found on STG's corporate website.

Mr. Northridge noted that STG looks forward to 2019. STG is one of the world's largest manufacturers of cigars and pipe tobacco and will continue to invest in the future of the business to create greater long-term value while driving cost and operational efficiency to optimise cash flow. This balance is key to creating shareholder value. He went on by stating that STG had changed both the financial guidance, the financial ambition, and the dividend policy for 2019. The chairman proceeded

with a brief overview of the changes for 2019 in the financial guidance, the Company's long-term financial ambitions and dividend policy.

Mr. Northridge finished his report by congratulating all employees and Executive Management for a job very well done in 2018 and thanked his colleagues on the Board for their constructive and positive collaboration during the year.

The meeting applauded the presentation by Mr. Northridge.

The floor was opened for comments:

Ole S eberg representing Danish Shareholders' Association thanked STG for its endeavours in terms of investor relations and level of transparency. He then asked how STG planned to approach larger acquisitions in accordance with STG's strategy without exceeding the net debt/EBITDA ratio of 2.5x published by the Company. Ole S eberg further addressed the risk from the increased regulation and limitation of access to tobacco products particularly with respect to youth as well as flavoured products. Ole S eberg noted that this could potentially result in a decrease in revenue of STG.

Both the chairman and CEO answered the questions.

Mr. Northridge answered that value-adding acquisitions will play a role in the future endeavours of STG and stated that it is a matter of balancing organic growth and acquisitions. Mr. Frederiksen added that it is important to distinguish between bolt-on transactions and transformative transactions. STG's financial policy is not seen as a restriction in terms of bolt-on transactions, however, transformative transactions must be assessed and looked at in a different way.

Mr. Frederiksen went on by answering the second question regarding the risk from the increased regulation and stated that the US is a particular focus area. Mr. Frederiksen explained that STG's consumers are generally not in the youth category and further, that STG's online business requires consumers to be of legal age to buy the products. Further, STG is aware of the development in the US in terms of flavoured tobacco products, however, Mr. Frederiksen pointed out that STG's sales of flavoured cigars constitute only a relatively small share of STG's overall tobacco sales.

The General Meeting took due notice of the report.

## **2. Adoption of the audited annual report**

The chair of the General Meeting asked the General Meeting whether it could adopt the 2018 annual report.

The General Meeting approved the annual report.

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

The Board of Directors had proposed to the General Meeting that for the financial year 2018 the Company pays a dividend of DKK 6.00 per share of DKK 1.

The proposal was adopted by the General Meeting.

## **4. Adoption of the remuneration of the Board of Directors and any Board committees**

The Board of Directors had proposed to the General Meeting that compensation for the Board of Directors for the financial year 2018 be adopted based on a base annual fee of DKK 400,000 to each member. Furthermore, under this proposal, the chairman will receive three times the base annual fee and the vice-chairman will receive 1.75 times the base annual fee. The chairman of the Audit Committee will receive a fee corresponding to 75 % of the base annual fee for members of the Board of Directors. Other members of the Audit Committee will receive a fee corresponding to 37.5 % of the base annual fee for

members of the Board of Directors. The chairman of each of the Remuneration Committee and Nomination Committee will receive a fee corresponding to 25 % of the base annual fee for members of the Board of Directors. The members of each of the Remuneration Committee and Nomination Committee will receive a fee corresponding to 12.5 % of the base annual fee for members of the Board of Directors. The fees for the chairmen and members of the committees are in addition to their fees 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 the Company 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.

The proposal was adopted by the General Meeting.

#### **5. Election of members to the Board of Directors**

In accordance with Article 11.1 of the Articles of Association, all members of the Board of Directors elected by the General Meeting were up for election. The Board of Directors had received notice that Søren Bjerre-Nielsen wished to resign from the Board of Directors. The Board of Directors had proposed that Marlene Forsell and Claus Gregersen be elected as new members of the Board of Directors and that Nigel Northridge, Henrik Brandt, Dianne Neal Blixt, Luc Missorten and Anders Obel be re-elected as members of the Board of Directors. Information about the nominated candidates had been enclosed with the notice convening the General Meeting and had also been made available at the Company's website ([www.st-group.com](http://www.st-group.com)).

The chair of the meeting mentioned that the Board of Directors had originally assessed that all of the proposed members of the Board were to be considered independent according to the Danish Recommendations on Corporate Governance. However, the Board had considered the matter further and concluded that it would be appropriate to identify Claus Gregersen as non-independent based on the fact that Claus Gregersen is CEO of Chr. Augustinus Fabrikker A/S, a significant shareholder in STG. The chair of the meeting noted that this has no effect on the Company fulfilling the recommendation set out in the Danish Recommendations on Corporate Governance that more than half of the board members should be independent.

The candidates were re-elected, respectively elected, by the General Meeting.

#### **6. Election of auditor(s)**

The Board of Directors had proposed that PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab be re-elected as auditor of the Company.

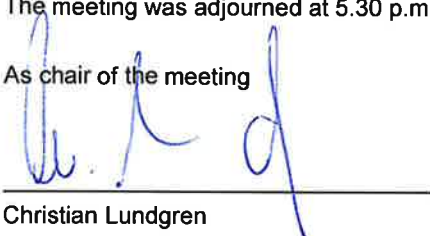
The proposal was adopted by the General Meeting.

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

There were no proposals made by the Board of Directors or by the shareholders to be decided upon by the General Meeting.

The meeting was adjourned at 5.30 p.m. CET.

As chair of the meeting

  
Christian Lundgren