SCANDINAVIAN TOBACCO GROUP

Scandinavian Tobacco Group A/S

CVR-No. 31 08 01 85

Sydmarken 42, 2860 Søborg

Annual Report 2018

The Annual Report has been considered and adopted on the Company´s Annual General Meeting 10 April 2019

Chairman

Christian Lundgren

SCANDINAVIAN TOBACCO GROUP

ANNUAL REPORT

2018

WHO WE ARE

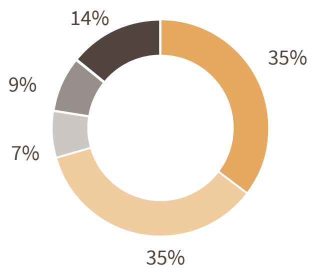
WE ARE A WORLD LEADING MANUFACTURER OF CIGARS AND PIPE TOBACCO

Our Group is all about creating moments of great enjoyment for smokers.

Our business is founded on extensive tobacco expertise and consumer insights. We take pride in our portfolio of more than 200 leading brands, all developed, refined and innovated by talented people who are passionate about their work.

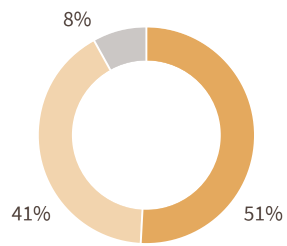
We believe that this will make us the undisputed global leader in cigars and pipe tobacco.

NET SALES PER CATEGORY (DKK million)



Handmade cigars	2,376
Machine-made cigars	2,367
Pipe tobacco	478
Fine-cut tobacco	562
Accessories and Contract Manufacturing	935

NET SALES PER REGION (DKK million)



Americas	3,443
Europe	2,727
Rest of World	548

OUR PRESENCE

The Group is headquartered in Copenhagen, Denmark. Cigars International and General Cigar have offices in Bethlehem, Pennsylvania and Richmond, Virginia respectively. We have 16 sales offices in Australia, Belgium, Canada, Croatia, Denmark, France, Germany, Italy, the Netherlands, New Zealand, Portugal, Slovenia, Spain, Sweden, the UK and the US.
We have 12 production sites in Denmark, Belgium, the Netherlands, the US, Indonesia, Nicaragua, Honduras and the Dominican Republic.

- Sales companies
- Export markets
- Main offices
- Production sites

PERFORMANCE 2018

EXECUTING ON THE STRATEGY

Read more about the US retail superstore expansion

DELIVERING ON OUR GUIDANCE

We delivered on our guidance with a slight increase in organic net sales to DKK 6,718 million and a 3.5% organic EBITDA growth. Net profit for the year was DKK 666 million and free cash flow before acