Scandinavian Tobacco Group A/S

CVR-No. 31 08 01 85

Annual Report 2015

The Annual Report has been considered and adopted on the Company´s Annual General Meeting 26 April 2016

Chairman

Christian Lundgren

SCANDINAVIAN TOBACCO GROUP

SCANDINAVIAN TOBACCO GROUP

ANNUAL REPORT 2015

A WORLD LEADER IN CIGARS AND TRADITIONAL PIPE TOBACCO


WE CREATE MOMENTS ...

MOMENTS OF GREAT ENJOYMENT FOR SMOKERS

THIS PROMISE HAS MADE US
A WORLD LEADING MANUFACTURER
OF CIGARS AND TRADITIONAL PIPE TOBACCO.
IN FINE-CUT TOBACCO WE HAVE SIGNIFICANT
MARKET POSITIONS IN THE US
AND THE NORDICS.


IRVING

FINANCIAL PERFORMANCE 2015

WE GENERATE

NET SALES (DKKm)

6,732

1,247

EBITDA

REPORTED GROWTH 2014-2015

▲9.9%

▲5.9%

ORGANIC GROWTH 2014-2015

▲0.3%

▲2.2%

EBITDA MARGIN AND ADJ. EBITDA MARGIN

18.5%

20.5%

CASH FLOW FROM OPERATING ACTIVITIES

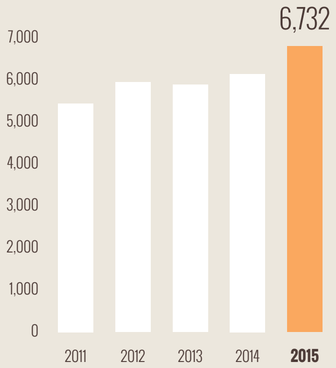
1,285 DKKm

▲22%

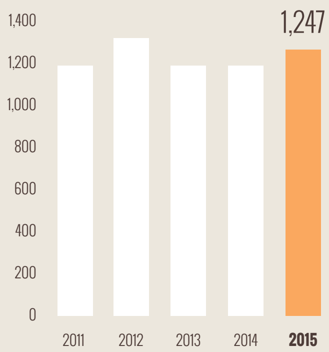
GROWTH IN CASH FLOW 2014-2015

5 YEARS PERFORMANCE

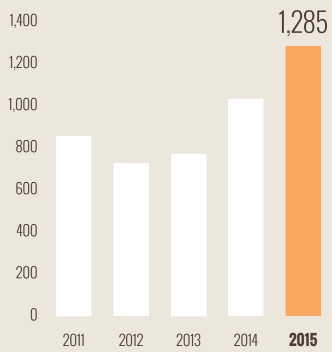
NET SALES (DKKm)



EBITDA (DKKm)

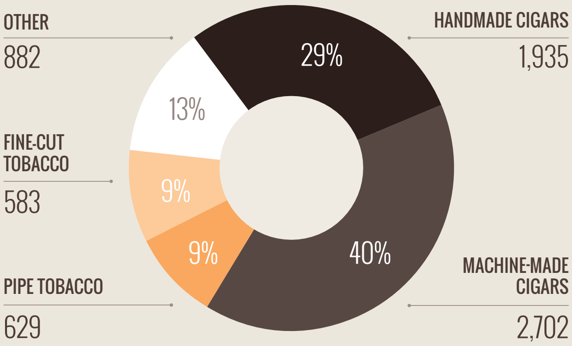


CASH FLOW FROM OPERATING ACTIVITIES (DKKm)

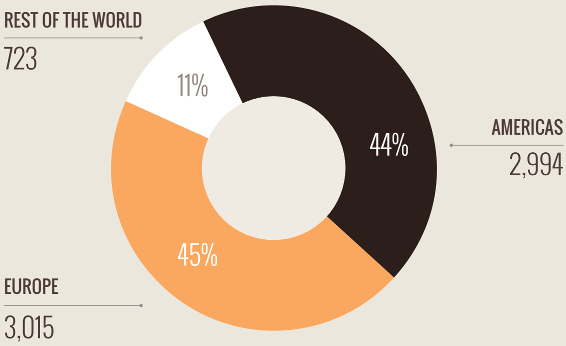


CATEGORIES AND REGIONS

NET SALES PER CATEGORY (DKKm)



NET SALES PER REGION (DKKm)



LETTER TO OUR STAKEHOLDERS

This annual report marks the beginning of a new important chapter in the story about Scandinavian Tobacco Group. 2015 was the culmination of the journey we embarked upon at the end of 2010. A little more than five years ago, we combined the cigars, pipe tobacco and fine-cut tobacco activities of Scandinavian Tobacco Group and Swedish Match*. We created a global leader with scale and a highly recognised and diversified brand portfolio. Through these five years, we have built a global platform in sales, supply chain, IT and back-office functions. Today, we have a global setup enhanced for future growth and continuous optimisation.

In 2015, we made significant progress in optimising our business and we plan for more.

For the year, we report improved organic growth in EBITDA and improved working capital. We have increased productivity and successfully realised the synergies of our 2014 acquisition of the Belgian cigar manufacturer Verellen. In addition, we have initiated an optimisation and efficiency programme, which is expected to deliver tangible cost savings and working capital improvements of approx. DKK 140 million annually and DKK 500 million**, respectively, by the end of 2018 compared to year-end 2014.

While focusing on optimising our overall business, we continue to fuel our handmade cigars business in the US which has delivered another year of strong performance.

The year 2015 also saw changes to our Executive Management. In March, Niels Frederiksen became new CEO, in September Vincent Crepy joined as EVP for supply chain and in November Craig Reynolds was appointed overall responsible for our handmade cigar business globally.

We turned the page to a new chapter in early 2016 when welcoming many new shareholders to Scandinavian Tobacco Group. We were successfully listed on Nasdaq Copenhagen on 10 February 2016. The public listing secures our Group a strong platform for future growth by enhancing the visibility of the company, further improving the ability to attract and retain key employees as well as diversifying the shareholder base.

* Excluding Swedish Match's US machine-made cigars business.
** On a like-for-like basis at constant currencies.

The listing is a vote of confidence in our Group, our strategy and our execution skills. We are committed to reciprocating this confidence by ensuring a strong cash flow generation and returns to shareholders.

For 2015, our Board of Directors proposes a dividend of DKK 500 million in total which corresponds to DKK 5.00 per share and a pay-out ratio of 75% of net profit.

Prior to the listing, three new, independent board members were elected and Anders Obel, Lars Dahlgren and Fredrik Lagercrantz resigned from the Board of Directors. We want to express our gratitude for their contribution to the success of our Group and to welcome our new board members: Søren Bjerre-Nielsen, Dianne Neal Blixt and Luc Missorten.

The story of Scandinavian Tobacco Group is written by people with a passion for creating moments of great enjoyment for smokers and by the people enjoying these moments.

We stay committed to meeting our consumers' ever-changing preferences and we share their curiosity. To a large proportion of our consumers, we do not only deliver 'a smoke'. The typical smoker of cigars attaches importance to the product quality as well as the social and pleasure element of cigar smoking.

We want to be the preferred employer for curious and talented people who are ignited by our consumer's passion and hereby we want to thank every employee in our Group for taking part in fulfilling our promise to create moments of great smoking enjoyment.

Niels Frederiksen
CEO

Jørgen Tandrup
CHAIRMAN

5 YEARS SUMMARY

DKK MILLION	2015	2014	2013	2012	2011
INCOME STATEMENT					
Net sales	6,732	6,126	5,925	5,978	5,472
Gross profit	3,239	2,947	2,915	2,992	2,780
EBITDA	1,247	1,177	1,175	1,301	1,174
EBIT	941	908	775	931	825
Net financial items (excl. share of profit of ass. companies)	-67	-68	-104	-101	-47
Profit before tax	884	846	676	843	782
Income taxes	-216	-206	-103	-224	-204
Net profit	668	640	573	618	578
BALANCE SHEET					
Total assets	14,544	14,162	13,196	13,736	13,753
Equity	8,998	9,087	8,333	8,425	8,274
Net interest-bearing debt (NIBD)	3,011	2,698	2,808	2,908	2,741
Investment in property, plant and equipment	210	192	271	138	124
Total capital expenditures	236	215	302	392	151
CASH FLOW STATEMENT					
Cash flow from operating activities	1,285	1,056	745	716	860
Cash flow from investing activities	-229	-471	-318	-388	-1,152
Free cash flow	1,057	585	427	328	-292
KEY RATIOS					
Net sales growth	9.9%	3.4%	-0.9%	9.2%	-
Gross margin	48.1%	48.1%	49.2%	50.0%	50.8%
EBITDA margin	18.5%	19.2%	19.8%	21.8%	21.5%
Effective tax percentage	24.5%	24.3%	15.2%	26.6%	26.1%
Equity ratio	61.9%	64.2%	63.1%	61.3%	60.2%
Organic net sales growth[1]	0.3%	2.9%	0.7%	-	-
Adjusted gross margin[2]	48.7%	48.1%	49.2%	49.7%	50.8%
Organic EBITDA growth[3]	2.2%	4.8%	-5.6%		
Adjusted EBITDA[4](DKK million)	1,385	1,247	1,198	1,268	1,253
Adjusted EBITDA margin[5]	20.5%	20.3%	20.2%	21.2%	22.9%
NIBD / Adjusted EBITDA	2.2	2.2	2.3	2.3	2.2
ROIC	7.4%	7.7%	6.5%	8.0%	7.6%
ROIC ex. goodwill and trademarks from 2010 merger	13.3%	13.7%	11.8%	15.1%	15.3 %
Earnings per share (DKK)	6.7	6.4	5.7	6.2	5.8
Dividend per share (DKK)	14.0[6]	4.3	3.8	4.1	3.5
Pay-out ratio	209.7%	66.7%	66.7%	66.7%	60.6%

1. Organic net sales growth is defined as growth in net sales excluding non-recurring items, currencies and acquisitions.
2. Adjusted gross margin is defined as gross profit excluding non-recurring items as a percentage of net sales excluding non-recurring items.
3. Organic EBITDA growth is defined as growth in EBITDA excluding non-recurring items, currencies and acquisitions.
4. Adjusted EBITDA is defined as EBITDA excluding non-recurring items.
5. Adjusted EBITDA margin is defined as adjusted EBITDA as a percentage of net sales, excluding non-recurring items.
6. Includes paid interim dividend and proposed dividend for 2015.

FINANCIAL HIGHLIGHTS

SCANDINAVIAN TOBACCO GROUP
DELIVERED SOLID PERFORMANCE IN 2015.

Net sales increased by 9.9%, adjusted EBITDA-margin* was 20.5% and capital expenditure was DKK 236 million, all in line with what has been communicated ealier in the financial expectations. Furthermore, net profit increased by 4.3% and free cash flow grew by 80.7%.

Net sales for 2015 totalled DKK 6,732 million (DKK 6,126 million), an increase of 9.9%, fuelled by tailwind from currencies, especially the US dollar. Organic growth** was 0.3%. In our core tobacco categories – cigars, pipe tobacco and fine-cut tobacco – net sales grew organically by 1.2%, driven by positive price/mix effects offsetting the negative volume impact from machine-made cigars, pipe tobacco and fine-cut tobacco.

Geographically, Americas generated 44%, Europe 45% and Rest of World 11% of net sales which are split in our five categories:

DKK MILLION	NET SALES 2015	NET SALES 2014	GROSS MARGIN 2015	GROSS MARGIN 2014
Handmade cigars	1,935	1,514	43.6%	43.3%
Machine-made cigars (reported)	2,702	2,595	50.8%	51.7%
Machine-made cigars (adjusted*)	2,709	2,595	52.2%	51.7%
Pipe tobacco	629	569	60.1%	59.8%
Fine-cut tobacco	583	562	58.5%	53.4%
Other	882	886	34.5%	35.0%

Group gross margin in 2015 was 48.1% (48.1%). Adjusted for non-recurring items, our Group gross margin was 48.7% (48.1%).

Operating costs increased by 10.8% in 2015 to DKK 1,993 million (DKK 1,799 million), significantly impacted by currency and non-recurring costs related to the announced reduction in workforce in machine-made cigars as well as incentive plans related to the company's Initial Public Offering on Nasdaq Copenhagen. Operating costs show an organic development of 1.4%.

EBITDA increased by 5.9% to DKK 1,247 million (DKK 1,177 million), resulting in an EBITDA-margin of 18.5% (19.2%). Adjusted* EBITDA-margin was 20.5% versus 20.3% in 2014.

In 2015, *depreciation and amortisation* totalled DKK 306 million (DKK 270 million) impacted by the full year consolidation of acquisitions made in 2014, exchange rate movements and impairment of certain fixed assets mainly related to preparation costs in connection with the revised EU Tobacco Products Directive.

Net financial items totalled DKK 67 million (DKK 68 million).

The effective tax rate for the year increased to 24.5% (24.3%) as the share of income generated in the US increased.

Net profit for the year totalled DKK 668 million, 4.3% above last year (DKK 640 million).

Free cash flow amounted to DKK 1,057 million (DKK 585 million). The increase was primarily driven by a stronger profit level and a better contribution from working capital. Free cash flow in 2014 was affected by the acquisition of Verellen.

Total *intangible assets* at 31 December 2015 increased to DKK 8,136 million (DKK 7,890 million) primarily due to currency impact which was somewhat offset by the annual ordinary amortisation.

Total property, plant and equipment increased to DKK 1,320 million (DKK 1,203 million) as a result of investments in machinery ahead of the implementation of the revised EU Tobacco Products Directive and improvement of several production facilities.

Total *inventories* decreased to DKK 2,999 million (DKK 3,099 million) due to a reduced level of raw tobacco and materials as well as timing of deliveries ahead of the EU Tobacco Products Directive.

We refinanced our *debt* with a new DKK 3.8 billion five-year committed club deal financing agreement. Following an extraordinary dividend of DKK 900 million the *leverage ratio* measured as NIBD divided by adjusted EBITDA was 2.2X at the end of 2015. Our target leverage ratio is 2.5X.

For the financial year 2015, the Board of Directors proposes a *dividend* of DKK 5.00 per share, corresponding to a total dividend of DKK 500 million and a pay-out ratio of 75%.

* Adjusted for non-recurring items.
** Adjusted for non-recurring items, currencies and acquisitions.

FINANCIAL GUIDANCE FOR 2016

▲1-3% — Scandinavian Tobacco Group expects the organic growth rate for 2016 to be in the range of 1 to 3% for adjusted net sales.**

▲3-5% — For adjusted EBITDA** we expect the organic growth rate for 2016 to be in the range of 3 to 5%.

250 DKK MILLION — Capital expenditure is expected to be around DKK 250 million.

DEVELOPMENT BY CATEGORY

SCANDINAVIAN TOBACCO GROUP
IS A WORLD LEADER IN CIGARS AND PIPE TOBACCO AND HAS STRONG
REGIONAL POSITIONS WITHIN FINE-CUT TOBACCO.

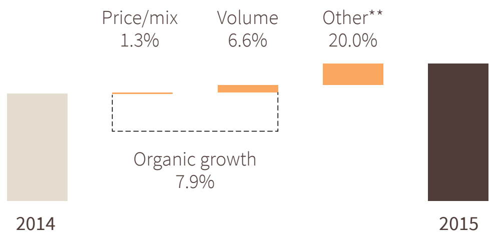
We report our business through five categories: Handmade cigars, machine-made cigars, pipe tobacco, fine-cut tobacco and other. Cigars make up 69% of total net sales and consist of the handmade cigars and machine-made cigars categories. Pipe tobacco and fine-cut tobacco each accounts for 9%, while our 'Other' category accounts for 13%.

HANDMADE CIGARS

Handmade cigars are predominantly sold in the US, where estimated two thirds of the global sales of handmade cigars take place*.

The majority of our sales of handmade cigars are concentrated in the US and it is supported by our two US businesses, General Cigar and Cigars International. General Cigar is a branded business manufacturing and selling to wholesalers and retailers while Cigars International is our online and catalogue retailer. General Cigar leads its market with a market share of 28% while Cigars International has shown impressive and consistent growth over the past years and is now a clear number one in the online and catalogue channel with a market share of about 34%.

Although the total market in the US of around 300 million cigars is largely seen as stable, we aim at growing net sales from both businesses through an effective pricing strategy and by winning market shares.



DKK MILLION	2015	2014
Net sales	1,935	1,514
Gross profit	843	656
Gross margin, %	43.6%	43.3%

**Exchange rates

In 2015, the organic growth in handmade cigars net sales was 7.9% driven by a positive volume impact of 6.6% and a positive price/mix impact of 1.3%. Reported growth in net sales landed at 27.9% and the handmade cigars category now accounts for 28.7% of total net sales.

Volume growth in 2015 was primarily driven by Cigars International, where we continue to expand our market share through superior execution in the direct sales channel. We utilise our unique platform to reach a wide consumer base with a broad, attractive and price-competitive product offering. We also experienced a modest growth in General Cigar. Price/mix impact was driven by sales price increases.

Reported gross profit increased by 28.6% to DKK 843 million (DKK 656 million) with a gross margin at 43.6% (43.3%). Excluding a substantial positive impact from currencies, the gross profit increased by 9.9%. Contributing to the increase in gross margins – despite the continued higher growth in our online/catalogue business – were scale benefits as well as a favourable delevopment in which price/mix effects more than compensated for cost increases.

* Market shares stated in this report are based on our Group's analysis of multiple sources, including information obtained from industry publications or reports.

CIGARS

HANDMADE AND MACHINE-MADE CIGARS ACCOUNT FOR 69% OF OUR TOTAL NET SALES.

HANDMADE CIGARS

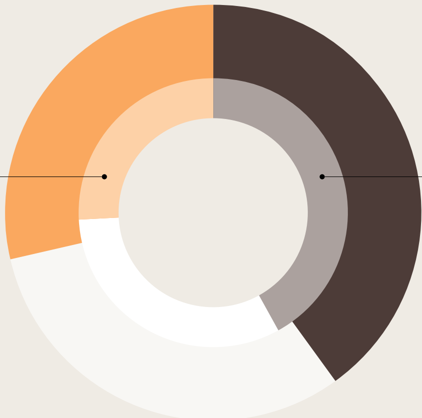
In 2015, handmade cigars accounted for 29% of our net sales. The main part is sold in the US where we are market leader in manufacturing and sales to wholesalers as well as in catalogue and online retail to consumers. Handmade cigars contributed 26% of our gross profit.

MACHINE-MADE CIGARS

In 2015, machine-made cigars accounted for 40% of our net sales. The main part is sold in Europe where we cover all major geographies with own sales organisations and have market leading positions. Machine-made cigars contributed 42% of our gross profit.

29%
OF NET SALES

26%
OF GROSS PROFIT



40%
OF NET SALES

42%
OF GROSS PROFIT

NET SALES (DKKm)
1,935
27.9%
2015 GROWTH

#1
NO. 1 POSITION IN THE US

NET SALES (DKKm)
2,702
4.1%
2015 GROWTH

#1
NO. 1 POSITION IN EUROPE

LEADING BRANDS

OUR LEADING BRANDS ARE MACANUDO, CAO, 5 VEGAS AND DIESEL AS WELL AS PUNCH, LA GLORIA CUBANA AND COHIBA WHICH ARE OWNED AND MARKETED IN THE US ONLY.

Macanudo is the largest premium handmade cigar brand in the US in terms of sales volumes.

Cohiba is a luxury handmade cigar brand. General Cigar owns the Cohiba brand in the US where it enjoys high levels of consumer awareness and brand equity.

LEADING BRANDS

OUR LEADING BRANDS ARE CAFÉ CRÈME, LA PAZ, MERCATOR, COLTS, CAPTAIN BLACK AND BREAK.

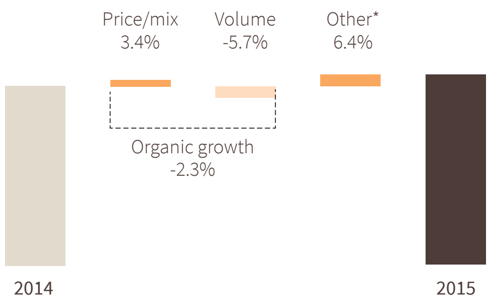
Café Crème has been a European and category leader in machine-made cigars since it was launched in 1963. It is available in more than 100 countries and our bestselling brand.

Originally a pipe tobacco brand in the US Captain Black has been expanded into an international, cross-category brand. Today, Captain Black pipe tobacco and machine-made cigars are sold in particularly the US, the Middle East, Eastern Europe and Asia.

MACHINE-MADE CIGARS

Scandinavian Tobacco Group is a leader in the European machine-made cigars market that accounts for close to half of the global volumes.

Our machine-made cigars are predominantly sold in Europe, Canada and Australia where we hold market-leading positions. Our key markets are France, the UK, Belgium, the Netherlands, Canada, Spain and the US. Overall, our market shares have been stable in 2015.



DKK MILLION	2015	2014
Net sales	2,702	2,595
Gross profit	1,372	1,341
Gross margin, %	50.8%	51.7%
Gross margin, adjusted**	52.2%	51.7%

*Exchange rates, acquisitions and non-recurring items.
**Adjusted for non-recurring items

In 2015, total market volumes declined across several of our key markets. We expect total markets overall to continue being under pressure and volumes to continue declining. We aim at offsetting the impact of volume declines by an effective pricing strategy, by winning market shares and by driving efficiencies from our supply chain.

For the machine-made cigars category, the total reported net sales growth was 4.1% in 2015 with positive impact from the acquisition of Belgian cigar manufacturer Verellen in September 2014 and currencies.

The organic growth in net sales was -2.3%. Price/mix development contributed 3.4% and volume development contributed negatively by -5.7% due to declining total markets across several of our core markets.

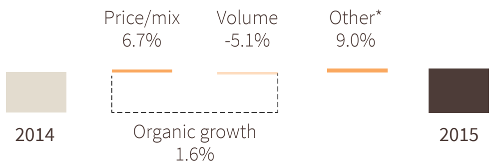
Reported gross profit increased by 2.3% to DKK 1,372 million (DKK 1,341 million) with a gross margin at 50.8% (51.7%). Excluding the impact from acquisitions and currencies, the gross profit declined by 4.6% due to the lower market volumes in key markets. In 2015, the gross profit was negatively impacted by a non-recurring cost of DKK 44 million due to an inventory provision in relation to the revised EU Tobacco Products Directive. Adjusted for this provision as well as a non-recurring provision in net sales of DKK 7 million, the gross margin was 52.2%.

PIPE TOBACCO

Scandinavian Tobacco Group is a world leader in traditional pipe tobacco with a global market share of more than 50%.

Our key markets for pipe tobacco are in the majority of the European countries, the US and Nigeria where we have leading positions. During 2015, our market shares increased.

The markets in the US and Europe are mature and we expect to see continued pressure on volumes. We aim at offsetting the volume development by an effective pricing strategy and by winning market shares.



DKK MILLION	2015	2014
Net sales	629	569
Gross profit	378	340
Gross margin, %	60.1%	59.8%

*Exchange rates

In 2015, organic growth in our pipe tobacco category was 1.6% with a total reported growth of 10.6%. The positive organic growth was mainly driven by a positive price/mix impact from price increases across most markets and partially offset by volume declines in several markets such as Nigeria, Russia and Denmark.

During the year, we have seen strong performances in France and in the US where we have gained market shares. In the US, we added the Pipes and Cigars online platform to Cigars International in 2013 and we continue to see growth in this channel.

Reported gross profit increased by 11.1% to DKK 378 million (DKK 340 million) with a gross margin of 60.1% (59.8%). Organic growth in gross profit was 1.0%. The slight improvement in margins was primarily driven by changes in the geographical price/mix with higher margin countries such as the US outperforming lower margin countries like Nigeria and Iraq.

SMOKING TOBACCO

PIPE TOBACCO AND FINE-CUT TOBACCO ACCOUNT FOR 18% OF OUR TOTAL NET SALES.

PIPE TOBACCO

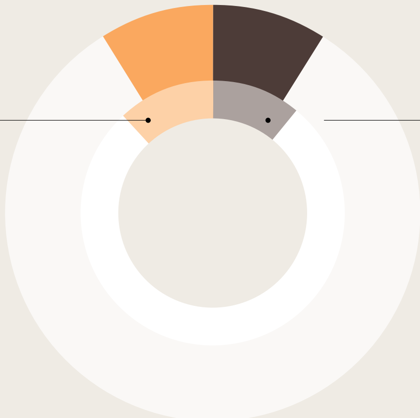
In 2015, pipe tobacco accounted for 9% of our net sales. We are a market leader in traditional pipe tobacco globally. Pipe tobacco contributed 12% of our gross profit.

FINE-CUT TOBACCO

In 2015, fine-cut tobacco accounted for 9% of our net sales. We are a market leader in the US and Denmark and we hold significant positions in Norway, Switzerland and Israel. Fine-cut tobacco contributed 11% of our gross profit.

9%
OF NET SALES

12%
OF GROSS PROFIT



9%
OF NET SALES

11%
OF GROSS PROFIT

NET SALES (DKKm)
629
10.6%
2015 GROWTH

#1
NO. 1 POSITION IN THE US AND EUROPE

NET SALES (DKKm)
583
3.9%
2015 GROWTH

#1
NO. 1 POSITION IN THE US AND DENMARK

LEADING BRANDS

OUR LEADING BRANDS ARE ERINMORE, BORKUM RIFF, W.Ø. LARSEN, CLAN AND CAPTAIN BLACK.

LEADING BRANDS

OUR LEADING BRANDS ARE BUGLER, BREAK, ESCORT, BALI SHAG AND TIEDEMANNS.

W.Ø. LARSEN

W.Ø. Larsen was established in 1864 and is our most luxurious premium pipe tobacco brand.

ERINMORE

Erinmore is sold in more than 30 countries and is the world's largest traditional pipe tobacco brand in terms of sales and sales volumes.

TIEDEMANNS

Tiedemanns is one of the oldest and most established fine-cut tobacco brands in Norway. We have grown its market share from 33% in 2008 to 39% in 2015.

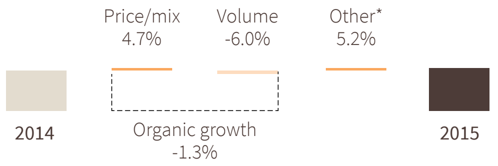
BUGLER

Bugler was established in 1932 and is a leading fine-cut tobacco brand in the US in terms of sales volumes.

FINE-CUT TOBACCO

The total market for fine-cut tobacco is the largest of the categories in which we operate.

Scandinavian Tobacco Group is the market leader in the US and Denmark. We have significant positions in Norway, Switzerland and Israel. We are building positions in other European markets and currently focus on Germany.



DKK MILLION	2015	2014
Net sales	583	562
Gross profit	342	300
Gross margin, %	58.5%	53.4%

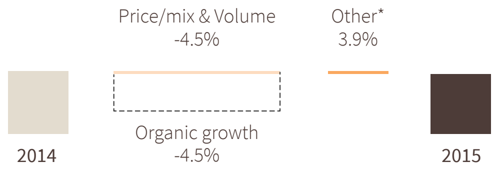
*Exchange rates

In 2015, reported net sales growth was 3.9%. Organic growth was -1.3% as a positive price/mix impact of 4.7% could not offset the negative volume impact. This was driven by a terminated distribution agreement for third party fine-cut tobacco in the UK, France and the Netherlands and stock building on the Danish/German border at the end of 2014.

Reported gross profit increased by 13.9% to DKK 342 million (DKK 300 million) with a gross margin of 58.5% (53.4%). Organic growth in gross profit was 8.9%. The significant improvements in margins are primarily due to the termination of the third party distribution agreement as these products were distributed and sold at margins significantly below the category average. Additionally, insourcing of the production of expanded tobacco contributed to improved margins.

OTHER

Our 'Other' category includes several activities including contract manufacturing, distribution of lighters, matches and other smoking accessories as well as fire products.



DKK MILLION	2015	2014
Net sales	882	886
Gross profit	304	310
Gross margin, %	34.5%	35.0%

*Exchange rates and acquisitions

In 2015, the reported growth in our 'Other' categories was -0.5% with an organic growth of -4.5%. The organic growth was mainly driven by a decline in contract manufacturing volumes for Captain Black branded products to Russia. As of July 2015, we assumed the distribution of Captain Black products in Russia from a third party and 2015 has been a transition year where the former licensee has been selling out of existing inventories. Due to the transition and some large inventories in the market shipped in 2014, Captain Black sales volumes to Russia for 2015 were significantly lower than in 2014.

Going forward, sales of Captain Black products to Russia will be reported in the machine-made cigars category.

Reported gross profit declined by 2.0% to DKK 304 million (DKK 310 million) and the gross margin was 34.5% (35.0%). Excluding the impact from currencies, the decrease in gross profit was 4.2%. The decrease was due to the net sales development for Captain Black in Russia.

DEFINITION OF PRICE/MIX AND VOLUMEN IMPACT
Price/Mix impact for net sales is calculated as the difference in average sales prices between two periods multiplied by the sales volumes of the later period.

Volume impact for net sales is calculated as the change in sales volumes between two periods multiplied by the average sales price (calculated by dividing net sales by sales volumes) from the earlier period in a specific geographic market.

EVENTS OF THE YEAR

OPTIMISATION AND EFFICIENCY PROGRAMME

In 2015, we initiated an optimisation and efficiency programme with the target of reducing costs by DKK 140 million annually by the end of 2018 compared to the 2014 level.

A first step was taken in September 2015 when we announced a complexity reduction programme leading to a significant decrease in the number of product configurations. As a result, we announced a workforce reduction of 10% of employees in our European machine-made cigar factories which has resulted in non-recurring restructuring costs with an impact on EBITDA of DKK 42 million. In 2015, we achieved approx. 10% of the cost savings of DKK 140 million which is in line with our expectations. The remaining estimated cost savings are expected to be achieved equally over the years 2016-18.

During the year, we also introduced a programme with the expectation to improve our net working capital by DKK 500 million on a like-for-like basis at constant currencies by the end of 2018 compared to the end of 2014 through a reduction of our inventories. We expect a synergetic effect from the above optimisation and efficiency programme on our inventory levels and this will be supported by additional targeted initiatives.

In 2015, our inventories were reduced by DKK 225 million. We have exceeded our expectation for 2015 which was an improvement of about DKK 100 million. Our inventories in 2015 were positively impacted by timing due to preparations for the revised EU Tobacco Products Directive and we expect an incremental rebound in inventories following the transition of the directive during 2016.

REGULATORY DEVELOPMENT

Tobacco products have been subject to regulatory measures from governments and health officials for decades. In 2015, the most important development relates to our preparations for the implementation of the revised EU Tobacco Products Directive which is explained on page 27.

The new directive will have to be implemented and take effect in the EU member states in 2016 when a one-year transition period begins before all products in the market must comply with the new rules. After 20 May 2016, only products compliant with the new directive as implemented in the national laws can be produced for the markets.

By the end of 2015, only a few member states had adopted their national law. The late adoption of the new national regulations is challenging for our industry. We believe that Scandinavian Tobacco Group will be well prepared for the implementation of the new regulation – in spite of the time pressure and the uncertainty still reigning in many of the EU member states.

In connection with the implementation of the EU Tobacco Products Directive, some EU member states may enact more stringent legislation. By year end 2015, the UK and France have decided to introduce neutral packaging (i.e. packaging with almost no branding) for cigarettes and fine-cut tobacco, and in Ireland a similar requirement will apply to all types of tobacco products.

MANAGEMENT CHANGES

On 1 March 2015, Niels Frederiksen replaced Anders Colding Friis as CEO of Scandinavian Tobacco Group. Niels Frederiksen has been with our Group since 1999 and was Executive Vice President for the supply chain and member of the Executive Management before his appointment as CEO.

Vincent Crepy was appointed Executive Vice President for supply chain and member of the Executive Management on 1 September 2015. He holds an extensive track record in leading and transforming supply chains in FMCG companies such as Ventura Foods LLC, Reckitt Benckiser and Procter & Gamble.

On 13 November 2015, the management of our global handmade cigars business was consolidated under a common leadership when Craig Reynolds was appointed Executive Vice President for the global handmade cigars business. General Cigar and Cigars International continue to be run as two stand-alone businesses. Craig Reynolds continues as President of Cigars International and Regis Broersma was appointed President of General Cigar.

EVENTS AFTER 31 DECEMBER 2015

On 14 January 2016, Scandinavian Tobacco Group announced the intention to launch an Initial Public Offering (IPO) and to list on Nasdaq Copenhagen. Subsequently a prospectus was published on 28 January 2016.

The IPO was completed on 10 February 2016 when the shares of Scandinavian Tobacco Group were admitted to trading and official listing. On the day of listing, Skandinavisk Holding II A/S and Swedish Match Cigars Holding AB continued as major shareholders with a shareholding of 33.2% and 31.2%, respectively.

The final offer price was set at DKK 100 per share giving Scandinavian Tobacco Group a market capitalisation of DKK 10 billion. The Group did not receive any proceeds from the sale of the offering.

Immediately prior to completion of the IPO, changes were made to the Board of Directors. On 10 February 2016, Anders Obel, Lars Dahlgren and Fredrik Lagercrantz resigned from the Board of Directors. Søren Bjerre-Nielsen, Dianne Neal Blixt and Luc Missorten were elected as new independent members of the Board of Directors of Scandinavian Tobacco Group.

THE CIGAR SMOKER

HANDMADE CIGARS

Handmade cigars are generally perceived as an affordable luxury product. The typical consumer attaches importance to product quality, is less price sensitive and chooses brands based on new experiences and the social and satisfaction element of cigar smoking. The primary consumer segment is men over 35 years with medium or high income.

The average age of consumers of handmade cigars is 45 years – 15% are women. Our handmade cigars are mainly sold in the US.

MACHINE-MADE CIGARS

Machine-made cigars are often smaller and less expensive than handmade cigars and therefore appeal to a wider audience. Smokers in the premium and mainstream segments are generally loyal to the brand and the products they use. These smokers emphasize quality and consistency over time. Taste is the deciding factor when choosing a brand for the first time.

The average age of consumers of machine-made cigars is 45 years – 25% are women. Our machine-made cigars are mainly sold in Europe, Australia and Canada.

THE SMOKERS OF PIPE TOBACCO AND FINE-CUT TOBACCO

PIPE TOBACCO

Pipe tobacco has a loyal group of consumers. They enjoy experimenting with tobacco blends and are generally loyal to their favourite brands and often have different pipes for different taste variants.

Core consumers are typically men over 35 years.

FINE-CUT TOBACCO

Fine-cut tobacco has a core target market which is more price sensitive, less loyal and more willing to try new products. Fine-cut tobacco is typically a substitute for cigarettes.

The consumer of fine-cut tobacco has an average age of 30 years – 42% are women.

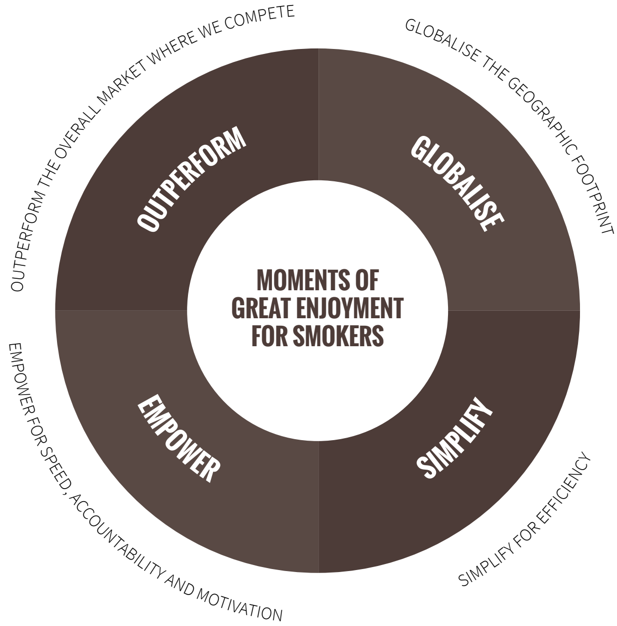
STRATEGY

WE CREATE MOMENTS OF
GREAT ENJOYMENT FOR SMOKERS.

Scandinavian Tobacco Group is a world leader in cigars and traditional pipe tobacco which are categories with significant consumer interest and loyalty. Furthermore, they are attractive categories in the tobacco market.

Cigars, pipe tobacco and fine-cut tobacco are predominantly sold in the US, Europe, Canada and Australia, where we have our strongholds. Our top ten markets account for approx. 65% of the global market value of our categories. And more than 70% of our net sales derive from markets in which we hold a number one or two market position.

We aim at leveraging our leading positions to improve profitability and maintain a strong cash generation profile. Our strategy is built around four business priorities:



OUTPERFORM

BUILDING BRAND EQUITY: At the centre of our success is our ability to develop high-quality products and brands that provide outstanding smoking experiences. We target smokers across all price points while adapting to changes in consumer preferences. We constantly work towards strengthening our largest brands so that they are well-prepared to succeed in current markets and continue to do so even in markets with display restrictions where the best known brands usually outperform others.

LEVERAGING TRADE PARTNERSHIPS: We benefit from a strong relationship with the retail trade. Building on the strength of our brand portfolio, trade programmes and a skilled sales force, our 'look of the leader' strategy aims at ensuring presence in the retail channel which is equal to or larger than our market share of the overall tobacco market.

OPTIMISING PRICE STRATEGIES: We develop and execute effective pricing strategies market by market in order to sustain price increases above inflation.

KEEP WINNING IN DIRECT-TO-CONSUMER: We leverage Cigars International's base of 850,000 active customers to further expand the leadership of our US catalogue and online retail. We continue to invest in the further development of our strong execution skills in direct-to-consumer marketing and our technological platform to ensure that these continue to be at the forefront of the industry. Furthermore, we apply these assets to new relevant business.

USING NEW REGULATION TO ENHANCE OUR COMPETITIVE ADVANTAGE: The tobacco industry is faced with constant changes in its regulatory environment. Leveraging our knowhow and scale enables us to allocate the required resources and attention into product development, brand management and changing production requirements. We strive to be prepared ahead of time and thereby tap the potential to grow market shares when competitors struggle to meet regulatory requirements.

OUR KEY STRENGTHS

01 GLOBAL LEADER IN ATTRACTIVE CATEGORIES IN THE TOBACCO INDUSTRY

- In cigars and pipe tobacco our main competitors are a limited number of other large producers and a large number of small, family-owned companies.
- Cigar volumes have demonstrated a higher resilience than cigarettes in the markets where we operate and we have been able to implement price increases typically in excess of inflation.

02 RECOGNISED AND DIVERSIFIED BRAND PORTFOLIO

- Our brand portfolio consists of more than 200 international, regional and local brands that cater to a diverse range of consumer segments, price points and tastes, which is a key differentiating competitive advantage in the cigars and pipe tobacco markets.
- Our heritage, brand recognition, vast tobacco knowledge and extensive tobacco library make us well-positioned to retain existing consumers and attract smokers to our categories.

03 MULTIPLE AVENUES FOR ORGANIC GROWTH AND STRONG INNOVATION CAPABILITIES

- High brand loyalty and low price elasticity enable an effective pricing strategy.
- Our route-to-market strategy is tailored to each specific category and national market structure. In total, we have a sales force of more than 500 employees.
- We have an innovative and consumer-focused approach to our brand portfolio management.
- Our US catalogue and online retail channel ranks no. 1 on key success factors, such as pricing, range and delivery options.

04 ONGOING EFFICIENCY MEASURES AND WORKING CAPITAL INITIATIVES

- We benefit from having a global supply chain and a strong track record of optimising our production footprint.
- We continue to further optimise our operations, reduce cost of materials, as well as improve production efficiency and integrated planning of our supply chain.

05 STRONG PLATFORM TO ACT AS A CONSOLIDATOR IN A FRAGMENTED CATEGORY

- Many of our markets are characterised by a large number of small, family-owned businesses and are more fragmented than the cigarette market.
- We have a scale in existing market positions that allows us to realise synergies and a proven track record of successful acquisitions.

OUR LEADING POSITIONS IN CIGARS AND PIPE TOBACCO

	HANDMADE CIGARS	MACHINE-MADE CIGARS	PIPE TOBACCO
THE US	1	<10	1
FRANCE		1	2
AUSTRALIA		1	1
THE UK		1	3
BELGIUM		1	1
THE NETHERLANDS		1	1
GERMANY		8	1
DENMARK		1	1
SPAIN		5	1
CANADA		2	1

We hold market leading positions in the US market for handmade cigars and in several European markets for machine-made cigars. In traditional pipe tobacco we are a global leader with a no. 1 position in the majority of our top 10 markets.

GLOBALISE

EXPANDING GEOGRAPHICAL FOOTPRINT: The major part of cigars, pipe tobacco and fine-cut tobacco is consumed in the US, Europe, Canada and Australia. We have identified growth opportunities within our core markets and we continue to investigate opportunities to selectively expand into new geographies such as Asia, the Middle East and Russia. In addition, we aim to develop products that are interesting for consumers in markets where our product categories – especially cigars – are not regularly consumed today.

USING OUR M&A PLATFORM: We act as consolidator when attractive opportunities arise. Acquisition candidates are evaluated on their ability to strengthen our presence in large cigar markets where our market share is relatively low today, on the strength of their brands and on their ability to deliver synergies. Synergies are usually extracted by consolidating production footprints and incorporating products into our existing sales and distribution network.

SIMPLIFY

ACHIEVING COST SAVINGS AND REDUCING WORKING CAPITAL: We have initiated an optimisation and efficiency programme ahead of the implementation of the revised EU Tobacco Products Directive. The programme aims to further reduce complexity and optimise efficiency in our supply chain.

The programme focuses on simplification of our product portfolio, on further optimising our production footprint, on reducing material costs and on improving production efficiency through lean transformation and integrated planning which subsequently will also further reduce inventories.

These initiatives are expected to deliver tangible EBITDA and working capital improvements. We expect cost savings of DKK 140 million annually and a working capital improvement of DKK 500 million by the end of 2018 compared to the end of 2014 calculated on a like-for-like basis excluding currency impact.

EMPOWER

FOSTERING TALENT AND CURIOSITY: Fostering talent and curiosity among engaged employees with highly specialised skills and tobacco knowledge represents a competitive advantage. Furthermore, we invest in a systematic approach to leadership development, people reviews and succession planning.

ACTING AS A MARKET LEADER: We are a market leader and perceived as a strong, stable and reliable company. While maintaining these strengths, we aim to raise our profile to be perceived as fast, dynamic and leading. We actively work to drive this mindset by challenging the status quo.

MEDIUM-TERM OUTLOOK AND SHAREHOLDER RETURN POLICY

As our strategy is rolled out we leverage our business platform and realise operational and financial improvements. We expect the following medium-term (three to five years) outlook to apply with regards to adjusted net sales, adjusted EBITDA and capital expenditure:

▲1-3%

Adjusted net sales growth of 1 to 3% annually through the cycle, excluding acquisitions and currency fluctuations (organic growth).

▲3-5%

Adjusted EBITDA growth of 3 to 5% annually through the cycle, excluding acquisitions and currency fluctuations (organic growth).

~150
DKK MILLION

Capital expenditure is estimated to be approx. DKK 150 million per year primarily relating to maintenance of production facilities.

70%

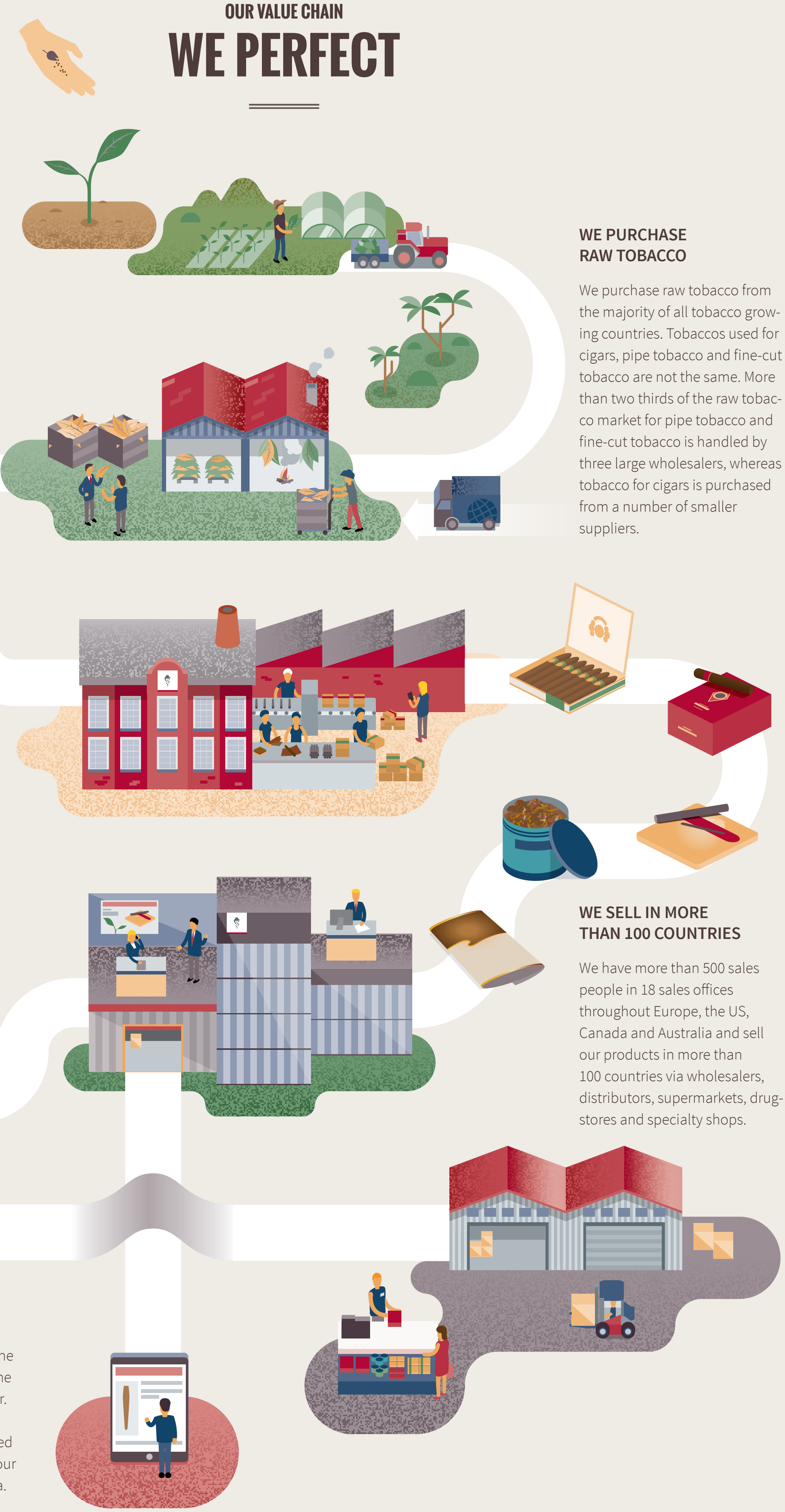
Our shareholder return policy includes a dividend policy with a payout ratio of at least 70% of consolidated net profit for the year. In addition to making dividend payments, the Board of Directors may initiate share buybacks.

2.5X

The leverage target defined as net debt/ adjusted EBITDA ratio is 2.5X.

OUR VALUE CHAIN

WE PERFECT



OUR CULTIVATION ACTIVITIES ARE LIMITED

All tobacco starts with a seed. The development of a tobacco plant depends on factors such as soil, sun, rain, position of the leaf on the tobacco plant and the time of harvesting. Apart from Caribbean Cigars Holding Group, in which we own a 20%-stake, our cultivation acitivities are limited.

WE PURCHASE RAW TOBACCO

We purchase raw tobacco from the majority of all tobacco growing countries. Tobaccos used for cigars, pipe tobacco and fine-cut tobacco are not the same. More than two thirds of the raw tobacco market for pipe tobacco and fine-cut tobacco is handled by three large wholesalers, whereas tobacco for cigars is purchased from a number of smaller suppliers.

OUR PRODUCTION SETUP IS GLOBAL

We have a global supply chain with 14 manufacturing sites. Production is strategically located close to both tobacco growers and the consumers. Handmade cigars are produced in the Dominican Republic, Honduras and Nicaragua, while machine-made cigars are primarily produced in Europe, the Dominican Republic and Indonesia. Pipe tobacco and fine-cut tobacco are produced in Denmark and the US.

WE SELL IN MORE THAN 100 COUNTRIES

We have more than 500 sales people in 18 sales offices throughout Europe, the US, Canada and Australia and sell our products in more than 100 countries via wholesalers, distributors, supermarkets, drugstores and specialty shops.

IN THE US WE SELL ONLINE TO CONSUMERS

The market for catalogue and online sales to consumers is growing in the US where we are the market leader. Every day, around 10,000 packs of cigars and pipe tobacco are shipped out to American consumers from our distribution centre in Pennsylvania. We also own three retail stores in the state.

CORPORATE SOCIAL RESPONSIBILITY

RESPONSIBILITY IS A CORE VALUE WHICH HAS BEEN EMBEDDED IN SCANDINAVIAN TOBACCO GROUP'S CULTURE FOR MANY YEARS. WE BELIEVE IN HONEST AND ETHICAL BEHAVIOUR AND IN ACTING RESPONSIBLY TOWARDS EACH INDIVIDUAL, THE COMMUNITY AND THE ENVIRONMENT.

Our recently adopted Code of Conduct describes the principles that guide our behaviour and the way we conduct business in all entities around the world. The Code of Conduct lays out our fundamental commitment to respect human rights and labour rights, to protect the environment and to provide safe and healthy working conditions for our employees. The Code further describes our commitment to comply with laws and regulations in general and in such areas as data protection, trade restrictions and anti-corruption as well. The Code which sets the frame for further internal policies and guidelines is available in the Governance section on our corporate investor website: investor.st-group.com.

Acknowledging the importance of protecting the environment and providing ever safer and healthier working conditions, our Group's environment, health and safety (EHS) programme monitors and strives to continuously shrink our Group's environmental footprint and ensure a safe work environment. The EHS programme aims to reduce the use of resources and limit waste and emissions from the factories. In relation to the work environment we strive to reduce the risk of accidents, injuries and work related illnesses across our Group.

Our Group embraces diversity as a source of strength in the workplace that enriches our business. Diversity includes men and women of different nations, cultures, ethnic groups, generations, backgrounds, skills, abilities and all the other unique differences that make each of us who we are. This belief is supported by a programme that promotes a better representation of women in managerial positions as women are currently underrepresented at that level in our Group as described on page 31.

We believe children have a right to be protected against forced labour and child labour and that all children have the right to develop, receive education, rest and play. We respect the minimum working ages as defined in the International Labour Organization Convention 138 (or such higher ages which may apply locally) and aim to implement processes to identify, prevent and mitigate any adverse impact Scandinavian Tobacco Group's operations may have on the rights of children. Scandinavian Tobacco Group engages with other members of the industry, suppliers, farmers, communities and other stakeholders to combat child labour, hazardous work and any forced labour among children in tobacco growing communities.

Our Group strives to be a socially responsible company. As a fundamental principle we are committed to conduct our business in accordance with applicable laws and regulations. Moreover, in every country where our products are sold, we are guided not only by the local law, but also by our own marketing principles that form the basis for how the products we manufacture are designed and how we promote and advertise the products towards consumers. We do not direct our products or the marketing or promotion of them to people under the age of 18 (or such higher age as local law has prescribed). We train relevant employees in our marketing principles and include the principles in our processes to ensure continued compliance.

> Smoking is for adults only, and the health risk must be taken seriously by everybody. Every smoker should balance the pleasure of smoking against the risk involved, and then make a personal choice whether to smoke or not. We do not work to increase the number of smokers or to grow the total market for tobacco. We grow our business by growing our market share and by encouraging smokers to choose our products and categories over those of competitors.
>
> Learn about our view on smoking on www.st-group.com/en/about/our-view-on

Due to the associated health risks, tobacco products are highly regulated in terms of manufacturing, promotion, presentation, sale and consumption. When new regulations are introduced that affect our industry, we strive to support the legislative process and do so in a transparent manner.

Pages 24-26 are our statutory report on CSR for the financial year 2015 cf. Section 99a of the Danish Financial Statements Act ("Lovpligtig redegørelse for samfundsansvar, jf. årsregnskabslovens §99a") including additional information about policies, progress made during 2015 and expected activities for 2016.

ENVIRONMENT & CLIMATE

We believe in reducing our environmental footprint across our Group's production sites. Through a dedicated programme all Scandinavian Tobacco Group manufacturing facilities are inspired to incorporate best practices with the aim to minimise the use of resources like water and energy in production, as well as waste, air and water emissions from our operations. The EHS programme endeavours to dispose of waste in a safe and responsible way and to recycle where relevant. We strive to meet or exceed the required level for health and safety in the workplace as expressed in the applicable laws and regulations. Through regular reviews carried out by members of our Group's EHS organisation, each production facility's status and ongoing development is assessed.

SELECTED ACTIVITIES AND RESULTS IN 2015

8%

We reduced energy consumption in the manufacturing facilities by 8% compared to 2014. Reduced energy consumption brings a lower level of CO2 emissions.

▲ 14%

The amount of tobacco waste that we recycled totalled 1,971 tonnes, up by 14% from 2014.

NEXT STEPS

- We continue to reduce energy consumption and waste generation.
- A new EHS Manual is being implemented across our manufacturing facilities.
- Six reviews, based on the new EHS Manual, will be conducted in our facilities in the Dominican Republic, Indonesia, Honduras and Nicaragua.

HEALTH & SAFETY

We believe safe and healthy working conditions should be enjoyed by our personnel and aim to provide safe working conditions across all our Group's production sites. Accordingly, we seek to reduce the risk of accidents, injuries and work-related illnesses. We have set an ambitious target that all our production facilities should score 80% in the reviews conducted as part of our EHS programme.

SELECTED ACTIVITIES AND RESULTS IN 2015

79% EHS SCORE

Assessments are carried out bi-annually. In 2014, our factory EHS score average was 79% with six factories performing at 80% or above.

FROM 89 TO 71

The number of work-related accidents in our factories was 71 – down from 89 in 2014. Our lost time accidents incidence rate was 1.05 per 200,000 working hours, which continues to be below the private industry benchmark of 1.8.

NEXT STEPS

- All production sites will continue to work actively to maintain or meet the goal of an 80% EHS score under our Group's EHS programme.
- A new EHS Manual is being implemented across our manufacturing facilities.
- Six reviews, based on the new EHS Manual, will be conducted in our facilities in the Dominican Republic, Indonesia, Honduras and Nicaragua.
- In line with our ambition to continuously improve the work environment, particular attention will in the near future be paid to machine safeguarding.

COMBATING CHILD LABOUR

We believe children have the right to be protected from exploitation and never subjected to work that affects their health or personal development, including their right to go to school and receive education.

Our approach to the combat of child labour is three-pronged. We do not employ children in our own facilities. We work with our suppliers to engage them in combating child labour. And we collaborate with multiple stakeholders as a long-standing member of the ECLT (Eliminating Child Labour in Tobacco Growing) Foundation. Its many initiatives serve to combat child labour from different angles and by different means. Through local projects in tobacco-growing communities children are offered education and through various means help is provided to improve the livelihoods of farmers and, consequently, diminish or eliminate their reliance on child labour. Locally in the tobacco growing communities as well as at regional, governmental and international level, ECLT engages to create awareness of children's rights.

More information on ECLT can be found on the foundation's website: www.eclt.org.

SELECTED ACTIVITIES AND RESULTS IN 2015

POLICY

In 2015, we prepared our Code of Conduct (adopted in 2016) that includes our policy on child labour. The introduction of updated systems and processes for identifying, preventing and mitigating child labour in our supply chain was not completed in 2015, but is planned for 2016.

ECLT

In 2015, we continued to support ECLT and promote responsible labour practices by conducting reviews in connection with our visits with selected tobacco suppliers.

NEXT STEPS

- Develop and implement an updated system and new processes to identify, prevent and mitigate child labour in our supply chain.
- Continue our engagement in ECLT to battle child labour in collaboration with other stakeholders.

RISK MANAGEMENT

SCANDINAVIAN TOBACCO GROUP SEEKS TO IDENTIFY AND ASSESS POTENTIAL RISKS TO ITS BUSINESS IN ORDER TO MONITOR AND, AS RELEVANT, MITIGATE SUCH RISKS WHETHER THEY ARE AT GROUP OR LOCAL LEVEL. PARTICULAR ATTENTION IS GIVEN TO RISKS THAT HAVE A HIGH LIKELIHOOD OF OCCURRING AND/OR MAY HAVE A POTENTIAL HIGH IMPACT ON THE GROUP'S BUSINESS PERFORMANCE AND OPERATING INCOME.

The overall responsibility for risk management lies with the Board of Directors while the Executive Management is responsible for identifying and assessing risks and ensuring that the relevant actions are taken to mitigate or prepare for the relevant risks. The Audit Committee reviews and assesses reports on the internal risk management and control systems.

A full list of risks that our Group currently views as material can be found in the Offering Circular published in connection with our Initial Public Offering. The Offering Circular is available on our corporate website: www.st-group.com.

We have identified five risks in the upper right quartile of our risk map being relevant for Scandinavian Tobacco Group in the short and medium-term and the potential impact on our cash flow.

REGULATIONS

Due to the health risks associated with smoking, our industry has for decades been subject to regulation on for instance the advertising, sale and consumption of tobacco products. The regulations related to the tobacco industry continue to increase in terms of what is regulated and in terms of geographic spread across the world.

More recent regulatory initiatives in selected markets include required neutral packaging without branding, a ban on certain flavourings, significant reporting obligations in respect of ingredients, and a ban on the display of tobacco products at the point of sale. Tobacco regulations may impact our industry's ability to compete and differentiate its products, entail substantial costs for our Group, adversely affect our results of operations and increase complexity in our operations. We identify ongoing regulatory initiatives as early as possible and with our industry we engage with regulators and stakeholders, as necessary, to ensure reasonable and balanced regulations that meet their objectives.

In the majority of markets where we have our sales organisations, Scandinavian Tobacco Group is a member of the national manufacturers' or trade association, including in the US the Cigar Association of America and the International Premium Cigar & Pipe Retailers. Further, Scandinavian Tobacco Group is member of the European Cigar Manufacturers Association and the European Smoking Tobacco Association.

The main bodies involved in the regulatory development include the European Union (EU), the U.S. Food and Drug Administration (FDA) and the World Health Organization whose Framework Convention on Tobacco Control (FCTC) is an international public health treaty that establishes a global agenda to regulate tobacco in an effort to reduce tobacco consumption.

EU TOBACCO PRODUCTS DIRECTIVE

In 2014, a new EU Tobacco Products Directive was published, which aligns further the regulation of tobacco products across the EU member states and includes new and more restrictive measures on how tobacco products can be designed, presented and sold compared to the current directive. The directive includes a number of new rules, such as more and larger health warnings, however, with the possibility for each member state to decide to treat cigars and pipe tobacco differently by maintaining health warnings of the current size and number for those products. Another example of the content of the new directive is that there can be no reference on the packaging to the taste or smell of the tobacco product. Over time, more comprehensive ingredients reporting and technically challenging tracking systems for all tobacco products will also be implemented.

The new Tobacco Products Directive was published in 2014 and has to be transformed into national regulation in the 28 EU member states before 20 May 2016. As the implementation of the revised Tobacco Products Directive in the respective EU member states is highly uncertain and is taking place very close to the prescribed deadline, we face the risk that Scandinavian Tobacco Group may have prepared packaging that is not compliant in one or more markets after the implementation, and that we may thus have to scrap materials, incur costs of redesigning packaging and not be able to supply compliant products to one or more markets. Further, products which are not compliant with the new directive may not be sold to consumers after May 2017 (or such earlier date as the individual member states may determine). This entails a risk that our Group may not have sold all such products by the deadline. Finally, we may face the risk that our interpretation of the new Tobacco Products Directive and the pertaining national laws may be challenged.

We have devoted and continue to spend significant resources on preparation for the changes that follow from the implementation of the revised EU Tobacco Products Directive and we have special focus on managing our inventories of packaging materials and products to minimise write-offs.

FDA DEEMING REGULATIONS

In 2014, the FDA published the proposed Deeming Regulations, which would extend the FDA's tobacco regulatory power in the US to also cover cigars and pipe tobacco products. The proposed regulations would make cigars and pipe tobacco products subject to extensive regulation, including a pre-market approval process. The FDA has not yet published the final Deeming Regulations and thus the content of the Deeming Regulations is unknown.

The final Deeming Regulations in the US may, in particular in respect of a potential requirement that products be approved prior to being marketed, entail a significant administrative and economic burden on the cigar and pipe tobacco industry and such requirements could in the medium to longer term have an impact on the number of cigar and pipe tobacco products in the market.

Our Group has provided its response to the FDA's proposed Deeming Regulations and advocated its position. In particular in relation to a potential requirement that products need approval from the FDA prior to being marketed, Scandinavian Tobacco Group will draw on its experience from handling similar already existing requirements for fine-cut tobacco products and establish the necessary plans.

EXCISE TAXES

Excise taxes are a major component of the retail price of tobacco products, including the products that Scandinavian Tobacco Group manufactures and sells. Governments may decide to increase the excise tax on our products to increase tax revenue or as a means to limit tobacco consumption.

Increases in the tobacco excise tax rates, in particular an alignment of excise tax rates across tobacco product categories, could significantly impact the consumer price of and potentially the demand for our products. Our Group's ability to effectively adjust to an increase in excise taxes on our products could be limited if such an increase was implemented at a timing or frequency we did not expect, where the change was by a larger amount than we expected or in a particular market or jurisdiction that we did not anticipate. We actively monitor potential changes to the excise taxes imposed on our products and together with other members of our industry we engage in dialogue with regulators to limit the risk of disruption in the market. We aim to pass on excise tax increases to consumers where ever possible in light of the market conditions.

PRODUCTION

Scandinavian Tobacco Group has production facilities around the world and we are dependent on our ability to continuously supply our products to maintain and grow our market share. Political and economic unrest, variations in weather patterns in tobacco growing areas and labour instability may arise in countries and regions in which we manufacture our products.

Interruptions in our Group's supply of products to the market could have a material adverse effect on our business, financial condition and results of operations. In markets in which our Group operates, geopolitical turmoil may negatively affect our operations and financial results. Moreover, crop quality and supply may be at risk for our Group in tobacco growing regions if natural disasters occur. We monitor geopolitical and economic policy developments where it is relevant and avoid overdependence on a small number of markets. Our Group carries inventory to safeguard against bad crops and promotes the efficient use of materials by continuously reviewing the manufacturing process and product specifications where possible to minimise the impact of such natural disasters. Finally, we assess on an ongoing basis the adequacy of our insurance coverage.

LIFTING OF US-CUBA EMBARGO

The US is re-establishing diplomatic relations with Cuba and the US economic and trade embargo, which has been in place since the 1960's and which bans the importation of Cuban cigars and cigars with Cuban tobacco and prevents such products from being sold in the US, may at some point be lifted. It is uncertain if the embargo will be lifted and, if so, what the timing and the impact would be on the US cigar industry and on Scandinavian Tobacco Group's business in the US.

Should the lifting of the US embargo against Cuba open the US market to the commercial importation of Cuban origin cigars, the whole competitive environment in particular for handmade cigars could be affected, and even though the new market situation could create opportunities for our business, the potential impact on Scandinavian Tobacco Group is uncertain and would depend on a number of factors outside our control.

In respect of a potential lifting of the US embargo against Cuba, Scandinavian Tobacco Group is engaging with stakeholders to create awareness about the potential implications to the cigar market in the US. For instance, if non-Cuban companies are not given access to Cuban tobacco and production facilities in Cuba, only Cuban companies may supply Cuban origin cigars to the US market which could distort competition in the US market in particular for handmade cigars.

CURRENCY

Scandinavian Tobacco Group's reporting currency is the DKK, while the most significant currencies for our net sales are the USD, EUR and DKK . Fluctuating currency rates influence our reported net earnings, assets and liabilities, as well as the value of future cash flows denominated in foreign currencies. Currency fluctuations in general directly affect our results of operations, financial condition and net consolidated earnings. Furthermore, long-term changes in foreign exchange rates could adversely affect the competitiveness of our Group's production operations and export sales.

We manage foreign exchange risks arising in production and sales entities at Group level through the use of financial derivatives to thereby reduce the potential impact of currency fluctuations on cash flow, which are hedged for a period of up to 18 months. All cash flow hedges are subject to hedge accounting treatment, as defined by IFRS.

A detailed explanation of our financial risks and instruments can be found in note 4.2 on the pages 73-77.

CORPORATE GOVERNANCE

SCANDINAVIAN TOBACCO GROUP A/S IS A PUBLIC COMPANY INCORPORATED IN DENMARK AND SUBJECT TO DANISH LAW. THE COMPANY WAS LISTED ON NASDAQ COPENHAGEN ON 10 FEBRUARY 2016.

The Group's corporate governance takes into account the Danish Companies Act, the Danish Financial Statements Act, the International Financial Reporting Standards (IFRS), the Danish Securities Trading Act, Nasdaq Copenhagen A/S' Rules for Issuers of Shares and the company's articles of association.

Recommendations and practice on corporate governance
In its Rules for Issuers of Shares, Nasdaq Copenhagen has incorporated the Danish Recommendations on Corporate Governance, which were most recently updated in November 2014 and are available at www.corporategovernance.dk.

Scandinavian Tobacco Group is required to report on its compliance with the recommendations under the so-called 'comply or explain' principle. Scandinavian Tobacco Group complies with all the corporate governance recommendations.

Our statutory report on corporate governance was prepared in connection with the admission of Scandinavian Tobaccco Group A/S' shares to trading and official listing on 10 February 2016 and can be found online on: www.st-group.com/corporate-governance-recommendations.

GOVERNANCE STRUCTURE

Scandinavian Tobacco Group has a two-tier governance structure consisting of the Board of Directors and the Executive Management. The two management bodies are independent of one another and have no overlapping members.

The Board of Directors is responsible for the overall and strategic management of the Group and supervises our activities, management and organisation. The Board of Directors appoints the CEO and other members of the Executive Management who are responsible for the day-to-day management of the Group.

BOARD OF DIRECTORS

The primary tasks for the Board of Directors are to oversee that the Executive Management carries out its tasks in an appropriate way and in accordance with the guidance of the Board of Directors, to ensure that the Group has the right organisational structure, efficient business processes, including bookkeeping processes and practices, and a sound capital structure and liquidity. Furthermore, the Board of Directors oversees the financial development as well as the related planning and reporting systems.

Committees
The Board of Directors has established three committees. All committees report to the Board of Directors.

The Audit Committee's tasks include review, assessment and supervision of the financial reporting, the audit process and the internal control and risk management systems. The Audit Committee also assesses the independence of the external auditor and 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 CEO and external auditor may participate in meetings of the Audit Committee if so requested by the Audit Committee. The Audit Committee's work is governed by rules of procedure adopted by the Board of Directors.

The Audit Committee currently consists of Søren Bjerre-Nielsen (Chairman), Marlene Forsell and Dianne Neal Blixt. All members of the Audit Committee are considered independent of the company and have relevant financial expertise.

The Remuneration Committee provides recommendations to the Board of Directors in regard to the remuneration policy applicable to the Board of Directors and the Executive Management. The remuneration policy adopted by the Board of Directors must be presented to the General Meeting for approval. The Remuneration Committee submits proposals for the remuneration of the Board of Directors and the Executive Management to the Board of Directors. The work of the Remuneration Committee is governed by rules of procedure adopted by the Board of Directors.

The Remuneration Committee consists of Jørgen Tandrup (Chairman), Conny Karlsson and Henning Kruse Petersen.

The Nomination Committee supports the Board of Directors' decisions with respect to the nomination and appointment of members of the Board of Directors and of the Executive Management. The Nomination Committee assesses the structure, size and composition of the Board of Directors and the qualifications, experience and knowhow of each member of the Board of Directors and the Executive Management. It must report its assessments to the Board of Directors. The work of the Nomination Committee is subject to rules of procedure adopted by the Board of Directors.

The Nomination Committee consists of Jørgen Tandrup (Chairman), Conny Karlsson and Henning Kruse Petersen.

Members
The General Meeting elects the Board of Directors which currently has eight members elected by the General Meeting and four employee-elected members. 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. All members of the Board of Directors hold the same rights and obligations. Only persons who are younger than 70 years at the time of the election may be elected by the General Meeting.

Seven of the eight shareholder-elected members of the Board of Directors are considered independent. None of the employee-elected members are considered independent.

BOARD INFORMATION

SHAREHOLDER-ELECTED	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE	DEPENDENCY
Jørgen Tandrup		**Chairman**	**Chairman**	Not independent
Conny Karlsson		🍃	🍃	Independent
Marlene Forsell	🍃			Independent
Tommy Pedersen				Independent
Henning Kruse Petersen		🍃	🍃	Independent
Søren Bjerre-Nielsen	**Chairman**			Independent
Dianne Neal Blixt	🍃			Independent
Luc Missorten				Independent
EMPLOYEE-ELECTED				
Kurt Asmussen				Not independent
Hermod Hvid				Not independent
Hanne Malling				Not independent
Charlotte Lückstadt Nielsen				Not independent

DIVERSITY AND INCLUSION

The Board of Directors believes that its members should be chosen for their qualifications, knowledge and experience. Yet it also embraces diversity as a source of strength to our Group and our workplace.

In 2013, the Board of Directors adopted a Diversity and Inclusion Policy as well as targets that we hereby disclose with reference to Section 99b of the Danish Financial Statements Act. The policy outlines the ambition of our Board of Directors that at least 25% of shareholder-elected members of the Board of Directors will be women by 2017.

In 2015, there was one woman among the eight shareholder-elected members of the Board of Directors (12.5%) and thus the target was not met. In connection with the election of new members of the Board of Directors prior to the public listing on 10 February 2016, Dianne Blixt was elected. Two of the eight shareholder-elected members are currently women.

The target for the number of women in the Board will be reviewed in 2016.

As women are currently underrepresented compared with men on the Board of Directors and in managing positions, it is our goal that at least one third of our managers at senior management level will be women by 2020.

We continuously work on enabling a better representation at senior management level of women who are currently the under-represented gender in our Group. Specifically, we have increased our focus on performance by rolling out performance tools to more than 2,000 employees in 2015. These tools leave us in a better position to map the individuals' performance and identify potential and future successors within our entire talent pool. This enables us to uncover and support women with leadership potential.

In 2014, we reported that of our top 145 managers, 18% were women. In 2015, the senior management positions accounted for approx. 200 positions, out of which 22% are women, leaving us 11 percentage points away from our target for 2020.

EXECUTIVE MANAGEMENT

The Board of Directors appoints the CEO and other members of the Executive Management. The Executive Management prepares for the Board of Directors' approval and implements the Group's overall strategy. The Executive Management is responsible for the day-to-day management of our Group's business.

ASSURANCE RESPONSIBILITIES

Internal controls relating to financial reporting
The overall responsibility for the Group's control systems, including control over financial reporting, rests with the Board of Directors and the Audit Committee who monitor the control and risk management systems. The Executive Management sees to the implementation and application of the appropriate control systems. As part of the overall risk management strategy, Scandinavian Tobacco Group has set up internal control systems that are reviewed regularly by the Board of Directors (following the Audit Committee's assessment) to ensure that these systems are appropriate and sufficient in relation to the present activities and operations.

The foundation for the assurance and internal control system related to the financial reporting is policies and procedures including our Group's Code of Conduct, Finance Manual, Internal Control Policy, Guidelines for Internal Control, Delegation of Authority Guidelines, etc. Based on these policies and procedures, control activities are established locally in sales entities and factories.

The Audit Committee appointed by the Board of Directors is responsible for monitoring the internal controls systems. The Executive Management monitors and evaluates the effectiveness of the internal controls and reports to the Audit Committee.

The Group has implemented a formalised financial reporting process that includes the reporting requirements and related control activities. As part of this process, Group Controlling controls the financial reporting from all subsidiaries and prepares the consolidated financial reporting, and Executive Management carries out business reviews for each business segment on a monthly basis. The Audit Committee and the Board of Directors receive monthly and quarterly reporting, and the financial performance of the Group is discussed in every ordinary meeting of the Board of Directors.

Audit
Our Financial Statements are audited by an external auditor.

The independence, competencies and other matters pertaining to the auditor are assessed by the Audit Committee and the Board of Directors in consultation with the Executive Management. The external auditor is elected by the annual General Meeting for the period until the next annual General Meeting.

It is the duties of the Audit Committee to make a critical assessment of the independence, objectivity and competence of external auditor and to make recommendations to the Board of Directors for its recommendation to the General Meeting on the appointment of external auditor.

Based on a recommendation from the Audit Committee, the framework for the auditor's duties – including remuneration and audit and non-audit tasks – is agreed on an annual basis between the Board of Directors and the auditor .

Whistleblower Scheme
The Board of Directors has decided to establish a whistleblower scheme, which is expected to be fully implemented across the Group in 2016. The whistleblower scheme will enable reporting by employees of for instance criminal activities and violations of Group policies.

REMUNERATION REPORT

Scandinavian Tobacco Group's remuneration policy lays down the principles governing remuneration of the Board of Directors and Executive Management and provides general guidelines for incentive pay to the members of the Executive Management in accordance with the Danish Companies Act and the Corporate Governance Recommendations.

The overall objective of the remuneration policy is to attract, motivate and retain qualified members of the Board of Directors and Executive Management. The policy aims at aligning the interests of shareholders, the Board of Directors and the Executive Management and rewards both short and long-term contributions and results.

The remuneration policy can be found on our corporate website: investor.st-group.com.

Board of Directors
Members of the Board of Directors receive fixed annual fees. Ordinary members receive a fixed amount, while the chairman and Deputy Chairman receive multiples thereof. Board members who also take on the role of committee chair person or committee member receive an additional fixed fee to reflect the additional workload and responsibilities associated with committee membership. Remuneration of the members of the Board of Directors may not include any incentive element.

The Remuneration Committee submits proposals for the Board of Directors' remuneration annually, which are presented for approval by the company's shareholders at the annual General Meeting. In 2015, members of the Board of Directors received fixed annual fees in the aggregate amount of DKK 4.9 million including additional fees to the Chairman, the Deputy Chairman and the Audit Committee members.

Executive Management
The Executive Management's remuneration is assessed annually and compared to that of other international companies of similar size and complexity. Each year, the Remuneration Committee makes a proposal on the remuneration of members of Executive Management for approval by the Board of Directors, including the performance criteria and performance measurement in relation to such variable components of the remuneration.

Up to 2015, the Executive Management received a fixed base salary (including, but not limited to, standard benefits covering typical management fringe benefits) and a performance-based cash bonus programme (STIP) with an earning potential up to 125% of the individual's gross annual salary. Further, the members of the Executive Management participated in a stock option programme which was triggered and settled in cash in connection with the listing of the Group on Nasdaq Copenhagen on 10 February 2016, where Executive Management received a total payment of DKK 36.9 million (see also note 2.2).

In December 2015, the Board of Directors approved the principles of a new long-term incentive programme (LTIP), under which the participants will receive an annual allocation of performance share units (PSU's). According to the LTIP, the CEO will receive an annual grant value of allocated PSU's corresponding to 40% of the current annual base salary, whereas the other members of the Executive Management will receive a grant of 30% of their annual base salary. The value of each PSU will follow the trading price of the shares during the 3-year performance and retention period. Vesting of PSU's will be subject to the fulfilment of a predetermined key performance indicator multiplier between 0.0 and 2.0.

In connection with the introduction of the LTIP, the Board of Directors also revised the existing STIP, so that the Executive Management may be eligible to receive an annual cash-based performance bonus of up to 40% of the annual base salary for the CEO and up to 50% for the other members of the Executive Management. The new STIP is intended to reward annual performance against the achievement of certain key performance indicators related to EBITDA growth and cash generation.

Employment contracts of the members of the Executive Management may be terminated at 6-24 months' notice.

For the year ended 31 December 2015, the total costs of compensation for the Executive Management including salary, bonus and pension aggregated DKK 39.0 million. In addition, the Group has expensed DKK 8.9 million related to stay-on bonuses and loyalty payments accumulating over time, which will become payable for certain members of the Executive Management, if they continue to be employed in their current positions. The Group has also expensed DKK 24.5 million related to the stock option programme mentioned above, whereby total costs of remuneration for the Executive Management in 2015 amount to DKK 72.4 million.

More information regarding the remuneration of our Board of Directors and Executive Management is found in note 2.2 in the Financial Statements on page 57.

EXECUTIVE MANAGEMENT

NIELS FREDERIKSEN

CEO

Niels Frederiksen became CEO of Scandinavian Tobacco Group A/S in March 2015 and has held various positions in the organisation since 1999, including Senior Vice President and Executive Vice President. From 2013 to 2015, he was responsible for the supply chain and the handmade cigar business outside the US, working alongside General Cigar. He is currently also Chairman of the Board of Directors of Boman A/S and on the Board of Directors of Ingeniør Kaptajn Aage Nielsens Familiefond.

SISSE FJELSTED RASMUSSEN

CFO

Sisse Fjelsted Rasmussen has been with Scandinavian Tobacco Group A/S since 2008 and serves as Executive Vice President and CFO, where she is responsible for Group Finance, Group IT and Group Communications. She is on the Boards of Directors of PostNord AB and Inwido AB.

VINCENT CREPY

EXECUTIVE VICE PRESIDENT, SUPPLY CHAIN

Vincent Crepy became Executive Vice President for Supply Chain machine-made cigars and smoking tobacco of Scandinavian Tobacco Group A/S in September 2015. He has held leading Supply Chain positions in Europe, the US and Asia-Pacific since 2001, including for Ventura Foods LLC, Reckitt Benckiser and Procter & Gamble.

CHRISTIAN HOTHER SØRENSEN

EXECUTIVE VICE PRESIDENT, SALES & MARKETING

Christian Hother Sørensen joined Scandinavian Tobacco Group A/S in 2003. From 2003 to 2008 he held positions as Sales and Marketing Director, Senior Vice President for Exports and President of House of Prince. He has been Executive Vice President for Sales and Marketing since 2006. He also currently serves as Deputy Chairman of the Board of Directors of Toms Gruppen A/S.

ROB ZWARTS

EXECUTIVE VICE PRESIDENT, SPECIAL PROJECTS

Rob Zwarts joined Scandinavian Tobacco Group A/S in 2002 and has been Executive Vice President of Supply Chain from 2008-2014. Rob Zwarts is responsible for the implementation of the revised EU Tobacco Products Directive taking force in May 2016. He also currently serves as a member of the advisory board of NDF Special Lightning B.V.

CRAIG REYNOLDS

EXECUTIVE VICE PRESIDENT, HANDMADE CIGARS

Craig Reynolds has been with Cigars International since 2009. He was Executive Vice President from 2009 to 2010 and became President of Cigars International in 2011. In November 2015, he was appointed Executive Vice President for our global handmade cigar business. He continues as President of Cigars International. Craig Reynolds is not a registered member of the Executive Management.

BOARD OF DIRECTORS

JØRGEN TANDRUP

CHAIRMAN

Jørgen Tandrup has been Chairman of the Board of Directors since October 2010. Jørgen Tandrup held key roles at Skandinavisk Tobakskompagni A/S since 1975 until he became CEO from 1992 to 2006. He is also Chairman of the Boards of Directors of Chr. Augustinus Fabrikker Aktieselskab, Skandinavisk Holding A/S, Tivoli A/S, Fritz Hansen A/S, Skodsborg Sundhedscenter A/S and Jeudan A/S. Furthermore, he is a member of the Board of Directors of The Augustinus Foundation.

CONNY KARLSSON

DEPUTY CHAIRMAN

Conny Karlsson has been Deputy Chairman of Scandinavian Tobacco Group A/S since 2010. Conny Karlsson is Chairman of Swedish Match AB. Previously he has been CEO of Duni AB 1990-2000 and has had different management positions in Procter & Gamble from 1978 to 1990.

SØREN BJERRE-NIELSEN

Søren Bjerre-Nielsen was elected as member of the Board of Directors of Scandinavian Tobacco Group A/S in February 2016. He also currently serves as Chairman of the Boards of Directors of Danmarks Nationalbank, MT Højgaard A/S, Højgaard Holding A/S, VKR Holding A/S, Højgaard Industri A/S and Velux A/S.

TOMMY PEDERSEN

Tommy Pedersen joined the Board of Directors of Scandinavian Tobacco Group A/S in 2010. He is also CEO of The Augustinus Foundation, Chr. Augustinus Fabrikker Aktieselskab, CAF Invest A/S and TP Advisers ApS. He has extensive management experience and also serves on the boards of numerous companies: Maj Invest Equity A/S, Maj Invest Holding A/S, Fondsmæglerselskabet Maj Invest A/S, Rungsted Sundpark A/S, Skodsborg Sundpark A/S, Tivoli A/S, Nykredit Forsikring A/S and Skandinavisk Holding A/S.

HENNING KRUSE PETERSEN

Henning Kruse Petersen joined the Board of Directors of Scandinavian Tobacco Group A/S in 2010. From 1995-2007 he held a position as Group Managing Director of Nykredit responsible for corporate lending and international activities. At present, he serves as CEO of 2KJ A/S and Komplementarselskabet Midgard Denmark ApS. He is also currently Deputy Chairman of the Boards of Directors of Fritz Hansen A/S, Skandinavisk Holding A/S and Skandinavisk Holding II A/S. Furthermore, he serves on the boards of various public and private companies: C.W Obel A/S, Erhvervsinvest Management A/S and Santa Fe Group A/S.

KURT ASMUSSEN

ELECTED BY EMPLOYEES

Kurt Asmussen joined Scandinavian Tobacco Group Assens A/S in 1996 as a technician. He joined the Board of Directors of Scandinavian Tobacco Group A/S as an employee-elected member in 2010.

DIANNE NEAL BLIXT

Dianne Neal Blixt was elected as member of the Board of Directors in February 2016. From 2004 until her retirement in 2007, Dianne Neal Blixt was Executive Vice President and CFO of Reynolds American, Inc. She currently serves as member of the Boards of Directors of Ameriprise Financial Services, Inc. and as chairperson for the Board of Trustees of Reynolds House Museum of American Art.

MARLENE FORSELL

Marlene Forsell joined the Board of Directors of Scandinavian Tobacco Group A/S in 2014. She became Senior Vice President and CFO of Swedish Match AB in August 2013. Marlene Forsell has held various positions in Swedish Match AB since 2004, including Vice President Group Reporting and Vice President Business Control.

LUC MISSORTEN

Luc Missorten was elected member of the Board of Directors in February 2016. He currently serves as Chairman of the Boards of Directors of Ontex Group NV, Barco NV, Recitel NV/SA, GIMV NV and Corelio NV. Luc Missorten has previously served as CEO of Corelio NV. Before joining Corelio NV, he was CFO at Inbev and UCB.

HERMOD HVID

ELECTED BY EMPLOYEES

Hermod Hvid joined Scandinavian Tobacco Group A/S in 1999 and since 2010 he has held the position as International Business Manager in charge of the Nordic region (excluding Denmark) and of several export markets in the Mediterranean region. He became employee-elected member of the Board of Directors of Scandinavian Tobacco Group A/S in 2015.

HANNE MALLING

ELECTED BY EMPLOYEES

Hanne Malling joined Scandinavian Tobacco Group A/S in 2000. In her position as Trademark Manager, she is in charge of the entire trademark and domain name portfolio of the Group. Hanne Malling joined the Board of Directors of Scandinavian Tobacco Group A/S as an employee-elected member in 2010.

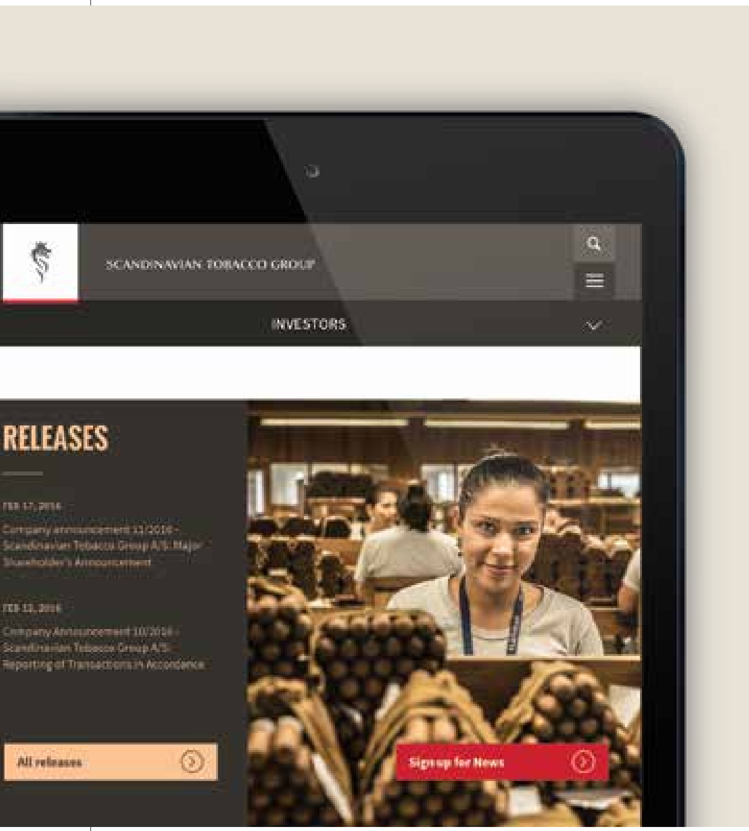
CHARLOTTE LÜCKSTADT NIELSEN

ELECTED BY EMPLOYEES

Charlotte Lückstadt Nielsen joined Scandinavian Tobacco Group A/S in 1981 and has been an operator ever since. She became an employee-elected member of the Board of Directors of Scandinavian Tobacco Group A/S in 2010.

SHAREHOLDER INFORMATION

SCANDINAVIAN TOBACCO GROUP IS COMMITTED TO MAINTAINING A CONSTRUCTIVE DIALOGUE AND A HIGH LEVEL OF TRANSPARENCY WHEN COMMUNICATING WITH SHAREHOLDERS.



ST-GROUP.COM FOR FAST AND TIMELY INFORMATION

Through our website, we communicate with shareholders openly, providing continuously updated current and historical information about our Group's operations and activities.

All company announcements are published in English and Danish through Nasdaq Copenhagen and the Danish Financial Supervisory Authority.

We strive to ensure that relevant, accurate, balanced and timely information is made available to investors. Our Investor Relation Policy contains the main principles for the communication with our investors, analysts and other stakeholders in the capital market. The policy is available in the Governance section at investor.st-group.com.

FINANCIAL INFORMATION

Scandinavian Tobacco Group publishes interim and annual reports which are available on the Group's website. The interim reports are exclusively available electronically and can be subscribed to via our website: investor.st-group.com. Shareholders interested in printed versions of annual reports can request a hardcopy on investor@st-group.com.

Following the release of financial reports, Executive Management will deliver investor presentations and telephone conferences to provide participants with the opportunity to ask questions. Webcasts of such presentations by the Executive Management will subsequently be available online.

PUBLICATION CALENDAR

2016 10 MAR	ANNUAL REPORT FOR 2015
2016 25 MAY	INTERIM REPORT Q1
2016 31 AUG	INTERIM REPORT Q2
2016 03 NOV	INTERIM REPORT Q3

IR silence period starts four weeks prior to release dates.

ANNUAL GENERAL MEETING

The Board of Directors strives to ensure that Annual General Meetings encourage active ownership by shareholders.

Scandinavian Tobacco Group's Annual General Meeting will be held

2016
26
APR

AT 16.30
BOJESEN AXELBORG
VESTERBROGADE 4A, 1620 COPENHAGEN V

Doors to the AGM will open at 15.30. Notices convening General Meetings will be published on the Group's website at www.st-group.com and, where requested, by e-mail to all shareholders registred in the register of shareholders.

FINANCIAL AND DIVIDEND POLICY

Scandinavian Tobacco Group's shareholder return policy includes a dividend policy with a payout ratio of at least 70% of consolidated net profit for the year. The leverage target defined as net debt/adjusted EBITDA ratio is 2.5x.

For 2015, the Board of Directors proposes that a dividend of DKK 5.00 per share is paid to the shareholders corresponding to a payout ratio of 75%.

SHARE DATA

Trading symbol	STG
ISIN	DK0060696300
IPO	10 FEBRUARY 2016
Segment	Large
Share capital (DKK)	100,000,000
Number of shares	100,000,000
Nominal value (DKK)	1 per share
Votes per share	1

MAJOR SHAREHOLDERS

As of 1 March 2016, the following investors have reported holdings of more than 5% of Scandinavian Tobacco Group's share capital/voting rights:

Skandinavisk Holding II A/S (DK)	33.2%
Swedish Match Cigars Holding AB (SE)	31.2%
The Capital Group Companies, Inc (US)	5.1%

CONTACT

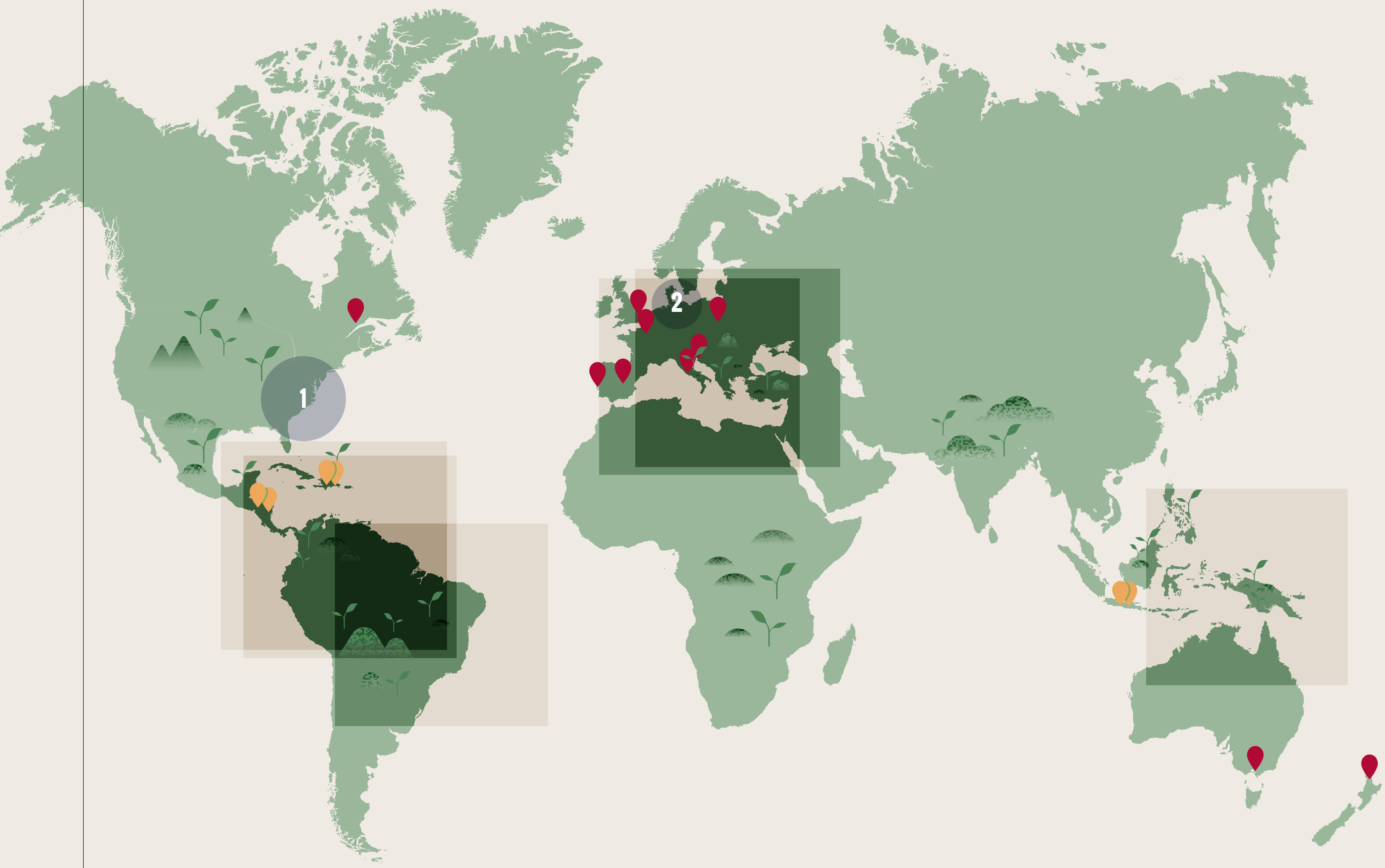
For additional information, investors may contact:

TORBEN SAND
Head of Investor Relations

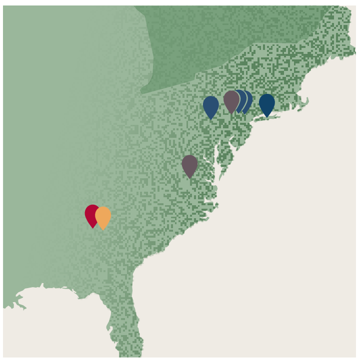
Tel: +45 72 20 71 26
investor@st-group.com

OUR PRESENCE

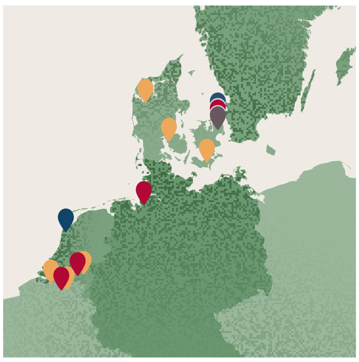
SCANDINAVIAN TOBACCO GROUP IS THE PARENT COMPANY OF GENERAL CIGAR CO., CIGARS INTERNATIONAL AND 15 SALES COMPANIES, 6 CLUBS AND RETAIL STORES AND 14 MANUFACTURING SITES.
OUR GROUP IS HEADQUARTERED IN COPENHAGEN, DENMARK.



1. USA, EAST COAST



2. BENELUX, GERMANY & DENMARK



LOCATIONS

- MAIN OFFICES
- SALES COMPANY
- CLUB & RETAIL STORE
- MANUFACTURING SITE

MAIN OFFICES

SCANDINAVIAN TOBACCO GROUP A/S
Sydmarken 42
2860 Soeborg, Denmark
Tel: +45 3955 6200
Mail: info@st-group.com
www.st-group.com

SCANDINAVIAN TOBACCO GROUP

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10900 Nuckols Road, Suite 100
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Tel: +1 804 935 2800
www.generalcigar.com

CIGARS INTERNATIONAL
1911 Spillman Dr
Bethlehem, PA 18015, U.S.A.
Tel: +1 484 285 0400
www.cigarsinternational.com

CLUBS & RETAIL STORES

UNITED STATES
CI Hamburg Super-Store
1635 Mountain Road
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Tel: +1 610 562 0500

UNITED STATES
CI Bethlehem Super-Store
4078 Nazareth Pike
Bethlehem, PA 18020
Tel: +1 484 895 3933

UNITED STATES
CI Downtown Store
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Bethlehem, PA 18018
Tel: +1 610 419 2076

UNITED STATES
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UNITED STATES
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2280 Mountain Industrial Boulevard
Tucker, GA 30084
Tel: +1 770 934 8540

UNITED KINGDOM
Scandinavian Tobacco Group
United Kingdom Limited
250 Centennial Park, Centennial Avenue
Elstree, Borehamwood
Herts WD6 3TH
Tel: +44 20 8731 3400

MANUFACTURING SITES

BELGIUM
Scandinavian Tobacco Group
Lummen N.V.
Dellestraat 12A
3560 Lummen
Tel: +32 13 25 10 00

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BELGIUM
Scandinavian Tobacco Group
Wuustwezel N.V.
Bredabaan 853
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—

DENMARK
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Assens Factory:
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—

DENMARK
Scandinavian Tobacco Group Assens A/S
Holstebro Factory:
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DENMARK
Scandinavian Tobacco Group
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THE DOMINICAN REPUBLIC
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HONDURAS
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FINANCIAL STATEMENTS

SCANDINAVIAN TOBACCO GROUP A/S

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY - 31 DECEMBER

CONSOLIDATED INCOME STATEMENT

DKK MILLION	NOTE	2015	2014
Net sales	2.1	**6,732.3**	**6,126.0**
Cost of goods sold	2.1	-3,493.6	-3,178.7
Gross profit	2.1	**3,238.7**	**2,947.3**
Other external costs		-1,130.1	-1,049.9
Staff costs	2.2	-862.9	-748.9
Other income		1.3	28.7
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**1,247.0**	**1,177.2**
Depreciation and impairment	3.2	-121.5	-102.0
Earnings before interest, tax and amortisation (EBITA)		**1,125.5**	**1,075.2**
Amortisation	3.1	-184.4	-167.5
Earnings before interest and tax (EBIT)		**941.1**	**907.7**
Share of profit of associated companies, net of tax	4.4	10.2	6.2
Financial income	4.5	37.9	29.1
Financial costs	4.5	-105.3	-97.4
Profit before tax		**883.9**	**845.6**
Income taxes	2.3	-216.3	-205.8
Net profit for the year		**667.6**	**639.8**
Earnings per share			
Earnings per share (DKK)	4.6	6.7	6.4
Diluted earnings per share (DKK)	4.6	6.7	6.4

OTHER COMPREHENSIVE INCOME

Items that will not be recycled subsequently to the Consolidated Income Statement:			
Actuarial gains and losses on pension obligations		11.4	-62.1
Tax of actuarial gains and losses on pension obligations		-4.8	19.6
Items that will be recycled subsequently to the Consolidated Income Statement, when specific conditions are met:			
Cash flow hedges, realisation of previously deferred (gains)/losses to financial items		34.9	31.0
Cash flow hedges, realisation of previously deferred (gains)/losses to net sales and cost of goods sold		16.4	9.3
Cash flow hedges, deferred gains/(losses) incurred during the year		-2.5	-45.7
Tax of hedging instruments		-11.5	0.9
Foreign exchange rate adjustments		526.4	543.4
Other comprehensive income for the year, net of tax		**570.3**	**496.4**
Total comprehensive income for the year		**1,237.9**	**1,136.2**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

ASSETS

DKK MILLION	NOTE	2015	2014
NON-CURRENT ASSETS			
INTANGIBLE ASSETS			
Goodwill		4,504.2	4,205.3
Trademarks		3,331.5	3,352.1
IT software		69.5	82.9
Other intangible assets		230.7	249.8
Total intangible assets	3.1	**8,135.9**	**7,890.1**
PROPERTY, PLANT AND EQUIPMENT			
Land and buildings		672.0	678.6
Plant and machinery		356.6	339.1
Equipment, tools and fixtures		92.2	83.9
Leasehold improvements		46.7	43.2
Construction in progress		152.3	58.1
Total property, plant and equipment	3.2	**1,319.8**	**1,202.9**
OTHER NON-CURRENT ASSETS			
Investments in associated companies	4.4	126.1	109.7
Deferred income tax assets	2.3	135.4	172.3
Other financial fixed assets	4.4	0.6	0.6
Total other non-current assets		**262.1**	**282.6**
Total non-current assets		**9,717.8**	**9,375.6**
CURRENT ASSETS			
Inventories	3.3	**2,998.5**	**3,099.2**
RECEIVABLES			
Trade receivables	3.4	828.8	811.1
Receivables from affiliated companies		0.8	1.7
Other receivables		100.8	97.4
Prepaid corporate tax	2.3	226.0	143.2
Prepayments	3.5	62.4	52.7
Total receivables		**1,218.8**	**1,106.1**
Cash and cash equivalents		**608.8**	**581.0**
Total current assets		**4,826.1**	**4,786.3**
Total assets		**14,543.9**	**14,161.9**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

EQUITY AND LIABILITIES

DKK MILLION	NOTE	2015	2014
Share capital	4.6	100.0	100.0
Reserve for hedging		-30.3	-67.6
Reserve for currency translation		1,011.4	485.0
Retained earnings		7,916.8	8,569.6
Total equity		**8,997.9**	**9,087.0**
Bank loans	4.1	3,337.9	2,307.5
Deferred income tax liabilities	2.3	735.0	694.3
Pension obligations	3.7	241.0	233.0
Other provisions	3.6	41.7	38.9
Other liabilities		37.1	47.4
Total non-current liabilities		**4,392.7**	**3,321.1**
Bank loans	4.1	0.0	650.8
Trade payables		385.9	375.9
Corporate tax liabilities	2.3	79.5	93.9
Other provisions	3.6	21.1	44.1
Other liabilities		666.8	589.1
Total current liabilities		**1,153.3**	**1,753.8**
Total liabilities		**5,546.0**	**5,074.9**
Total equity and liabilities		**14,543.9**	**14,161.9**

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY – 31 DECEMBER 2015

DKK MILLION	SHARE CAPITAL	RESERVE FOR HEDGING	RESERVE FOR CURRENCY TRANSLATION	RETAINED EARNINGS	TOTAL
Equity at 1 January 2015	**100.0**	**-67.6**	**485.0**	**8,569.6**	**9,087.0**
Comprehensive income for the year					
Net profit for the year	**0.0**	**0.0**	**0.0**	**667.6**	**667.6**
Other comprehensive income					
Cash flow hedges		48.8			48.8
Tax of cash flow hedges		-11.5			-11.5
Foreign exchange adjustments on net investments in foreign operations			526.4		526.4
Actuarial gains and losses on pension obligations				11.4	11.4
Tax of actuarial gains and losses on pension obligations				-4.8	-4.8
Total other comprehensive income	**0.0**	**37.3**	**526.4**	**6.6**	**570.3**
Total comprehensive income for the year	**0.0**	**37.3**	**526.4**	**674.2**	**1,237.9**
Transactions with shareholders					
Dividend paid (note 4.6)				-1,327.0	-1,327.0
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**-1,327.0**	**-1,327.0**
Equity at 31 December 2015	**100.0**	**-30.3**	**1,011.4**	**7,916.8**	**8,997.9**

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY – 31 DECEMBER 2014

DKK MILLION	SHARE CAPITAL	RESERVE FOR HEDGING	RESERVE FOR CURRENCY TRANSLATION	RETAINED EARNINGS	TOTAL
Equity at 1 January 2014	**100.0**	**-63.1**	**-58.4**	**8,354.3**	**8,332.8**
Comprehensive income for the year					
Net profit for the year	**0.0**	**0.0**	**0.0**	**639.8**	**639.8**
Other comprehensive income					
Cash flow hedges		-5.4			-5.4
Tax of cash flow hedges		0.9			0.9
Foreign exchange adjustments on net investments in foreign operations			543.4		543.4
Actuarial gains and losses on pension obligations				-62.1	-62.1
Tax of actuarial gains and losses on pension obligations				19.6	19.6
Total other comprehensive income	**0.0**	**-4.5**	**543.4**	**-42.5**	**496.4**
Total comprehensive income for the year	**0.0**	**-4.5**	**543.4**	**597.3**	**1,136.2**
Transactions with shareholders					
Dividend paid (note 4.6)				-382.0	-382.0
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**-382.0**	**-382.0**
Equity at 31 December 2014	**100.0**	**-67.6**	**485.0**	**8,569.6**	**9,087.0**

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY – 31 DECEMBER

DKK MILLION	NOTE	2015	2014
Net profit for the year		667.6	639.8
Adjustments	5.1	641.6	508.7
Change in working capital	4.3	284.3	189.1
Cash flow from operating activities before financial items		**1,593.5**	**1,337.7**
Financial income received	4.5	37.9	29.1
Financial costs paid	4.5	-105.3	-97.4
Cash flow from operating activities before tax		**1,526.1**	**1,269.4**
Tax payments	2.3	-240.7	-213.3
Cash flow from operating activities		**1,285.4**	**1,056.0**
Acquisitions		0.0	-310.2
Investment in intangible assets	3.1	-26.4	-22.8
Investment in property, plant and equipment	3.2	-209.5	-192.4
Sale of property, plant and equipment		1.5	50.1
Dividend from associated companies	4.4	5.6	4.2
Cash flow from investing activities		**-228.8**	**-471.2**
New external funding		3,311.4	353.5
Instalment and repayment bank loans		-3,013.2	-439.7
Dividend payments		-1,327.0	-382.0
Cash flow from financing activities		**-1,028.8**	**-468.2**
Net cash flow for the year		**27.8**	**116.7**
Cash and cash equivalents, net at 1 January		581.0	464.3
Net cash flow for the year		27.8	116.7
Cash and cash equivalents, net at 31 December		**608.8**	**581.0**

NOTES

The notes are divided into different sections. The disclosures are structured to provide full transparency in the disclosed amounts, describing the relevant accounting policy, key accounting estimates and numerical disclosure for each note.

SECTION 1

BASIS OF PREPARATION

Introduces the Group's financial accounting policies in general and an overview of Management's key accounting estimates.

1.1 Summary of significant accounting policies 51
1.2 Other accounting policies 52
1.3 Other general accounting policies 53

SECTION 2

RESULTS FOR THE YEAR

Comprises the notes related to the result for the year including segment information, taxes and staff costs.

2.1 Gross profit (net sales and cost of goods sold) 54
2.2 Staff costs 57
2.3 Income and deferred income taxes 59

SECTION 3

OPERATING ASSETS AND LIABILITIES

Relates to the assets that form the basis for the activities of the Group and the related liabilities.

3.1 Intangible assets 61
3.2 Property, plant and equipment 64
3.3 Inventories 65
3.4 Trade receivables 66
3.5 Prepayments 67
3.6 Other provisions 67
3.7 Pension obligations 68

SECTION 4

CAPITAL STRUCTURE AND FINANCING ITEMS

Encompasses notes related to capital structure and financing items.

4.1 Financial institutions 72
4.2 Financial risks and instruments 73
4.3 Changes in working capital 77
4.4 Financial fixed assets 78
4.5 Financial income and costs 80
4.6 Share capital and dividend 80
4.7 Net interest-bearing debt 81

SECTION 5

OTHER DISCLOSURES

Includes other statutory notes and notes of secondary importance from the perspective of the Group.

5.1 Cash flow adjustments 82
5.2 Contingent liabilities 82
5.3 Related-party transactions 83
5.4 Events after the reporting period 84
5.5 Fee to statutory auditor 84
5.6 Entities in Scandinavian Tobacco Group 85
5.7 Explanation of financial ratios 87

SECTION 1

BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Scandinavian Tobacco Group presents its Consolidated Financial Statements on the basis of the latest developments in international financial reporting, and the Group strives for early adoption of EU endorsed IFRS accounting standards. All affiliated companies within the Group follow the same Group accounting policies. This section describes the significant accounting policies and other accounting policies in general, including Management's key accounting estimates and the new IFRS requirements. A detailed description of accounting policies and key accounting estimates related to specific reported amounts is presented in the note to the relevant financial item. A detailed description of accounting policies and key accounting estimates related to specific reported amounts is presented in the note to the relevant financial item.

NOTE 1.1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of Scandinavian Tobacco Group have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) and additional Danish disclosure requirements for listed companies.

RECOGNITION AND MEASUREMENT

The Consolidated Financial Statements have been prepared under the historical cost basis except when IFRS explicitly requires the use of fair value.

Danish kroner is the Group's presentation currency.

The principal accounting policies set out below have been applied consistently in the preparation of the Consolidated Financial Statements for all the years presented.

PRINCIPAL ACCOUNTING POLICIES

The Group's accounting policies are described in relation to the individual notes to the Consolidated Financial Statements. Considering all the accounting policies applied in the preparation of the Consolidated Financial Statements, Management regards the following as the most significant accounting policies for the recognition and measurement of reported amounts as well as relevant to an understanding of the Consolidated Financial Statements:

- Net sales (note 2.1)
- Income taxes (note 2.3)
- Intangible assets and property, plant and equipment including impairment (notes 3.1 and 3.2)
- Inventories (note 3.3)
- Trade receivables and allowances for doubtful trade receivables (note 3.4)

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In preparing the Group's Consolidated Financial Statements, Management makes various accounting estimates, judgments and assumptions which form the basis of presentation, recognition and measurement of the Group's assets and liabilities.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. In some circumstances a change in the estimates may be necessary because of changes in the underlying assumptions.

ESTIMATION UNCERTAINTY

Determining the carrying amount of some assets and liabilities requires judgments, estimates and assumptions concerning future events.

The judgments, estimates and assumptions made are based on historical experience and other factors which Management assesses to be reliable, but which by their very nature are associated with uncertainty and unpredictability. These assumptions may prove incomplete or incorrect, and unexpected events or circumstances may arise.

The Group is also subject to risks and uncertainties which may lead to actual results differing from these estimates, both positively and negatively. Assumptions about the future and estimation uncertainty on the balance sheet date are described in the notes where there is a significant risk of changes that could result in material adjustments to the carrying amount of assets or liabilities within the next financial year.

Management regards the following areas to include the key accounting estimates and assumptions used in the preparation of the Consolidated Financial Statements:

- Goodwill (note 3.1)
- Trademarks (note 3.1)
- Inventories (note 3.3)
- Pension obligations (note 3.7)

Please refer to the specific notes for further information on the key accounting estimates and assumptions applied.

NOTE 1.1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFINING MATERIALITY

The Consolidated Financial Statements are a result of processing large numbers of transactions and aggregating those transactions into classes according to their nature or function. When aggregated, the transactions are presented in classes of similar items in the Consolidated Financial Statements. If a line item is not individually material, it is aggregated with other items of a similar nature in the Consolidated Financial Statements or in the notes.There are substantial disclosure requirements throughout IFRS. Management provides specific disclosures required by IFRS unless the information is considered immaterial to the economic decision making of the users of these financial statements or not applicable.

NOTE 1.2

OTHER ACCOUNTING POLICIES

IMPACT OF NEW ACCOUNTING STANDARDS

Based on an assessment of new or amended and revised accounting standards and interpretations ('IFRS') issued by IASB and IFRS endorsed by the European Union effective on or after 1 January 2015, it has been assessed that the application of these new IFRS has not had a material impact on the Consolidated Financial Statements in 2015, and the Group does not anticipate any significant impact on future periods from the adoption of these new IFRS.

NEW OR AMENDED IFRS THAT HAVE BEEN ISSUED BUT HAVE NOT YET COME INTO EFFECT AND HAVE NOT BEEN EARLY ADOPTED

In addition to the above, IASB has issued a number of new or amended and revised accounting standards and interpretations that have not yet come into effect. The following are the most significant:

- IASB has issued IFRS 9 'Financial Instruments', with effective date 1 January 2018. It currently awaits EU endorsement. IFRS 9 is part of the IASB's project to replace IAS 39, and the new standard will substantially change the classification and measurement of financial instruments and hedging requirements. The Group has assessed the impact of the standard and determined that it will not have any significant impact on the Consolidated Financial Statements.

- IASB has issued IFRS 15 'Revenue from contracts with customers', with effective date 1 January 2018. IFRS 15 is part of the convergence project with FASB to replace IAS 18. The new standard will establish a single, comprehensive framework for revenue recognition. The Group has assessed the impact of the standard and determined that it will not have any significant impact on the Consolidated Financial Statements.

- IASB has issued IFRS 16 'Leasing' with effective date 1 January 2019. It currently awaits EU endorsement. The standard will change accounting for leases, as it will require capitalisation of the majority of the Group's operational lease contracts. The Group has assessed the impact of the standard and determined that it will affect the Group's assets and liabilities resulting in an impact on financial ratios, but no significant impact on net profit. The Group's operational lease obligations are disclosed in note 5.2.

NOTE 1.3

OTHER GENERAL ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Enterprises in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are classified as associated companies. At consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

The Parent Company's investments in the consolidated subsidiaries are set off against the Parent Company's share of the net asset value of subsidiaries stated at the time of consolidation.

On the acquisition of subsidiaries, the difference between cost and net asset value of the enterprise acquired is determined at the date of acquisition after the individual assets and liabilities have been adjusted to fair value (the purchase method). Transaction costs relating to the acquisition of subsidiaries are not included in the value of the acquired assets. All acquisition-related costs are expensed in the period they incur. Any remaining positive differences are recognised as goodwill in intangible assets in the balance sheet. Goodwill is not amortised, but instead tested for impairment on an annual basis and when there is an indication of impairment. Any remaining negative differences (negative goodwill) are recognised as income in the income statement at the time of acquisition. Amounts attributable to expected losses or expenses are recognised as income in the income statement as the affairs and conditions to which the amounts relate materialise.

Positive and negative differences from enterprises acquired may, due to changes to the recognition and measurement of net assets, be adjusted until one year from the acquisition date. These adjustments are also reflected in the value of goodwill or negative goodwill.

TRANSLATION POLICIES

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement, see the section on hedge accounting.

Income statements of foreign subsidiaries and associated companies are translated at transaction date rates or approximated average exchange rates. Balance sheet items are translated at the exchange rates at the balance sheet date. Exchange adjustments arising on the translation of the opening equity and exchange adjustments arising from the translation of the income statements at the exchange rates at the balance sheet date are recognised directly in equity.

OTHER EXTERNAL COSTS

Other external costs comprise expenses for premises, sales, marketing and distribution as well as office expenses, fee to statutory auditor, etc.

EQUITY

Proposed dividend is recognised as a liability at the time of approval by the general meeting. Dividend which is expected to be distributed for the year is disclosed in the statement of changes in Group equity.

The reserve for currency translation in the Consolidated Financial Statements comprises foreign exchange differences arising from translation of financial statements of foreign enterprises from their functional currencies to the presentation currency of the Group (Danish kroner). On full or partial realisation of the net investment, the foreign exchange adjustments are recognised in the income statement.

The reserve for hedges includes the accumulated net change in the fair value of hedging transactions qualifying for hedge accounting.

CASH FLOW STATEMENT

The cash flow statement shows the Group's cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Group's cash and cash equivalents at the beginning and end of the year.

Cash flow from operating activities is calculated as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents, prepaid tax and corporate tax liabilities.

Cash flow from investing activities comprises cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flow from financing activities comprises cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

Cash and cash equivalents comprise 'Cash at bank and in hand'.

The cash flow statement cannot be derived directly from the consolidated financial statements.

SECTION 2

RESULTS FOR THE YEAR

This section comprises notes in relation to the results for the year, including disclosure on product segments. The Financial Highlights on page 11 gives a detailed description of the results for the year.

NOTE 2.1

GROSS PROFIT (NET SALES AND COST OF GOODS SOLD)

ACCOUNTING POLICIES
NET SALES

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable. Revenue is recognised exclusive of VAT, excise and net of discounts relating to sales.

Revenue from the sale of goods is recognised in the income statement when the following conditions are met:

- The Group has transferred the significant risks and rewards of ownership of the goods to the buyer.
- The amount of revenue can be measured reliably.
- It is possible that the economic benefits associated with the transaction will flow to the entity.

COST OF GOODS SOLD

Cost of goods sold comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance etc. as well as operation, administration and management of factories.

SEGMENT REPORTING

The Group operates in five different segments: Handmade cigars, machine-made cigars, pipe tobacco, fine-cut tobacco and other.

The ‘handmade cigars’ segment includes sales of handmade cigars (own and 3rd party) and licence income.

The ‘machine-made cigars’ segment includes sales of machine-made cigars (own and 3rd party), and licence income.

The ‘pipe tobacco’ segment includes sales of pipe tobacco (own and 3rd party) and licence income.

The ‘fine-cut tobacco’ segment includes sales of fine-cut tobacco (own and 3rd party) and licence income.

The ‘other’ segment includes sales of other tobacco, contract manufacturing (CMA) tobacco, CMA cigars, fire products, tubes/paper, other products and licence income.

Segment performance is evaluated on the basis of gross profit. Operating expenses, depreciation, amortisation and financial items are not allocated to the different segments.

The segment allocation has been based on the internal management reporting.

There have been no material transactions between the different segments, except from reallocation of goodwill from the ‘other’ segment to the ‘machine-made cigars’ segment as the Group assumed the distribution of certain products from a third party in 2015 (changing from CMA cigars to own cigars).

No operating segments have been aggregated to form the reported business segments.

No assets and liabilities are allocated to segments in the internal reporting. Goodwill allocated to operating segments is provided as additional information.

SEGMENT INFORMATION

2015

DKK MILLION	HAND-MADE CIGARS	MACHINE-MADE CIGARS	PIPE TOBACCO	FINE-CUT TOBACCO	OTHER	NOT ALLOCATED	TOTAL
Net sales	1,935.3	2,702.2	629.4	583.4	882.0	0.0	6,732.3
Cost of goods sold	-1,091.9	-1,330.7	-251.3	-241.9	-577.8	0.0	-3,493.6
Gross profit	**843.4**	**1,371.5**	**378.1**	**341.5**	**304.2**	**0.0**	**3,238.7**
Other external costs						-1,130.1	-1,130.1
Staff costs						-862.9	-862.9
Other income						1.3	1.3
EBITDA						**-1,991.7**	**1,247.0**
Depreciation and impairment						-121.5	-121.5
Amortisation						-184.4	-184.4
EBIT						**-2,297.6**	**941.1**
Share of profit of associated companies, net of tax						10.2	10.2
Financial income						37.9	37.9
Financial costs						-105.3	-105.3
Profit before tax						**-2,354.8**	**883.9**
Goodwill allocated to segments	**1,906.5**	**1,496.7**	**642.9**	**272.1**	**186.0**	**0.0**	**4,504.2**

2014

DKK MILLION	HAND-MADE CIGARS	MACHINE-MADE CIGARS	PIPE TOBACCO	FINE-CUT TOBACCO	OTHER	NOT ALLOCATED	TOTAL
Net sales	1,513.6	2,595.2	569.2	561.8	886.2	0.0	6,126.0
Cost of goods sold	-857.6	-1,254.4	-229.0	-261.9	-575.8	0.0	-3,178.7
Gross profit	**656.0**	**1,340.8**	**340.2**	**299.9**	**310.4**	**0.0**	**2,947.3**
Other external costs						-1,049.9	-1,049.9
Staff costs						-748.9	-748.9
Other income						28.7	28.7
EBITDA						**-1,770.1**	**1,177.2**
Depreciation and impairment						-102.0	-102.0
Amortisation						-167.5	-167.5
EBIT						**-2,039.6**	**907.7**
Share of profit of associated companies, net of tax						6.2	6.2
Financial income						29.1	29.1
Financial costs						-97.4	-97.4
Profit before tax						**-2,101.7**	**845.6**
Goodwill allocated to segments	**1,635.0**	**1,356.9**	**625.9**	**270.1**	**317.4**	**0.0**	**4,205.3**

SEGMENT INFORMATION (CONTINUED)

DKK MILLION	2015	2014
Geographic information		
In the table below, sales to external customers are attributable to the country of the customers' domicile and non-current assets are based on the country of the entities' domicile. External sales and non-current assets are distributed by geographic region as follows:		
Americas	2,993.6	2,373.5
Europe	3,015.3	3,064.7
Rest of world	723.4	687.8
Total net sales	**6,732.3**	**6,126.0**

The Group is domiciled in Denmark. Net sales from external customers in Denmark amount to DKK 216.7 million (DKK 237.4 million), and net sales from external customers outside Denmark amount to DKK 6,515.6 million (DKK 5,888.6 million). Individual material countries (>10% of total net sales) are the US DKK 2,721.2 million (DKK 2,091.7 million) and France DKK 717.8 million (DKK 683.0 million).

Information about major customers

Net sales of DKK 682.8 million (DKK 646.6 million) are derived from a single external customer and are attributable to different product segments, but primarily the machine-made cigar segment with 97% (98%).

Licence income and other sales of DKK 31.5 million (DKK 41.3 million) are included in the total net sales.

DKK MILLION	2015	2014
Non-current assest (1)		
Americas	4,267.3	3,862.3
Europe	5,278.3	5,307.1
Rest of world	36.2	33.2
Total net sales	**9,581.8**	**9,202.6**

(1) Non-current assets other than deferred income tax and other financial fixed assets.

Total non-current assets in Denmark amount to DKK 2,021.2 milion (DKK 1,789.2 million).

NOTE 2.2

STAFF COSTS

ACCOUNTING POLICIES

Staff costs comprise wages and salaries as well as payroll expenses other than production wages.

DKK MILLION	2015	2014
Wages and salaries	1,295.0	1,231.3
Pensions – defined contribution plans	49.9	45.6
Pensions – defined benefit plans*	19.5	-36.0
Social security costs	170.0	162.6
Total staff costs for the year	**1,534.4**	**1,403.5**
Staff costs included in intangible assets and property, plant and equipment	-19.0	-7.7
Change in employee costs included in inventories	2.8	-3.4
Total staff costs expensed to the income statement	**1,518.2**	**1,392.4**
Included in the income statement:		
Cost of goods sold	655.3	643.5
Staff costs	862.9	748.9
Total included in the income statement	**1,518.2**	**1,392.4**
Average number of employees in the Group	**8,245**	**8,974**

Remuneration of the Board of Directors and Executive Management

Total fees to the Board of Directors and Executive Management, amounted to DKK 77.3 million (DKK 42.3 million).

EXECUTIVE MANAGEMENT	SALARY	BONUS	PENSION	SHARED BASED INCENTIVE PROGRAMME**	TOTAL
Niels Frederiksen***	5.7	5.8	0.0	5.5	17.0
Christian Hother Sørensen	4.5	4.6	0.0	5.5	14.6
Sisse Fjelsted Rasmussen	3.6	3.7	0.0	5.5	12.8
Rob Zwarts	3.1	2.8	0.6	5.5	12.0
Vicent Crepy****	1.1	1.1	0.0	2.5	4.7
Anders Colding Friis*****	1.2	1.2	0.0	0.0	2.4
Total 2015	**19.2**	**19.2**	**0.6**	**24.5**	**63.5**
Total 2014	**21.9**	**12.6**	**2.1**	**0.8**	**37.4**

* Gains on curtailments and settlements are offset against the service cost for defined benefit plans.

** The share based programme represents amounts expensed in 2015 based on estimated total value, probability and expected timing. The programme has subsequently been triggered in connection with the listing of the Group on Nasdaq Copenhagen on 10 February 2016 where executive management received a total payment of DKK 36.9 million.

*** Niels Frederiksen was appointed as CEO on 1 March 2015.

**** Vincent Crepy joined the Group as Executive Vice President of supply chain on 1 September 2015.

*****Anders Colding Friis left his position as CEO on 28 February 2015.

In addition to the above, the Group has expensed DKK 8.9 million in 2015 related to retention allowances which are due after 1-2 years, and which replaces previous retirement plans for selected executives.

In the event that an executive member is dismissed, the ordinary salary up to a 24-month notice period and a proportional part of the retention allowance is paid.

NOTE 2.2

STAFF COSTS (CONTINUED)

DKK THOUSAND	POSITION	JOINED THE BOARD	LEFT THE BOARD	BOARD	COMMITTEES	TOTAL
Board of Directors						
Jørgen Tandrup	Chairman	October 2010		825		825
Conny Karlsson	Vice-chairman	October 2010		481		481
Søren Bjerre-Nielsen	Board member	February 2016				0
Marlene Forsell	Board member	June 2014		275	100	375
Tommy Petersen	Board member	October 2010		275	150	425
Lars Dahlgren	Board member	October 2010	February 2016	481		481
Dianne Neal Blixt	Board member	February 2016				0
Luc Missorten	Board member	February 2016				0
Henning Kruse Petersen	Board member	October 2010		481		481
Kurt Asmussen	Group employee representative	October 2010		275		275
Charlotte Nielsen	Group employee representative	October 2010		275		275
Hermod Hvid	Group employee representative	April 2015		229		229
Hanne Malling	Group employee representative	October 2010		275		275
Fredrik Lagercrantz	Board member	January 2015	February 2016	275	100	375
Anders C. Obel	Board member	October 2010	February 2016	275	100	375
Lindy Larsen	Group employee representative	October 2010	April 2015	69		69
Total 2015				**4,491**	**450**	**4,941**
Total 2014				**4,468**	**450**	**4,918**

NOTE 2.3

INCOME AND DEFERRED INCOME TAXES

ACCOUNTING POLICIES

INCOME TAXES

The tax expense for the period comprises current and deferred tax including adjustments to previous years and changes in provision for uncertain tax positions. Tax is recognised in the Income statement, except to the extent that it relates to items recognised in Other Comprehensive Income.

Any changes in deferred tax due to changes in tax rates are recognised in the income statement or in other comprehensive income depending on the original recognition.

DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax is recognised in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. In cases where the computation of the tax base may be made according to alternative tax rules, deferred tax is measured on the basis of the intended use of the asset and settlement of the liability, respectively. Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities.

CURRENT TAX RECEIVABLES AND LIABILITIES

Current tax receivables and liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on taxable incomes for prior years. Tax receivables and liabilities are offset if there is a legally enforceable right of set-off and an intention to settle on a net basis or simultaneously.

DKK MILLION	2015	2014
Tax expense		
Current income tax	-147.6	-161.0
Deferred income tax	-85.0	-24.3
	-232.6	**-185.3**
Tax is allocated as follows:		
Income taxes	-216.3	-205.8
Tax on other comprehensive income related to:		
Hedging instruments	-11.5	0.9
Actuarial gains and losses on pension obligations	-4.8	19.6
	-232.6	**-185.3**
Income tax receivable (net) – in the balance sheet		
Prepaid tax	226.0	143.2
Corporate tax liabilities	79.5	93.9
	-146.5	**-49.3**
Income tax receivable (net):		
Balance at 1 January	-49.3	-1.6
Currency adjustments	-4.1	8.1
Acquisition of entities	0.0	-3.5
Prior-year tax adjustment	-28.3	-2.5
Tax paid on account in current year	-289.2	-197.3
Received regarding previous years	131.6	33.6
Paid regarding previous years	-83.1	-49.6
Current income tax	175.9	163.5
Balance at 31 December	**-146.5**	**-49.3**

NOTE 2.3

INCOME AND DEFERRED INCOME TAXES (CONTINUED)

DKK MILLION	2015	2014
Deferred tax (net) – in the balance sheet		
Deferred income tax assets	135.4	172.3
Deferred income tax liabilities	735.0	694.3
Deferred income tax liabilities (net)	**599.6**	**522.0**
Deferred tax (net)		
Balance at 1 January	522.0	436.7
Currency adjustments	-2.1	-4.5
Acquisition of entities	-5.3	65.5
Change in deferred tax charge	85.0	24.3
Balance at 31 December	**599.6**	**522.0**
Breakdown of deferred income tax liabilities (net):		
Intangible assets	601.6	605.4
Property, plant and equipment	52.0	36.3
Inventories	-62.2	-64.2
Receivables	-1.6	-1.6
Pensions	-58.7	-60.3
Other liabilities	-30.2	0.5
Tax losses to be carried forward	-9.8	-27.3
Other	108.5	33.2
	599.6	**522.0**
Breakdown of tax on profit for the year:		
Tax calculated at 23.5% (2014: 24.5%) of profit before tax	-207.7	-207.2
Tax according to income statement	-216.3	-205.8
	-8.6	**1.4**
Tax effect of:		
Non-deductible costs	-18.5	-12.1
Income from associated companies	2.4	1.5
Non-taxable income	2.7	3.7
Prior-year adjustments	18.5	2.7
Other tax percentages	14.4	12.5
Effect of enacted change of tax rates	5.3	0.4
Other	-33.4	-7.3
	-8.6	**1.4**

At 31 December 2015 the Group has no unrecognised tax assets (DKK 0.0 million).

OPERATING ASSETS AND LIABILITIES

This section specifies the operating assets that form the basis for the activities of the Group and the related liabilities.

NOTE 3.1

INTANGIBLE ASSETS

ACCOUNTING POLICIES

Goodwill

Goodwill represents any cost in excess of identifiable net assets, measured at fair value, in the acquired company. Goodwill is valued at acquisition value less any accumulated impairment losses. Goodwill is tested annually, or upon indication, for impairment.

Trademarks

Trademarks are measured at cost less accumulated amortisation and less any accumulated impairment losses. Strategic trademarks with indefinite lives are not amortised, but are reviewed annually for impairment. Strategic trademarks are defined as trademarks of a sizeable significance measured on contribution and the trademarks have the potential to grow across geographies. Other trademarks are amortised on a straight-line basis over the estimated useful lives determined on the basis of Management's experience with the individual trademarks. The amortisation period is typically in the range of 10–25 years.

IT software

IT software is measured at cost less accumulated amortisation and less any accumulated impairment losses. Amortisation is calculated on a straight-line basis over the expected useful lives of the assets, which are 5 years.

Other intangible assets

Other intangible assets are measured at cost less accumulated amortisation and less any accumulated impairment losses. Amortisation is based on cost reduced by any residual value and is calculated on a straight-line basis over the expected useful lives of the assets, which are between 5–20 years.

KEY ACCOUNTING ESTIMATES

Impairment of intangible assets

The carrying amounts of intangible assets are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation. If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount and the asset is written down to its lower recoverable amount.

The impairment test includes significant judgments made by Management, such as assumption of projected future cash flows used in the valuation of the intangible assets. Future events could cause Management to conclude that impairment indicators exist and that intangible assets are impaired. Any resulting impairment loss could have a material impact on the financial condition and result of operations.

Goodwill and trademarks with indefinite useful lives

In the annual impairment test of goodwill and trademarks with indefinite useful lives, an estimate is made to determine how the enterprise/trademarks will be able to generate sufficient positive net cash flow in the future to support the value of goodwill, trademarks and other net assets of the enterprise/trademark in question. For the purpose of the annual impairment test of goodwill the costs and income in segment note (2.1) has been allocated to each cash generating unit based on relevant allocation keys. The estimates of the anticipated future net cash flow are based on Management's projections based upon the bottom-up strategy plan for the coming years. The years not covered by the bottom-up strategy plan are based on average growth expectations in line with the bottom-up strategy plan. Contribution expectations are based upon projections made on the development in volume, average sales and cost prices for each market in each of the defined cash generating units. The carrying value of goodwill amounted to DKK 4,504.2 million (DKK 4,205.3 million). The carrying value of trademarks with indefinite useful lives amounted to DKK 1,833.4 (DKK 1,741.0 million).

Other trademarks

Acquired trademarks have been deemed to have definite useful lives which are in general amortised over a period of 10–25 years. Trademarks are tested for impairment when circumstances indicate that the value of a trademark is impaired. The carrying value of other trademarks amounted to DKK 1,498.1 million (DKK 1,611.1 million). Amortisation amounted to DKK 121.8 million (DKK 102.5 million). During 2015, Management did not identify any indications of impairment.

INTANGIBLE ASSETS (CONTINUED)

2015

DKK MILLION	GOODWILL	TRADE-MARKS	IT SOFTWARE	OTHER INTANGIBLE ASSETS	TOTAL
Accumulated cost at 1 January	4,206.2	4,086.7	243.6	315.4	8,851.9
Exchange rate adjustment	288.5	141.4	1.7	5.9	437.5
Reclassification	10.4	-13.4	0.0	0.0	-3.0
Addition	0.0	0.0	26.4	0.0	26.4
Disposal	0.0	0.0	-0.3	0.0	-0.3
Accumulated cost at 31 December	4,505.1	4,214.7	271.4	321.3	9,312.5
Accumulated amortisation and impairment at 1 January	0.9	734.6	160.7	65.6	961.8
Exchange rate adjustment	0.0	26.8	0.7	3.2	30.7
Amortisation	0.0	121.8	40.8	21.8	184.4
Disposal	0.0	0.0	-0.3	0.0	-0.3
Accumulated amortisation and impairment at 31 December	0.9	883.2	201.9	90.6	1,176.6
Carrying amount at 31 December	**4,504.2**	**3,331.5**	**69.5**	**230.7**	**8,135.9**

2014

DKK MILLION	GOODWILL	TRADE-MARKS	IT SOFTWARE	OTHER INTANGIBLE ASSETS	TOTAL
Accumulated cost at 1 January	3,875.4	3,750.8	228.4	307.5	8,162.1
Exchange rate adjustment	285.7	118.1	2.4	4.8	411.0
Acquisition of entities	45.1	217.2	0.0	3.1	265.4
Addition	0.0	0.6	22.2	0.0	22.8
Disposal	0.0	0.0	-9.4	0.0	-9.4
Accumulated cost at 31 December	4,206.2	4,086.7	243.6	315.4	8,851.9
Accumulated amortisation and impairment at 1 January	0.9	617.1	124.0	41.1	783.1
Exchange rate adjustment	0.0	15.0	1.4	3.5	19.9
Amortisation	0.0	102.5	44.0	21.0	167.5
Disposal	0.0	0.0	-8.7	0.0	-8.7
Accumulated amortisation and impairment at 31 December	0.9	734.6	160.7	65.6	961.8
Carrying amount at 31 December	**4,205.3**	**3,352.1**	**82.9**	**249.8**	**7,890.1**

INTANGIBLE ASSETS (CONTINUED)

The goodwill and trademarks with indefinite useful lives within the Group are tested for impairment annually and whenever there is an indication of impairment.

When carrying out the impairment test for goodwill, the Group is seen as several cash generating units split according to the internal segment reporting. The carrying values of the individual cash generating units are compared to the values in use. If the carrying values are higher, the difference is charged to the income statement.

The values in use are calculated using a valuation model based on discounted expected future cash flows (DCF-model covering a 5-year budget period) that are based on the described bottom-up strategy plan. Management has used an overall expectation of moderate growth in EBITDA in the strategy period (also in 2014).

The terminal growth is based upon adjusted historical development taking into account the general level of inflation. Discount rates are based on the risk-free rate adjusted for the inherent risk and industry comparisons for each individual cash generating unit. The applied assumptions for each individual cash generating unit are illustrated in the table below.

For trademarks Management have used a discount rate (WACC after tax) between 7.0% and 10.2% (2014: between 6.5% and 11.7%) and the terminal growth in EBITDA is set to 1% (2014: between -2.0% and +2.0%). The discount rates are based on the risk inherent in the related activity's current business model and industry comparisons.

2015

DKK million	Hand-made cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	Other	Total
Allocated goodwill	1,906.5	1,496.7	642.9	272.1	186.0	4,504.2
WACC (%)	8.0	8.0	8.3	8.0	8.0	n.a.
Terminal growth (%)	1.0	1.0	1.0	1.0	1.0	n.a.

2014

Allocated goodwill	1,635.0	1,356.9	625.9	270.1	317.4	4,205.3
WACC (%)	8.0	8.0	8.2	8.0	8.0	n.a.
Terminal growth (%)	1.4	1.4	1.4	1.4	1.4	n.a.

When goodwill and trademarks with indefinite useful lives were tested for impairment in 2015 (and 2014), the value in use exceeded the carrying value for the individual cash generating units and no basis for impairment was found. When performing sensitivity analysis by increasing the discount rate by 1 percentage point, the value in use still exceeded the carrying value per segment.

The key assumptions used in all cash generating units in the impairment testing is the EBITDA expectation, which includes underlying assumptions about declining overall volumes in tobacco markets offset by continued effective pricing strategies supported by historically price increases above inflation rates and effective cost of goods sold and operating cost management.

Trademarks

The main part of the Group's trademarks is attributable to the merger between Scandinavian Tobacco Group and Swedish Match in 2010 and the acquisition of Lane Ltd. in 2011. In connection with the merger and the acquisition, intangible assets were identified and measured at fair value at the date of the merger/acquisition. Strategic trademarks with indefinite useful lives are not amortised but are reviewed annually for impairment. Other trademarks are amortised in a straight line over the expected useful lives. Trademarks with the highest accounting value are listed below:

DKK MILLION	REMAINING AMORTISATION PERIOD	CARRYING AMOUNT 2015	CARRYING AMOUNT 2014
Captain Black, Bugler and Kite	Indefinite / 15 years	825.3	753.7
Café Crème	Indefinite	482.4	482.4
Tiedemanns	20 years	225.9	251.3
Mercator, Cubero and Schimmelpenninck	12 years	194.9	203.8
La Paz	Indefinite	215.2	215.2
Other trademarks	1-20 years / Indefinite	1,387.8	1,445.7
Total		**3,331.5**	**3,352.1**

Other intangible assets

Other intangible assets comprise mainly acquired distribution rights.

NOTE 3.2

PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the asset is ready for use. In the case of assets of own construction, cost comprises direct and indirect expenses for labour, materials, components and subsuppliers.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Buildings	10-40 years
Plant and machinery	12-20 years
Equipment, tools and fixtures	3-10 years
Leasehold improvements	1-10 years

Assessment of residual value and useful life is performed annually for assets under property, plant and equipment.

Impairment of property, plant and equipment

The carrying amounts of property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by depreciation. If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount and the asset is written down to its lower recoverable amount.

2015

DKK MILLION	LAND AND BUILDINGS	PLANT AND MACHINERY	EQUIPMENT, TOOLS AND FIXTURES	LEASEHOLD IMPROVE-MENTS	CONSTRUC-TION IN PROGRESS	TOTAL
Accumulated cost at 1 January	795.9	526.4	198.5	61.2	58.1	1,640.1
Exchange rate adjustment	15.5	14.7	6.2	6.0	1.5	43.9
Addition	0.4	0.3	7.6	1.7	199.5	209.5
Transfers	15.7	64.6	22.5	1.4	-104.2	0.0
Disposals	-0.6	-60.5	-26.3	-1.2	-2.6	-91.2
Accumulated cost at 31 December	826.9	545.5	208.5	69.1	152.3	1,802.3
Accumulated depreciation and impairment at 1 January	117.3	187.3	114.6	18.0	0.0	437.2
Exchange rate adjustment	2.6	4.4	2.0	2.0	0.0	11.0
Depreciation and impairment	35.4	57.7	24.8	3.6	0.0	121.5
Depreciation on disposals	-0.4	-60.5	-25.1	-1.2	0.0	-87.2
Accumulated depreciation and impairment at 31 December	154.9	188.9	116.3	22.4	0.0	482.5
Carrying amount at 31 December	**672.0**	**356.6**	**92.2**	**46.7**	**152.3**	**1,319.8**

NOTE 3.2

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2014

DKK MILLION	LAND AND BUILDINGS	PLANT AND MACHINERY	EQUIPMENT, TOOLS AND FIXTURES	LEASEHOLD IMPROVE-MENTS	CONSTRUC-TION IN PROGRESS	TOTAL
Accumulated cost at 1 January	657.9	439.6	165.8	49.0	192.7	1,505.0
Exchange rate adjustment	13.5	15.7	9.5	5.3	2.4	46.4
Acquisition of entities	0.0	0.7	5.5	0.0	0.0	6.2
Addition	0.3	0.5	7.8	0.0	183.8	192.4
Transfers	169.4	123.5	20.6	7.3	-320.8	0.0
Disposals	-45.2	-53.6	-10.7	-0.4	0.0	-109.9
Accumulated cost at 31 December	795.9	526.4	198.5	61.2	58.1	1,640.1
Accumulated depreciation and impairment at 1 January	92.9	191.9	95.9	12.6	0.0	393.3
Exchange rate adjustment	2.0	5.6	5.2	1.5	0.0	14.3
Depreciation	33.0	42.7	22.4	3.9	0.0	102.0
Depreciation on disposals	-10.6	-52.9	-8.9	0.0	0.0	-72.4
Accumulated depreciation and impairment at 31 December	117.3	187.3	114.6	18.0	0.0	437.2
Carrying amount at 31 December	**678.6**	**339.1**	**83.9**	**43.2**	**58.1**	**1,202.9**

NOTE 3.3

INVENTORIES

ACCOUNTING POLICIES

Inventories are measured at the lower of cost under the FIFO method and net realisable value. The net realisable value of inventories is calculated at the amount expected to be generated by sale in the process of normal operations with deduction of selling expenses and costs of completion. The net realisable value is determined allowing for marketability, obsolescence and development in expected sales prices.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour, maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

KEY ACCOUNTING ESTIMATES

Inventories are stated at the lower of cost price under the FIFO method and net realisable value. The cost price includes direct production costs and indirect production costs. Direct production costs comprise raw materials, consumables and direct labour, whereas indirect production costs (IPO) consist of indirect materials, labour, maintenance, depreciation etc. Calculations of the IPO are reviewed yearly in order to ensure that relevant assumptions such as prices, production yield and measures of utilisation are incorporated correctly. Changes in the parameters, assumed production yield and utilisation levels etc. could have a significant impact on the cost price and, in turn, on the valuation of inventories and production costs.

Furthermore, the estimated uncertainty in inventories are related to the write-down to net realisable value. Inventories are written down in accordance with Group policy, including individual assessment of inventories for possible losses due to obsolescence.

NOTE 3.3

INVENTORIES (CONTINUED)

Inventories at 31 December, net of allowances for obsolescence, comprised the following items:

DKK MILLION	2015	2014
Raw materials and consumables	1,543.8	1,595.3
Work in progress	447.4	496.1
Finished goods, goods for resale and excise stamps	1,007.3	1,007.8
	2,998.5	**3,099.2**

Movements in the Group provision for obsolete stock are as follows:		
Provision for obsolete stock at 1 January	-144.8	-125.0
Provision this year	-63.4	-55.0
Reversal of provision for possible losses	2.6	21.9
Write-downs during the year	36.5	15.2
Effect of exchange rate adjustments	-4.8	-1.9
Total provision at 31 December	**-173.9**	**-144.8**

The net movement in the year in respect of inventory provision is included in 'cost of goods sold'. The cost of inventories recognised as cost and included in 'cost of goods sold' amounted to DKK 2,838.3 million (DKK 2,535.2 million).

NOTE 3.4

TRADE RECEIVABLES

ACCOUNTING POLICIES

Trade receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable, and in respect of trade receivables, a provision is also made based on the Group's experience from previous years and aging of the trade receivables.

DKK MILLION	2015	2014
Trade receivables (net) at 31 December comprised the following:		
Trade receivables (gross)	849.7	838.5
Provision for bad debt	-20.9	-27.4
Trade receivables (net)	**828.8**	**811.1**

Movements in the Group provision for bad debt are as follows:		
Provision for bad debt at 1 January	-27.4	-17.8
Provision this year	-3.2	-11.3
Reversal of provision for possible losses	6.8	0.3
Confirmed losses	3.2	1.7
Effect of exchange rate adjustments	-0.3	-0.3
Total provision at 31 December	**-20.9**	**-27.4**

Non-impaired trade receivables can be specified as follows:		
Current	663.5	673.0
Overdue < 30 days	115.0	110.4
Overdue 31 – 60 days	40.4	14.7
Overdue 61 – 90 days	3.1	4.4
Overdue 91 – 180 days	1.2	4.3
Overdue > 180 days	5.6	4.3
Total	**828.8**	**811.1**

NOTE 3.5

PREPAYMENTS

ACCOUNTING POLICIES

Prepayments are measured at cost and comprise prepaid costs concerning rent, licences, insurance premiums, subscriptions, etc.

NOTE 3.6

OTHER PROVISIONS

ACCOUNTING POLICIES

Provisions are recognised when – in consequence of an event occurred before or on the balance sheet date – the Group has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Provisions are measured at the present value of the anticipated expenditure for settlement of the legal or constructive obligation based on Management's best estimate. If considered material, the anticipated future expenditure is discounted, using a pretax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

DKK MILLION	2015	2014
Balance at 1 January	83.0	86.7
Exchange rate adjustment	0.2	0.1
Discounting cost	1.5	2.4
Addition during the period	19.4	53.7
Utilised during the period	-41.1	-55.4
Reversed provision unused	-0.2	-4.5
Carrying amount at 31 December	**62.8**	**83.0**
Non-current	41.7	38.9
Current	21.1	44.1
Total	**62.8**	**83.0**

Other provisions mainly consist of restructuring costs in relation to a reduction in the number of existing machine-made cigar factories from six to four and restructuring of sales forces. The restructuring costs are primarily related to redundancy payments and the main part is expected to fall due within 1-3 years.

NOTE 3.7

PENSION OBLIGATIONS

ACCOUNTING POLICIES

The Group operates a number of defined contribution plans throughout the world. In a few countries, the Group operates defined benefit plans; these are primarily located in Belgium, Germany, France, Indonesia, the Dominican Republic and the US. The defined benefit plans for Belgium total six different step-rate plans and cover both blue and white collar employees. New employees will be included in defined contribution plans. The defined benefit plans for Germany cover all employees with at least ten years of service with the company. The defined benefit plan in France is mandatory for all employees and has no minimum requirements for years of service with the company. The defined benefit plans for Indonesia cover all employees in the form of severance and gratuity in accordance with labour regulation (Labour Law 13/2013) and other long term employee benefits in form of long service award for employees who have 10, 15 and 20 years of service. The defined benefit plans for the Dominican Republic are enacted by law and cover all employees with at least three months of service. The defined benefit plans in the US are a non-qualified plan that cover a small group of inactive employees where benefits are paid out of corporate assets.

Under a defined benefit plan, the amount of retirement benefit that will be received by an employee is defined with respect to period of service and final salary. The amount recognised in the balance sheet is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the scheme assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows.

The service cost of providing retirement benefits to employees during the year is charged to operating profit. The costs for the year for defined benefit plans are determined using the projected unit credit method.

Past service costs are recognised immediately in the income statement.

All actuarial gains and losses are recognised immediately in full in the statement of other comprehensive income for the period in which they arise.

Pension assets are only recognised to the extent that the Group is able to derive future economic benefits such as refunds from the plan or reductions of future contributions.

The Group's most significant defined benefit pension plans are funded by payments from Group companies and by employees to funds independent of the Group.

Contributions for defined contribution plans are reported as an expense in the income statement when they occur.

Post-employment employee benefits

The Group has defined benefit pension plans in a number of subsidiaries, through which the employees are entitled to post-employment benefits based on their pensionable income and the number of years of service.

Provisions for post-employment defined benefit plans are reported based on actuarial valuations. The Group recognises the full amount of actuarial gains and losses in other comprehensive income, i.e. the net pension liability in the balance sheet includes all cumulative actuarial gains and losses.

The Group does not plan for any new defined benefit plans.

Post-employment defined benefits – recognised in the balance sheet

DKK MILLION	2015	2014
Present value of funded obligations	221.5	202.7
Fair value of plan assets	-115.6	-109.5
Deficit (+) / surplus (-)	105.9	93.2
Present value of unfunded obligations	135.1	139.8
Unrecognised assets due to recoverability limit	0.0	0.0
Net asset (-) / liability (+) in the balance sheet	**241.0**	**233.0**
Amounts in the balance sheet		
Liabilities	241.0	233.0
Assets	0.0	0.0
Net asset (-) / liability (+) in the balance sheet	**241.0**	**233.0**

NOTE 3.7

PENSION OBLIGATIONS (CONTINUED)

DKK MILLION	2015	2014
Movement during the period in the net asset (-) / liability (+)		
Balance at 1 January	233.0	209.5
Recognised in the income statement	28.4	-25.9
Actuarial gain/loss recognised in comprehensive income, financial assumptions	-11.4	82.9
Actuarial gain/loss recognised in comprehensive income, demographic assumptions	0.0	-1.5
Asset limit	0.0	-19.3
Benefit payments to employees	-10.1	-12.0
Employer contributions	-5.1	-10.9
Currency effect	6.2	10.2
Balance at 31 December	**241.0**	**233.0**

KEY ACCOUNTING ESTIMATES

Actuarial assumptions

The discount rate is set per country with reference to high quality corporate bond yields of appropriate duration or government bond yields for countries where a deep market of high quality corporate bonds is not available. Assumptions regarding future mortality experience are based on advice in accordance with published statistics and experience in each country. Assumptions regarding expected return on plan assets are based on the asset groups as defined in each investment policy. Assumptions regarding expected rate of return are estimated in each country based on the portfolio as a whole considering both historical performance and future outlook given the long-term perspective.

Actuarial assumptions used for valuation (expressed as weighted averages and in %)	2015	2014
Discount rate	4.3	3.6
Future salary increases	4.0	3.9

Significant actuarial assumptions regarding the determination of the pension obligation are the discount rate and future salary increase. The sensitivity analysis below has been determined based on likely changes in the discount rate and future salary increase occurring at the end of the period.

DKK MILLION	1%-POINT INCREASE	1%-POINT DECREASE
Discount rate	-40.9	49.3
Future salary increase	44.5	-29.6

NOTE 3.7

PENSION OBLIGATIONS (CONTINUED)

DKK MILLION	2015	2014
Change in the defined benefit obligations and plan assets		
Defined benefit obligations – movement		
Balance at 1 January	342.5	713.3
Current service costs	19.1	21.5
Interest cost	10.9	26.3
Recognised past-service costs	0.4	0.0
Actuarial losses (+)/gains (-)	-10.7	122.4
Benefits paid	-16.4	-40.9
Curtailments	0.0	-506.0
Settlements	0.0	-8.4
Currency effect	5.7	14.3
Other	5.1	0.0
Balance at 31 December	**356.6**	**342.5**
Plan assets – movement in fair value		
Balance at 1 January	109.5	522.5
Interest income	2.0	16.9
Actuarial losses (-)/gains (+)	0.7	40.9
Employer contributions	13.0	22.7
Benefits paid	-14.2	-40.7
Curtailments	0.0	-451.6
Currency effect	0.3	-1.2
Other	4.3	0.0
Balance at 31 December	**115.6**	**109.5**

Curtailments and settlements relate to close-down of pension schemes, restructurings and change in management.

The actual return on plan assets in 2015 was a gain of DKK 2.7 million (DKK 57.8 million).

	2015		2014		2015	2014
DKK MILLION	QUOTED	UNQUOTED	QUOTED	UNQUOTED	TOTAL	TOTAL
Categories of plan assets						
Equity securities	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	25.2	89.4	25.7	82.8	114.6	108.5
Other	1.0	0.0	1.0	0.0	1.0	1.0
Total	**26.2**	**89.4**	**26.7**	**82.8**	**115.6**	**109.5**

The weighted average duration of the defined benefit obligation is 12.3 years (13.4 years).

NOTE 3.7

PENSION OBLIGATIONS (CONTINUED)

DKK MILLION	2015	2014
Post-employment benefit plans recognised in income statement		
Current service costs	19.1	21.5
Interest on net obligation	8.9	10.1
Recognised past-service costs	0.4	5.4
Gains on curtailments	0.0	-54.4
Gains on settlements	0.0	-8.4
Recognised net actuarial losses (+)/ gains (-)	0.0	-0.1
Net income (-)/expense (+) reported in the income statement	**28.4**	**-25.9**

The income/costs for defined benefit plans are reported under the following headings in the income statement:

Staff costs	19.5	-36.0
Financial costs	8.9	10.1
Net income (-)/expense (+) reported in the income statement	**28.4**	**-25.9**

Amounts recognised in other comprehensive income

For the post-employment defined benefit plans, all actuarial gains and losses are recognised in other comprehensive income as they occur in accordance with the year-end valuation.

Net actuarial losses (+)/ gains (-)	-11.4	81.4
Effect of asset limit	0.0	-19.3
Cumulative net actuarial losses (+)/ gains (-)	146.4	155.8

Expected contribution next year

Expected contributions for post-employment benefit plans for the year ending 31 December 2015 amount to DKK 13.7 million (DKK 15.7 million).

Defined contribution plans

The Group has certain obligations under defined contribution plans. Contributions to these plans are determined by provisions in the relevant plan. Costs for defined contribution plans charged to the income statement for the year ending 31 December 2015 amount to DKK 49.9 million (DKK 45.6 million).

SECTION 4

CAPITAL STRUCTURE AND FINANCING ITEMS

This section encompasses notes related to the Group's capital structure and financing items.

NOTE 4.1

FINANCIAL INSTITUTIONS

ACCOUNTING POLICIES

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan and are amortised over the period of the borrowings.

Other debts are measured at amortised cost, substantially corresponding to nominal value.

DKK MILLION	2015	2014
Financial institutions are recognised in the balance sheet as follows:		
Non-current liabilities	3,337.9	2,307.5
Current liabilities	0.0	650.8
Total	**3,337.9**	**2,958.3**

The Group has the following external loans as at 31 December:

				CARRYING AMOUNT		FAIR VALUE* LEVEL 2	
CURRENCY	FIXED/ FLOATING	TERM/REVOLVING CREDIT FACILITY	MATURITY DATE	2015	2014	2015	2014
EUR	Floating	Term	Early repaid		576.9	0.0	576.9
EUR	Floating	Term	Early repaid		576.9	0.0	576.9
EUR	Floating	Term	Early repaid		576.9	0.0	576.9
EUR	Floating	Term	Early repaid		576.9	0.0	576.9
EUR	Floating	Term	Early repaid		148.8	0.0	148.8
USD	Floating	Term	Early repaid		501.9	0.0	501.9
EUR	Floating	Term	30-09-2020	1,679.1	0.0	1,692.8	0.0
USD	Floating	Term	30-09-2020	1,024.5	0.0	1,040.3	0.0
EUR	Floating	RCF	30-09-2020	634.3	0.0	639.5	0.0
				3,337.9	**2,958.3**	**3,372.6**	**2,958.3**

* The fair value of the financial liabilities is the present value of the expected future instalments and interest payments. The zero coupon interest rate for similar maturities is used as the capitalisation rate.

100% (95%) of the interest rate risk related to EUR and USD loans has been hedged by entering into fixed interest rate swap contracts. Please refer to note 4.2 for additional information.

NOTE 4.2

FINANCIAL RISKS AND INSTRUMENTS

ACCOUNTING POLICIES

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at fair value and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as 'Other receivables' and 'Other liabilities', respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualifies as hedge accounting, see below.

Hedge accounting

Changes in the fair values of financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement as are any changes in the fair value of the hedged asset or the hedged liability related to the hedged risk.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions are recognised directly in 'Other Comprehensive Income' as regards the effective portion of the hedge. The ineffective portion is recognised in the income statement. If the hedged transaction results in an asset or a liability, the amount deferred in other comprehensive income is transferred from other comprehensive income and recognised in the cost of the asset or the liability, respectively. If the hedged transaction results in an income or an expense, the amount deferred in other comprehensive income is transferred from other comprehensive income to the income statement in the period in which the hedged transaction is recognised. The amount is recognised in the same item as the hedged transaction.

Risk management policy

The Group manages financial risks based on financial strategies and policies approved by the Board of Directors.

As a general policy, the Group is not allowed to engage in financial transactions or manage risk exposures that are not related to hedging of underlying business driven risks, and consequently the Group does not enter into any speculative transactions.

The Group's financial risks must be managed with the aim of protecting the value and financial stability of the Group, taking into consideration the accounting consequences of such transactions.

The risk management activities of the Group are managed centrally by Group Treasury and primarily involve the following different financial risks.

Foreign exchange risk

Fluctuating currency rates influence the Group's reported net earnings, assets and liabilities and the value of future cash flows denominated in foreign currencies.

Foreign exchange exposure in the Group consists of two types of risk (a) translation risk and (b) transaction risk.

The most significant foreign exchange risk is translation risk. STG's consolidated results of operations are subject to income statement translation risk arising from fluctuations in the value of the Danish Krone against the local currencies of the various countries in which the Company's subsidiaries operate. Furthermore, the book value of the Company's non-Danish subsidiaries and, therefore, STG's equity, is affected by fluctuations in the value of the Danish krone against the local currencies. STG does not hedge against the translation effects of currency fluctuations, although STG has borrowings in currencies other than the Danish krone to partly mitigate translation risk.

STG also faces transaction risk. STG enters into transactions denominated in currencies other than the local currencies in which the Group companies operate, exposing STG to transaction risk. As a result, currency fluctuations affect STG's profitability. STG enters into hedging transactions using financial derivatives, such as forward contracts and options, to partially mitigate transaction risk.

The Group monitors foreign exchange risks in production and sales entities and mainly the following currencies: USD, NOK, SEK, GBP, CAD, AUD, CHF, PLN, RUB and IDR.

Due to the historically fixed currency band between DKK and EUR, the Group considers both DKK and EUR as base currencies and thus does not hedge foreign exchange exposure between EUR and DKK.

A 5% increase/decrease in the USD rate would impact (before tax) the result positively/negatively by DKK 5.8 million (DKK 3.4 million) arising from financial balance sheet exposures and impact the equity positively/negatively from cash flow hedges by DKK 0.0 million (DKK 0.0 million).

Interest rate risk

Fluctuating interest rates influence the Group's reported earnings, assets and liabilities and the present value of future cash flows resulting from changes in interest rates. The objective of actively managing the Group's interest rate exposure is to maintain the interest rate risk at a known and acceptable level and to minimise the Group's cost of potential borrowing requirements.

The Group's consolidated interest rate risk is measured at group level only.

The Group has an active approach to managing the interest rate risk through the use of interest rate derivatives, such as interest rate swaps.

As at the balance sheet date, the Group has interest swap agreements totalling a principal of EUR 310.0 million (EUR 310.0 million) and USD 150.0 million (USD 82.0 million), which relate to bank loans.

As 100% (95%) of the total interest rate risk of debt is hedged, a change in interest rate would primarily affect the equity. Assuming the current portfolio of swap contracts remains the same, an increase in the EUR and USD rate of interest by one percentage point would affect (before tax impact) equity positively by DKK 82.0 million (DKK 55.0 million) and DKK 46.2 million (DKK 4.2 million), respectively.

NOTE 4.2

FINANCIAL RISKS AND INSTRUMENTS (CONTINUED)

Credit risk – operational

The Group's credit risk is primarily related to receivables, bank deposits and derivative financial instruments and can be divided into two main risk types.

Operational credit risk

The Group's balance sheet at 31 December 2015 included trade receivables with a net book value of DKK 828.8 million (DKK 811.1 million), representing a gross receivable balance of DKK 849.7 million (DKK 838.5 million) and a bad debt provision of DKK 20.9 million (DKK 27.4 million), based on an individual assessment. The provision for bad debt was based on an objective indication of impairment, such as outstanding payments and financial difficulties, e.g. the debtor's suspension of payments, bankruptcy or expected bankruptcy.

In addition, overdue but not impaired receivables as at 31 December 2015 which have not been written down totalled DKK 165.3 million (DKK 138.2 million). Please refer to note 3.4.

The Group's net sales primarily comprise sales of tobacco to different distributors and retailers. The Group has historically experienced limited risk with regard to the solvency of its customers. As part of the Group's internal procedures regarding risk management, the operational credit risk relating to customers is monitored on a monthly basis. The Group has no significant concentration of credit exposure as the exposure has been spread on a large number of creditworthy trading partners.

Credit risk – financial

The Group monitors and controls its financial resources and relationships with financial third parties arising from its financial activities, such as bank deposits and derivative financial instruments, by establishing credit limits.

Financial credit risk management has the objective of minimising financial loss through a financial distress or the default of a financial counterparty whether due to the financial insolvency of the counterparty, the inability of the counterparty to perform due to changed national legislation or any other circumstance.

The Group's exposure to counterparty risk is managed by establishing approved counterparty limits detailing the maximum exposure that the Group is prepared to accept with respect to the individual counterparty.

Those banks on which the Group may assume a counterparty risk are herein referred to as 'Approved Banks'. Significant cash deposits may only be placed with an Approved Bank. This applies to all Group companies.

In the event of bankruptcy among the lending banks, the Group has the right to offset cash deposits in the counter party bank debt totaling DKK 262.2 million (DKK 335.6 million).

NOTE 4.2

FINANCIAL RISKS AND INSTRUMENTS (CONTINUED)

LIQUIDITY

MATURITY AT 31 DECEMBER 2015	0-1 YEAR	2-5 YEARS	AFTER 5 YEARS	TOTAL*	FAIR VALUE LEVEL 2**	CARRYING AMOUNT
Recognised at amortised cost						
Financial institutions	33.0	3,461.0		3,494.0		3,337.9
Trade payables	385.9			385.9		385.9
Other liabilities	650.4			650.4		650.4
Total	**1,069.3**	**3,461.0**	**0.0**	**4,530.3**		**4,374.2**
Recognised at fair value						
Interest rate swaps	39.7	89.7		129.4	53.5	53.5
Total	**39.7**	**89.7**	**0.0**	**129.4**		**53.5**
Total financial liabilities	**1,109.0**	**3,550.7**	**0.0**	**4,659.7**		**4,427.7**
Recognised at amortised cost						
Cash and cash equivalents	608.8			608.8		608.8
Trade receivables	828.8			828.8		828.8
Other receivables	88.7			88.7		88.7
Total	**1,526.3**	**0.0**	**0.0**	**1,526.3**		**1,526.3**
Recognised at fair value						
Currency swaps	0.1			0.1	0.1	0.1
Forward contracts	12.8			12.8	12.8	12.8
Total	**12.9**	**0.0**	**0.0**	**12.9**		**12.9**
Total financial assets	**1,539.2**	**0.0**	**0.0**	**1,539.2**		**1,539.2**

* All cash flows are non-discounted and include all liabilities according to contracts. The DKK values of future interest and principal of loans in foreign currencies are calculated based on the exchange rate as at the balance sheet date.

** The fair value of the financial liabilities is the present value of the expected future instalments and interest payments except for 'trade payables', 'other liabilities', 'receivables' and 'other receivables' which are stated at the net carrying amount at year-end.

NOTE 4.2

FINANCIAL RISKS AND INSTRUMENTS (CONTINUED)

LIQUIDITY

MATURITY AT 31 DECEMBER 2014	0-1 YEAR	2-5 YEARS	AFTER 5 YEARS	TOTAL*	FAIR VALUE LEVEL 2**	CARRYING AMOUNT
Recognised at amortised cost						
Financial institutions	676.2	2,350.9		3,027.1		2,958.3
Trade payables	375.9			375.9		375.9
Other liabilities	547.0			547.0		547.0
Total	**1,599.1**	**2,350.9**	**0.0**	**3,950.0**		**3,881.2**
Recognised at fair value						
Interest rate swaps	42.2	47.7		89.9	89.5	89.5
Forward contracts	0.0			0.0	0.0	0.0
Total	**42.2**	**47.7**	**0.0**	**89.9**		**89.5**
Total financial liabilities	**1,641.3**	**2,398.6**	**0.0**	**4,039.9**		**3,970.7**
Recognised at amortised cost						
Cash and cash equivalents	581.0			581.0		581.0
Trade receivables	811.1			811.1		811.1
Other receivables	97.5			97.5		97.5
Total	**1,489.6**	**0.0**	**0.0**	**1,489.6**		**1,489.6**
Recognised at fair value						
Currency swaps	1.6			1.6	1.6	1.6
Total	**1.6**	**0.0**	**0.0**	**1.6**		**1.6**
Total financial assets	**1,491.2**	**0.0**	**0.0**	**1,491.2**		**1,491.2**

* All cash flows are non-discounted and include all liabilities according to contracts. The DKK values of future interest and principal of loans in foreign currencies are calculated based on the exchange rate as at the balance sheet date.

** The fair value of the financial liabilities is the present value of the expected future instalments and interest payments except for 'trade payables', 'other liabilities', 'receivables' and 'other receivables' which are stated at the net carrying amount at year-end.

NOTE 4.2

FINANCIAL RISKS AND INSTRUMENTS

(CONTINUED)

Financial instruments measured at fair value are broken down according to the following measuring hierarchy:

Level 1: Observable market prices of identical instruments

Level 2: Valuation models primarily based on observable prices or traded prices of comparable instruments

Level 3: Valuation models primarily based on non- observable prices

The fair value of the Group's forward exchange contracts and other derivative financial instruments (interest rate and currency swaps) are considered a level 2 fair value measurement as the fair value is determined directly based on the published exchange rates and quoted swap and forward rates on the balance sheet date. There are no financial instruments in level 3 (none).

HEDGING TRANSACTIONS

The net fair value at 31 December 2015 of outstanding derivative contracts was negative by DKK 40.7 million (negative by DKK 89.5 million), of which positive DKK 12.8 million was attributable to forward contracts (DKK 0.0 million), while minus DKK 53.5 million related to interest rate swaps (negative by DKK 89.5 million).

Forward contracts have been used to hedge currency risk of future cash flows denominated in AUD, CAD, CHF, GBP, IDR, NOK, RUB and SEK by swapping the exchange rate exposure to fixed payments in DKK and EUR. The total notional amount of these outstanding forward contracts was DKK 214.0 million as at 31 December 2015 (DKK 344.0 million).

All forward contracts expire within 12 months (within 12 months). The individual most significant currency as of 31 December 2015 is GBP. A 10% increase in the GBP rate will result in a currency loss of DKK 15.7 million (DKK 18.1 million) to be recognised in other comprehensive income.

Interest rate swaps have been used to hedge the floating rate on bank loans. As at the balance sheet date, the Group has outstanding interest rate swaps with a notional amount of EUR 310.0 million and USD 150.0 million (EUR 310.0 million and USD 82.0 million). Interest rate swaps follow the profile of the bank loans.

The net fair value stated will be transferred from the reserve for hedging to the income statement when the hedged transactions are realised.

OTHER TRANSACTIONS

The Group uses financial transactions which do not qualify as hedge accounting according to IFRS. The net fair value at 31 December 2015 of outstanding currency swaps was positive by DKK 0.1 million (2014: positive by DKK 1.6 million). The currency swaps are used to manage Group liquidity. As of the balance sheet date, the Group has outstanding currency swaps with a notional amount of DKK 626.5 million (2014: DKK 387.6 million).

NOTE 4.3

CHANGES IN WORKING CAPITAL (CASH FLOW STATEMENT)

ACCOUNTING POLICIES

Working capital is defined as current assets less current liabilities. It measures how much in liquid assets the Group has available for the business.

DKK MILLION	2015	2014
Change in receivables	-0.7	70.0
Change in inventories	224.5	98.5
Change in liabilities	59.6	20.7
Change in balances with affiliated companies (trade)	0.9	-0.1
	284.3	**189.1**

NOTE 4.4

FINANCIAL FIXED ASSETS

ACCOUNTING POLICIES

Investments in associated companies are recognised and measured under the equity method.

The item 'Investments in associated companies' in the balance sheet includes the proportionate ownership share of the net asset value of the enterprises with deduction or addition of unrealised intercompany profits or losses and with addition of any remaining value of positive differences (goodwill) and deduction of any remaining value of negative differences (negative goodwill) calculated on the basis of the fair values of identifiable net assets at the time of acquisition.

The item 'Share of profit of associated companies, net of tax' in the income statement includes the proportionate share of the profit after tax for the year regarding the associated companies.

2015

DKK MILLION	INVESTMENTS IN ASSOCIATED COMPANIES	OTHER
Cost at 1 January 2015	92.6	0.6
Addition	0.0	0.0
Deduction	0.0	-0.1
Accumulated cost at 31 December 2015	92.6	0.5
Accumulated revaluation and impairment at 1 January 2015	17.1	0.0
Dividend	-5.6	0.0
Currency translation	11.8	0.1
Profit after tax	10.2	0.0
Accumulated revaluation and impairment at 31 December 2015	33.5	0.1
Carrying amount at 31 December 2015	**126.1**	**0.6**

2014

DKK MILLION	INVESTMENTS IN ASSOCIATED COMPANIES	OTHER
Cost at 1 January 2014	92.6	0.7
Addition	0.0	0.0
Deduction	0.0	-0.1
Accumulated cost at 31 December 2014	92.6	0.6
Accumulated revaluation and impairment at 1 January 2014	4.9	0.0
Dividend	-4.2	0.0
Currency translation	10.2	0.0
Profit after tax	6.2	0.0
Accumulated revaluation and impairment at 31 December 2014	17.1	0.0
Carrying amount at 31 December 2014	**109.7**	**0.6**

NOTE 4.4

FINANCIAL FIXED ASSETS (CONTINUED)

Name and country of incorporation

Caribbean Cigar Holdings Group Co. S.A, Panama

DKK MILLION	2015	2014
Profit & loss		
Net sales	314.4	263.9
Profit for the year	51.0	31.0
Other comprehensive income	0.0	0.0
Total comprehensive income	51.0	31.0
Financial position		
Non-current assets	36.6	32.8
Current assets	426.3	365.5
Non-current liabilities	2.0	1.8
Current liabilities	84.0	75.3
Interest held in percentage	**20%**	**20%**

The financial information stated above is based on estimates.

Reconciliation of carrying amount		
Scandinavian Tobacco Group's share of Caribbean Cigar Holdings Group's equity	75.4	64.2
Goodwill concerning Caribbean Cigar Holdings Group	56.4	50.6
Elimination of internal profit	-5.7	-5.1
Carrying amount at 31 December	**126.1**	**109.7**

NOTE 4.5
FINANCIAL INCOME AND COSTS

ACCOUNTING POLICIES
Financial income and costs comprise interest, realised and unrealised exchange adjustments, hedging costs, interest part of pension costs and other financial income and costs.

FINANCIAL INCOME

DKK MILLION	2015	2014
Interest on deposits in financial institutions etc.	2.2	4.2
Exchange gains, net	33.8	22.5
Other financial income	1.9	2.5
	37.9	**29.1**

FINANCIAL COSTS

DKK MILLION	2015	2014
Interest to financial institutions etc.	78.7	76.7
Interest part of pension cost	8.9	10.1
Other financing costs	17.7	10.6
	105.3	**97.4**

Interest on debt to financial institutions etc. includes cost of interest rate swaps of DKK 34.9 million (DKK 31.0 million).

Other financing costs include discounting effect of provisions of DKK 1.5 million (DKK 2.4 million).

NOTE 4.6
SHARE CAPITAL AND DIVIDEND

Development in share capital:	
DKK MILLION	
2008	0.1
2009	0.0
2010	99.9
2011	0.0
2012	0.0
2013	0.0
2014	0.0
At the beginning of the year	**100.0**
2015	0.0
At the end of the year	**100.0**

The share capital consists of 100,000,000 shares of a nominal value of DKK 1. No shares carry any special rights.

NOTE 4.6

SHARE CAPITAL AND DIVIDEND (CONTINUED)

Net cash distribution to shareholders (dividend):

	DIVIDEND	PER SHARE
	DKK MILLION	DKK
2012 (proposed dividend in Annual Report 2011)	350.0	3.5
2013 (proposed dividend in Annual Report 2012)	412.0	4.1
2014 (proposed dividend in Annual Report 2013)	382.0	3.8
2015 (proposed dividend in Annual Report 2014)	427.0	4.3
2015 (interim dividend)	900.0	9.0

Retained earnings end of 2015 include proposed dividend of DKK 500 million (DKK 5.0 per share).

Earnings per share:

Earnings per share are presented as both basic and diluted earnings per share. Basic earnings per share are calculated as net profit divided by the average number of shares outstanding. Diluted earnings per share are calculated as net profit divided by the sum of average number of shares outstanding, including the dilutive effect of the outstanding share bonus programme.

DKK MILLION	2015	2014
Net profit for the year	667.6	639.8
Average number of shares outstanding (in millions)	100.0	100.0
Earnings per share (DKK)	6.7	6.4
Diluted earnings per share (DKK)*	6.7	6.4

* None of the granted options are exercisable hence diluted earnings per share equal standard earnings per share.

NOTE 4.7

NET INTEREST-BEARING DEBT

DKK MILLION	2015	2014
Interest-bearing liabilities	3,378.5	3,046.1
Pensions	241.0	233.0
Cash equivalents	-608.8	-581.0
	3,010.7	**2,698.1**

Financial Policy

According to the financial policy, the Group has a leverage ratio target of 2.5 (measured as net interest-bearing debt divided by adjusted EBITDA) while maintaining flexibility to increase leverage temporarily, for example to pursue acquisitions. At 31 December 2015, the ratio was 2.2 (2.2).

SECTION 5

OTHER DISCLOSURES

This section includes other statutory notes or notes that are of secondary importance for understanding the financial performance of the Group.

NOTE 5.1

CASH FLOW ADJUSTMENTS

For the purpose of presenting the cash flow statement, non-cash items with effect on the income statement must be reversed to identify the actual cash flow effect from the income statement. The adjustments are specified as follows:

DKK MILLION	2015	2014
Financial items	67.4	68.3
Share of profit of associated companies, net of tax	-10.2	-6.2
Depreciation and impairment	121.5	102.0
Amortisation	184.4	167.5
Income taxes	216.3	205.8
(Gains)/losses from sale of property, plant and equipment	-1.3	-28.7
Other adjustments	63.5	0.0
	641.6	**508.7**

NOTE 5.2

CONTINGENT LIABILITIES

ACCOUNTING POLICIES

All leases are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

LEASE OBLIGATIONS

The Group has entered into operating lease agreements for offices and warehouses, cars and equipment. The lease terms are between 1 and 15 years, and the majority of the lease agreements are renewable at the end of the lease period at market rate.

DKK MILLION	2015	2014
Lease expenditures charged to the income statement during the year	126.0	129.3
Future minimum lease payment under operating lease contracts and rent commitments amounts to:		
Within 1 year	107.8	115.9
Between 1 and 5 years	152.7	167.0
After 5 years	42.6	35.5
	303.1	**318.4**

NOTE 5.2

CONTINGENT LIABILITIES (CONTINUED)

GUARANTEE OBLIGATIONS

The Group has guarantee obligations totalling DKK 543.5 million (DKK 518.8 million), primarily given to local tax authorities in relation to excise and tax stamps.

LAWSUITS ETC.

From time to time the Group faces legal claims and disputes as part of the ordinary course of business, mainly related to employees and trademarks. At present there are no ongoing legal actions, claims or disputes that represent any material risk to the future financial results of the Group. Through participation in joint taxation schemes, the Group is jointly and severally liable for tax payables.

Disclosure regarding change of control

The Group's loan facilities are subject to change-of-control clauses.

The Group's investment in associated companies is subject to change-of-control clauses.

NOTE 5.3

RELATED-PARTY TRANSACTIONS

Related parties comprise companies controlled by the Augustinus Foundation, Swedish Match Cigars Holding AB and key management personnel. Key management personnel with significant influence over the company are Scandinavian Tobacco Group A/S' Board of Directors and Executive Management as well as management in the controlling companies.

Scandinavian Tobacco Group A/S and its Danish subsidiaries were until 10 February 2016 jointly taxed with all Danish companies controlled by Chr. Augustinus Fabrikker A/S.

Until 10 February 2016 Chr. Augustinus Fabrikker A/S was the management company of the jointly taxed companies and settled corporate taxes with the tax authorities.

The Group has had the following material transactions with related parties, income/expense (+/-):

DKK MILLION	2015	2014
Skandinavisk Holding A/S (Controlled by the Augustinus Foundation)		
Services provided by Scandinavian Tobacco Group	2.5	3.2
Tivoli A/S (Controlled by the Augustinus Foundation)		
Purchase of products and sponsorship to Scandinavian Tobacco Group	-1.1	-0.9
Swedish Match AB (Controlled by Swedish Match Cigars Holding AB)		
Purchase of products by Scandinavian Tobacco Group	-87.4	-86.7
Sale of products from Scandinavian Tobacco Group	79.1	86.6
Caribbean Cigar Holdings Group S.A (Associated company)		
Purchase of products by Scandinavian Tobacco Group	-39.4	-50.2
Sale of products from Scandinavian Tobacco Group	1.3	2.0
At 31 December the Group had the following outstanding balance with related parties receivable/payable (+/-):		
Skandinavisk Holding A/S	0.8	1.7
Swedish Match AB	-1.3	-6.0
Caribbean Cigar Holdings Group Co. S.A	-4.9	0.3
Total	**-5.4**	**-4.0**

NOTE 5.3

RELATED-PARTY TRANSACTIONS (CONTINUED)

For information on remuneration to the Management of Scandinavian Tobacco Group A/S, please refer to note 2.2. For an overview of Group companies, please refer to note 5.6. There have not been and there are no loans to key management personnel in 2015 or 2014.

Dividends to shareholders have not been included in the above overview.

Ownership and Consolidated Financial Statements
Up until 9 February 2016 the direct shareholders of Scandinavian Tobacco Group A/S were the following:

Skandinavisk Holding II A/S, Soeborg, Denmark (51%)

Swedish Match Cigars Holding AB, Stockholm, Sweden (49%)

The ultimate parent company was the Augustinus Foundation (via Skandinavisk Holding A/S).

Scandinavian Tobacco Group A/S is included in the Consolidated Financial Statements for 2015 of Skandinavisk Holding A/S as the smallest group and Chr. Augustinus Fabrikker A/S as the largest group.

On 10 February 2016, Scandinavian Tobacco Group A/S was listed on Nasdaq Copenhagen.

For information concering major shareholders please refer to Shareholder information in the Management Report, page 36-37.

NOTE 5.4

EVENTS AFTER THE REPORTING PERIOD

The Group has not experienced any significant events after 31 December 2015 which have an impact on the annual report.

NOTE 5.5

FEE TO STATUTORY AUDITOR

DKK MILLION	2015	2014
Statutory audit	5.0	5.2
Audit-related services	0.3	0.9
Tax advisory services	4.7	6.4
Other services	2.4	5.2
Total fee to statutory auditors	**12.4**	**17.7**

NOTE 5.6

ENTITIES IN SCANDINAVIAN TOBACCO GROUP

			ACTIVITY			
COMPANY	COUNTRY	OWNERSHIP	PRODUCTION	SALES AND MARKETING	ADMINISTRATION	FINANCE
Parent company						
Scandinavian Tobacco Group A/S	Denmark	-		•	•	•
Subsidiaries by region						
Europe						
Bogaert Cigars N.V.	Belgium	100%		•		
Scandinavian Tobacco Group Belux N.V.	Belgium	100%		•		
Scandinavian Tobacco Group Lummen N.V.	Belgium	100%	•			
Scandinavian Tobacco Group Belgium Services N.V.	Belgium	100%			•	
Scandinavian Tobacco Group Wuustwezel N.V.	Belgium	100%	•			
Scandinavian Tobacco Group Zagreb d.o.o.	Croatia	100%		•		
Scandinavian Tobacco Group Assens A/S	Denmark	100%	•	•		
Scandinavian Tobacco Group Denmark A/S	Denmark	100%		•		
Scandinavian Tobacco Group Nykøbing ApS	Denmark	100%	•			
STG Finans ApS	Denmark	100%				•
STG Latin Holding ApS	Denmark	100%			•	
Peter Stokkebye Tobaksfabrik A/S	Denmark	100%		•		
Scandinavian Tobacco Group France S.A.S	France	100%		•		
Scandinavian Tobacco Group Deutschland GmbH	Germany	100%		•		
Scandinavian Tobacco Group Italy S.R.L.	Italy	100%		•		
Scandinavian Tobacco Group Norway AS	Norway	100%		•		
Scandinavian Tobacco Group Polska Sp. z o.o.	Poland	100%		•		
STG Portugal S.A.	Portugal	100%		•		
Scandinavian Tobacco Group d.o.o.	Slovenia	100%		•		
Scandinavian Tobacco Group Spain S.A.U.	Spain	100%		•		
Intermatch Sweden AB	Sweden	100%			•	
P.G.C. Hajenius B.V.	The Netherlands	100%		•		
Scandinavian Tobacco Group Eersel B.V.	The Netherlands	100%	•	•	•	
Scandinavian Tobacco Group Nederland B.V.	The Netherlands	100%		•		
Scandinavian Tobacco Group Tobacco Service B.V.	The Netherlands	100%		•		
ST Cigar Group Holding B.V.	The Netherlands	100%			•	
STG Finance B.V.	The Netherlands	100%				•
Scandinavian Tobacco Group Bethlehem Holdings B.V.	The Netherlands	100%			•	
Scandinavian Tobacco Group Bethlehem Sales B.V.	The Netherlands	100%		•	•	
Scandinavian Tobacco Group United Kingdom Limited	United Kingdom	100%		•		

NOTE 5.6

ENTITIES IN SCANDINAVIAN TOBACCO GROUP (CONTINUED)

			ACTIVITY			
COMPANY	COUNTRY	OWNERSHIP	PRODUCTION	SALES AND MARKETING	ADMINISTRATION	FINANCE
Asia						
Scandinavian Tobacco Group Hong Kong Limited	Hong Kong	100%		•		
PT Scandinavian Tobacco Group Indonesia	Indonesia	100%	•			
Australia and New Zealand						
Scandinavian Tobacco Group Australia Pty Ltd	Australia	100%		•		
Scandinavian Tobacco Group New Zealand Ltd	New Zealand	100%		•		
Africa						
Scandinavian Tobacco Nigeria Ltd.	Nigeria	100%			•	
America						
Scandinavian Tobacco Group Canada Holding Inc.	Canada	100%			•	
Scandinavian Tobacco Group Canada Inc.	Canada	100%		•		
General Cigar Dominicana S.A.S.	The Dominican Republic	100%	•			
Honduras American Tabaco SA de CV	Honduras	100%	•			
Scandinavian Tobacco Group Danli S.A.	Honduras	100%	•			
Scandinavian Tobacco Group Esteli, S.A.	Nicaragua	100%	•			
Scandinavian Tobacco Group Moca S.A.	Panama	100%	•			
Scandinavian Tobacco Group US Holding, Inc.	United States	100%			•	
General Cigar Co., Inc.	United States	100%		•		
Cigar Masters Inc.	United States	100%		•		
General Cigar Sales Co., Inc.	United States	100%		•		
GCMM Co., Inc.	United States	100%		•		
Club Macanudo (Chicago), Inc.	United States	100%		•		
Club Macanudo, Inc.	United States	100%		•		
Henri Wintermans Cigars USA, Inc.	United States	100%			•	
M&D Wholesale Distributors, Inc.	United States	100%		•		
Bethlehem Shared Services, LLC	United States	100%			•	
Bethlehem Sales, LLC	United States	100%			•	
BPA Sales, LP	United States	100%		•		
Bethlehem IP Holdings, LLC	United States	100%		•		
Scandinavian Tobacco Group Lane Holding, Inc.	United States	100%			•	
Scandinavian Tobacco Group Lane Ltd	United States	100%	•	•		
Cigar Smokers Restaurant Holdings, Inc.	United States	100%			•	
Bethlehem Restaurant Corporation, Inc.	United States	100%		•		
CI Hamburg Superstore Lounge, LLC	United States	100%		•		

NOTE 5.7

EXPLANATION OF FINANCIAL RATIOS

Gross margin	=	Gross profit / Net sales
EBITDA margin	=	EBITDA / Net sales
EBIT margin	=	EBIT / Net sales
Tax percentage	=	Tax / Profit before tax
Equity ratio	=	Equity / Total assets
Net interest-bearing debt	=	Interest-bearing liabilites and pensions less cash equivalents and interest-bearing receivables
ROIC	=	EBIT / 12 months average invested capital*
ROIC ex. goodwill and trademarks from 2010 merger**	=	EBIT / 12 months average invested capital ex. goodwill and trademarks from 2010 merger
Earnings per share	=	Net profit / Average number of shares outstanding
Dividend per share	=	Proposed and interim dividend / Average number of shares outstanding
Pay-out ratio	=	Proposed and interim dividend / Net profit

* Average invested capital comprise of intangible assets, property, plant and equipment, inventories, receivables (excluding receivables recognised at fair value) and prepayments less trade creditors, provisions and other liabilities (excluding other liabilities recognised at fair value).

** Scandinavian Tobacco Group was established in 2010 through a merger, where assets and liabilities were distributed at fair value to the Group. Consequently, non-recognised goodwill and trademarks were recognised in the balance sheet of the Group.

FINANCIAL STATEMENTS

THE PARENT COMPANY

INCOME STATEMENT — PARENT COMPANY

DKK MILLION	NOTE	2015	2014
Other income		**199.9**	**195.7**
Other external costs		-94.9	-116.5
Staff costs	2	-133.8	-101.1
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**-28.8**	**-21.9**
Depreciation	3	-0.8	-0.9
Earnings before interest, tax and amortisation (EBITA)		**-29.6**	**-22.8**
Amortisation	3	-13.1	-10.1
Earnings before interest and tax (EBIT)		**-42.7**	**-32.9**
Result of investments in affiliated companies, net of tax	4	435.1	419.2
Financial income	5	60.2	64.7
Financial costs	6	-90.9	-115.0
Profit before tax		**361.7**	**336.0**
Income taxes	7	19.7	17.8
Net profit for the year		**381.4**	**353.8**
DISTRIBUTION OF PROFIT			
Proposed distribution of profit:			
Proposed dividend		500.0	427.0
Reserve for retained earnings – equity method		0.0	0.0
Retained earnings		-118.6	-73.2
		381.4	**353.8**

BALANCE SHEET AT 31 DECEMBER — PARENT COMPANY

ASSETS

DKK MILLION	NOTE	2015	2014
Other intangible assets		33.1	26.8
Intangible assets	8	**33.1**	**26.8**
Equipment, tools and fixtures		0.0	0.0
Leasehold improvements		2.8	3.6
Property, plant and equipment	9	**2.8**	**3.6**
Investments in affiliated companies		10,451.2	10,303.5
Financial fixed assets	10	**10,451.2**	**10,303.5**
Fixed assets		**10,487.1**	**10,333.9**
Receivables from affiliated companies		2,539.6	2,257.9
Other receivables		21.2	3.0
Income tax receivable		82.5	62.4
Prepayments	11	21.5	12.9
Total receivables		**2,664.8**	**2,336.2**
Cash and cash equivalents		**468.1**	**454.9**
Current Assets		**3,132.9**	**2,791.1**
Assets		**13,620.0**	**13,125.0**

BALANCE SHEET AT 31 DECEMBER — PARENT COMPANY

EQUITY, PROVISIONS AND LIABILITIES

DKK MILLION	NOTE	2015	2014
Share capital		100.0	100.0
Retained earnings		7,000.9	7,581.0
Proposed dividend		500.0	427.0
Equity		**7,600.9**	**8,108.0**
Deferred income tax liabilities	7	39.8	16.0
Pension obligations	12	20.4	11.3
Other provisions	12	4.7	4.5
Provisions		**64.9**	**31.8**
Bank loans		3,337.9	2,307.5
Long-term liabilities		**3,337.9**	**2,307.5**
Bank loans		0.0	650.8
Liabilities to affiliated companies		2,470.3	1,870.1
Trade creditors		26.6	11.9
Other liabilities		119.4	144.9
Current liabilities		**2,616.3**	**2,677.7**
Liabilities		**5,954.2**	**4,985.2**
Equity, provisions and liabilities		**13,620.0**	**13,125.0**
Contingent liabilities	13		
Financial instruments	14		
Related-party transactions	15		
Fee to statutory auditor	16		
Ownership	17		

STATEMENT OF CHANGES IN EQUITY — PARENT COMPANY

1 JANUARY - 31 DECEMBER

DKK MILLION	SHARE CAPITAL	RETAINED EARNINGS	PROPOSED DIVIDEND	TOTAL
Equity at 1 January 2015	100.0	7,581.0	427.0	8,108.0
Cash flow hedges		48.8		48.8
Tax of cash flow hedges		-11.5		-11.5
Actuarial gains and losses on pension obligations		-4.2		-4.2
Tax of actuarial gains and losses on pension obligations		1.0		1.0
Equity movement in subsidiaries		9.8		9.8
Foreign exchange adjustments of net investments in foreign subsidiaries		394.6		394.6
Dividend paid		-900.0	-427.0	-1,327.0
Profit / loss for the year		-118.6	500.0	381.4
Equity at 31 December 2015	**100.0**	**7,000.9**	**500.0**	**7,600.9**
Equity at 1 January 2014	100.0	7,157.8	382.0	7,639.8
Cash flow hedges		-5.4		-5.4
Tax of cash flow hedges		0.9		0.9
Equity movement in subsidiaries		-42.5		-42.5
Foreign exchange adjustments of net investments in foreign subsidiaries		543.4		543.4
Dividend paid			-382.0	-382.0
Profit / loss for the year		-73.2	427.0	353.8
Equity at 31 December 2014	**100.0**	**7,581.0**	**427.0**	**8,108.0**

The share capital consists of 100,000,000 shares of a nominal value of DKK 1. No shares carry any special rights.

There has been no changes to share capital in the past five years.

NOTES TO THE PARENT COMPANY

NOTE 1
ACCOUNTING POLICIES

The Parent Company has prepared its Financial Statements in accordance with the provisions of the Danish Financial Statements Act (Class D) and other accounting regulations for companies listed on NASDAQ Copenhagen. The Consolidated Financial Statements have been prepared in accordance with IFRS. The accounting policies applied for the Consolidated Financial Statements regarding recognition and measurement have also been applied for the Parent Company with the below exceptions.

No seperate statement of cash flows has been prepared for the Parent Company. Please refer to the Statement of cash flows for the Group.

RESULT OF INVESTMENTS IN AFFILIATED COMPANIES, NET OF TAX
The item 'Result of investments in affiliated companies, net of tax' in the income statement includes the proportionate share of the profit for the year after tax less goodwill amortisation.

GOODWILL
Goodwill is amortised on a straight-line basis over the estimated useful life determined on the basis of Management's experience with the individual business areas. The maximum amortisation period is 20 years, the longest period applying to enterprises acquired for strategic purposes with a strong market position and a long earnings profile.

TRADEMARKS
Trademarks are amortised on a straight-line basis over the estimated useful life determined on the basis of Management's experience. The maximum amortisation period is 20 years, the longest period applying to strategic trademarks with a strong market position and a long earnings profile.

INVESTMENTS IN AFFILIATED COMPANIES
Investments in affiliated companies are recognised and measured under the equity method.

The item 'Investments in affiliated companies' in the balance sheet includes the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of any remaining value of positive differences (goodwill) and deduction of any remaining value of negative differences (negative goodwill).

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to 'Reserve for retained earnings – equity method' under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in subsidiaries.

DEFINED BENEFIT PENSION PLANS
In relation to defined benefit plans, the company has early adopted the requirements in the Danish Financial Statement Act (dated 1 July 2015 for financial statements starting 1 January 2016), meaning that actuarial gains and losses are recognised directly in other comprehensive income instead of directly in the income statement. For the monetary impact, please refer to the statement of changes in equity and note 3.7 "pension obligation" for the group. The adoption has no impact on the Financial Statements as the provision for defined benefit plans in previous years has been recognised in accordance with IAS 19.

NOTE 2
STAFF COSTS

DKK MILLION	2015	2014
Salaries	123.2	101.8
Pensions	10.5	-0.8
Social security costs	0.1	0.1
	133.8	**101.1**
Average number of employees	**81**	**82**

NOTE 2

STAFF COSTS (CONTINUED)

Remuneration of the Board of Directors and Executive Management

Total fees to the Board of Directors and Executive Management, amounted to DKK 77.3 million (DKK 42.3 million).

EXECUTIVE MANAGEMENT	SALARY	BONUS	PENSION	SHARED BASED INCENTIVE PROGRAMME*	TOTAL
Niels Frederiksen**	5.7	5.8	0.0	5.5	17.0
Christian Hother Sørensen	4.5	4.6	0.0	5.5	14.6
Sisse Fjelsted Rasmussen	3.6	3.7	0.0	5.5	12.8
Rob Zwarts	3.1	2.8	0.6	5.5	12.0
Vicent Crepy***	1.1	1.1	0.0	2.5	4.7
Anders Colding Friis****	1.2	1.2	0.0	0.0	2.4
Total 2015	**19.2**	**19.2**	**0.6**	**24.5**	**63.5**
Total 2014	**21.9**	**12.6**	**2.1**	**0.8**	**37.4**

* The share based programme represents amounts expensed in 2015 based on estimated total value, probability and expected timing. The programme has subsequently been triggered in connection with the listing of the Group on Nasdaq Copenhagen on 10 February 2016 where executive management received a total payment of DKK 36.9 million.

** Niels Frederiksen was appointed as CEO on 1 March 2015.

*** Vincent Crepy joined the Group as Executive Vice President of supply chain on 1 September 2015.

****Anders Colding Friis left his position as CEO on 28 February 2015.

In addition to the above, the Group has expensed DKK 8.9 million in 2015 related to retention allowances which are due after 1-2 years, and which replaces previous retirement plans for selected executives.

In the event that an executive member is dismissed, the ordinary salary up to a 24-month notice period and a proportional part of the retention allowance is paid.

DKK THOUSAND	POSITION	JOINED THE BOARD	LEFT THE BOARD	BOARD	COMMITTEES	TOTAL
Board of Directors						
Jørgen Tandrup	Chairman	October 2010		825		825
Conny Karlsson	Vice-chairman	October 2010		481		481
Søren Bjerre-Nielsen	Board member	February 2016				0
Marlene Forsell	Board member	June 2014		275	100	375
Tommy Petersen	Board member	October 2010		275	150	425
Lars Dahlgren	Board member	October 2010	February 2016	481		481
Dianne Neal Blixt	Board member	February 2016				0
Luc Missorten	Board member	February 2016				0
Henning Kruse Petersen	Board member	October 2010		481		481
Kurt Asmussen	Group employee representative	October 2010		275		275
Charlotte Nielsen	Group employee representative	October 2010		275		275
Hermod Hvid	Group employee representative	April 2015		229		229
Hanne Malling	Group employee representative	October 2010		275		275
Fredrik Lagercrantz	Board member	January 2015	February 2016	275	100	375
Anders C. Obel	Board member	October 2010	February 2016	275	100	375
Lindy Larsen	Group employee representative	October 2010	April 2015	69		69
Total 2015				**4,491**	**450**	**4,941**
Total 2014				**4,468**	**450**	**4,918**

NOTE 3

DEPRECIATION AND AMORTISATION

DKK MILLION	2015	2014
Depreciation		
Equipment, tools and fixtures	0.0	0.1
Leasehold improvements	0.8	0.8
	0.8	**0.9**
Amortisation		
Other intangible assets	13.1	10.1
	13.1	**10.1**

NOTE 4

RESULT OF INVESTMENTS IN AFFILIATED COMPANIES, NET OF TAX

DKK MILLION	2015	2014
Result of investments in affiliated companies, net of tax	435.1	419.2
	435.1	**419.2**

NOTE 5

FINANCIAL INCOME

DKK MILLION	2015	2014
Interest on deposits in financial institutions, etc.	0.3	0.4
Interest on balances with affiliated companies	39.8	63.7
Exchange gains, net	20.1	0.0
Other financial income	0.0	0.6
	60.2	**64.7**

NOTE 6
FINANCIAL COSTS

DKK million	2015	2014
Interest on debt to financial institutions, etc.	77.5	76.4
Interest on balances with affiliated companies	12.6	11.1
Exchange losses, net	0.0	26.4
Other financing costs	0.8	1.1
	90.9	**115.0**

NOTE 7
INCOME TAXES

DKK MILLION	2015	2014
Current income tax	-44.0	-25.6
Deferred income tax	29.1	10.1
Adjustment regarding prior years, current income tax	-0.5	-1.8
Adjustment regarding prior years, deferred income tax	-4.3	-0.5
	-19.7	**-17.8**

Scandinavian Tobacco Group A/S and its Danish subsidiaries were until 10 February 2016 jointly taxed with all Danish companies controlled by Chr. Augustinus Fabrikker A/S. Until 10 February 2016 Chr. Augustinus Fabrikker A/S was the management company of the jointly taxed companies and settled corporate taxes with the tax authorities.

From 10 February 2016 Scandinavian Tobacco Group A/S and its Danish subsidiaries are jointly taxed why all the Danish companies are jointly and individually liable for the joint taxation. The tax for the individual companies is allocated in full on the basis on the expected taxable income. STG A/S is the management company of the jointly taxed companies and settles corporate taxes with the tax authorities.

DKK MILLION	2015	2014
Breakdown of deferred income tax:		
Intangible assets	6.9	3.3
Property, plant and equipment	-0.4	-0.5
Receivables	36.8	14.9
Other liabilities	-3.5	-1.7
	39.8	**16.0**
Breakdown of income taxes:		
Tax calculated at 23.5% (2014: 24.5%) of profit before tax	85.0	78.1
Tax effect of:		
Adjustment regarding prior years	-4.8	-2.3
Non-deductable costs	2.3	4.9
Result of investments in affiliated companies	-102.2	-98.5
	-19.7	**-17.8**

NOTE 8
INTANGIBLE ASSETS

DKK MILLION	OTHER INTANGIBLE ASSETS
Accumulated cost at 1 January 2015	61.9
Addition	19.4
Disposal	0.0
Accumulated cost at 31 December 2015	81.3
Accumulated amortisation at 1 January 2015	35.1
Amortisation	13.1
Accumulated amortisation at 31 December 2015	48.2
Carrying amount at 31 December 2015	**33.1**

NOTE 9
PROPERTY, PLANT AND EQUIPMENT

DKK MILLION	EQUIPMENT, TOOLS AND FIXTURES	LEASEHOLD IMPROVEMENTS	TOTAL
Accumulated cost at 1 January 2015	0.9	6.7	7.6
Addition	0.0	0.0	0.0
Disposal	-0.7	0.0	-0.7
Accumulated cost at 31 December 2015	0.2	6.7	6.9
Accumulated depreciation at 1 January 2015	0.9	3.1	4.0
Depreciation	0.0	0.8	0.8
Depreciation on disposals	-0.7	0.0	-0.7
Accumulated depreciation at 31 December 2015	0.2	3.9	4.1
Carrying amount at 31 December 2015	**0.0**	**2.8**	**2.8**

NOTE 10
INVESTMENTS IN AFFILIATED COMPANIES

DKK MILLION	2015	2014
Accumulated cost at 1 January	12,538.6	10,728.7
Addition	484.9	1,809.9
Disposal	0.0	0.0
Accumulated cost at 31 December	13,023.5	12,538.6
Accumulated revaluation and impairment at 1 January	-2,235.1	-1,279.2
Dividends	-1,176.7	-1,876.0
Currency translation	394.6	543.4
Equity adjustments	9.8	-42.5
Profit after tax	435.1	419.2
Accumulated revaluation and impairment at 31 December	-2,572.3	-2,235.1
Carrying amount at 31 December	**10,451.2**	**10,303.5**

NOTE 10

INVESTMENTS IN AFFILIATED COMPANIES (CONTUNIED)

Investments in affiliated companies can be specified as follows:

NAME	COUNTRY	OWNERSHIP
Scandinavian Tobacco Group Australia Pty Ltd.	Australia	100%
Scandinavian Tobacco Group Zagreb d.o.o.	Croatia	100%
Scandinavian Tobacco Group Assens A/S	Denmark	100%
Scandinavian Tobacco Group Denmark A/S	Denmark	100%
STG Finans ApS	Denmark	100%
STG Latin Holding ApS	Denmark	100%
General Cigar Dominicana SA	The Dominican Republic	100%
Scandinavian Tobacco Group Deutschland GmbH	Germany	100%
Scandinavian Tobacco Group Hong Kong Limited	Hong Kong	100%
Scandinavian Tobacco Group Italy S.R.L.	Italy	100%
ST Cigar Group Holding B.V.	The Netherlands	100%
STG Finance B.V.	The Netherlands	100%
Scandinavian Tobacco Group Norway AS	Norway	100%
Scandinavian Tobacco Group Polska Sp. z o.o.	Poland	100%
STG Portugal S.A.	Portugal	100%
Scandinavian Tobacco Group d.o.o.	Slovenia	100%
Scandinavian Tobacco Group Spain S.A.U.	Spain	100%
Intermatch Sweden AB	Sweden	100%
Cigar Smokers Restaurant Holdings, Inc.	United States	100%
Scandinavian Tobacco Group Lane Holding, Inc.	United States	100%
Scandinavian Tobacco Group US Holding, Inc.	United States	100%

For a complete list of all entities in the Group please refer to note 5.6 pages 85-86.

NOTE 11

PREPAYMENTS

Prepayments comprise prepaid costs relating to up-front fee, licences, etc.

NOTE 12

PENSION OBLIGATIONS AND OTHER PROVISIONS

DKK MILLION	PENSION OBLIGATIONS	OTHER PROVISIONS
Balance at 1 January 2015	11.3	4.5
Disposals during the year	0.0	0.0
Additions during the year	9.1	0.2
Utilised during the year	0.0	0.0
Balance 31 December 2015	**20.4**	**4.7**
Expected due:		
Within 1 year	0.0	0.0
Between 1 and 5 years	20.4	4.7
After 5 years	0	0.0
	20.4	**4.7**

NOTE 13
CONTINGENT LIABILITIES

GUARANTEE OBLIGATIONS
The Company has guarantee obligations totalling DKK 539 million at 31 December 2015 (DKK 511 million).

LEASE OBLIGATIONS
Minimum lease payment under operating lease contracts and rent commitments amounts to:

DKK MILLION	2015	2014
Within 1 year	37.9	55.4
Between 1 and 5 years	0.8	7.8
After 5 years	0.0	0.0
	38.7	**63.2**

NOTE 14
FINANCIAL INSTRUMENTS

Reference is made to note 4.2 regarding the Group.

NOTE 15
RELATED-PARTY TRANSACTIONS

Related parties comprise companies controlled by the Augustinus Foundation or Swedish Match AB, the Management of Scandinavian Tobacco Group A/S and Management in controlling companies.

NOTE 16
FEE TO STATUTORY AUDITOR

DKK MILLION	2015	2014
Statutory audit	0.7	1.2
Audit-related services	0.1	0.0
Tax advisory services	0.5	1.9
Other services	0.0	0.0
	1.3	**3.1**

NOTE 17
OWNERSHIP

Up until 9 February 2016 the direct shareholders of Scandinavian Tobacco Group A/S were the following:
Skandinavisk Holding II A/S, Soeborg, Denmark (51%)
Swedish Match Cigars Holding AB, Stockholm, Sweden (49%)

The ultimate parent company was the Augustinus Foundation (via Skandinavisk Holding A/S).

On 10 February 2016, Scandinavian Tobacco Group A/S was listed on Nasdaq Copenhagen. As of 1 March 2016 Scandinavian Tobacco Group A/S had the following major shareholders:

Skandinavisk Holding II A/S, Denmark	33.2%
Swedish Match Cigars Holding AB, Sweden	31.2%
The Capital Group Companies, Inc, USA	5.1%

MANAGEMENT'S STATEMENT

Executive Management and Board of Directors have today considered and adopted the Annual Report of Scandinavian Tobacco Group A/S for the financial year 1 January – 31 December 2015.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Financial Statements are prepared in accordance with the Danish Financial Statements Act. Moreover, the Consolidated Financial Statements and the Financial Statements are prepared in accordance with additional Danish disclosure requirements for listed companies. Management's Report is also prepared in accordance with Danish disclosures requirements for listed companies.

In our opinion, the Consolidated Financial Statements and the Financial Statements give a true and fair view of the financial position at 31 December 2015 of the Group and the Parent Company and of the results of the Group and Parent Company operations and consolidated cash flows for the financial year 1 January - 31 December 2015.

In our opinion, Management's Report includes a true and fair account of the development in the operations and financial circumstances of the Group and the Parent Company, of the results for the year and of the financial position of the Group and the Parent Company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Parent Company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Soeborg, 10 March 2016

EXECUTIVE MANAGEMENT

Niels Frederiksen
CEO

Sisse Fjelsted Rasmussen
CFO

Christian Hother Sørensen
EXECUTIVE VICE PRESIDENT, SALES & MARKETING

Vincent Crepy
EXECUTIVE VICE PRESIDENT, SUPPLY CHAIN

Rob Zwarts
EXECUTIVE VICE PRESIDENT, SPECIAL PROJECTS

BOARD OF DIRECTORS

Jørgen Tandrup
CHAIRMAN

Conny Karlsson
VICE CHAIRMAN

Marlene Forsell

Tommy Pedersen

Henning Kruse Petersen

Søren Bjerre-Nielsen

Dianne Neal Blixt

Luc Missorten

Kurt Asmussen

Hermod Hvid

Hanne Malling

Charlotte Lückstadt Nielsen

INDEPENDENT AUDITOR'S REPORTS

To the Shareholders of Scandinavian Tobacco Group A/S

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS AND PARENT COMPANY FINANCIAL STATEMENTS

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Scandinavian Tobacco Group A/S for the financial year 1 January to 31 December 2015, which comprise income statement, balance sheet, statement of changes in equity and notes, including summary of significant accounting policies, for both the Group and the Parent Company, as well as consolidated cash flow statement and statement of comprehensive income for the Group. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Parent Company Financial Statements are prepared under the Danish Financial Statements Act. Moreover, the Consolidated Financial Statements and the Parent Company Financial Statements are prepared in accordance with Danish disclosure requirements for listed companies.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS

Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies and for preparing Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act and Danish disclosure requirements for listed companies, and for such internal control as Management determines is necessary to enable the preparation of Consolidated Financial Statements and Parent Company Financial Statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the Consolidated Financial Statements and the Parent Company Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Consolidated Financial Statements and the Parent Company Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements and the Parent Company Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements and the Parent Company Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the cir-cumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Consolidated Financial Statements and the Parent Company Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The audit has not resulted in any qualification.

OPINION

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2015 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2015 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2015 and of the results of the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2015 in accordance with the Danish Financial Statements Act and Danish disclosure requirements for listed companies.

STATEMENT ON MANAGEMENT'S REPORT

We have read Management's Report in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the Consolidated Financial Statements and the Parent Company Financial Statements. On this basis, in our opinion, the information provided in Management's Report is consistent with the Consolidated Financial Statements and the Parent Company Financial Statements.

Copenhagen, 10 March 2016

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR-no. 33 77 12 31

Torben Jensen
STATE AUTHORISED PUBLIC ACCOUNTANT

Thomas Wraae Holm
STATE AUTHORISED PUBLIC ACCOUNTANT

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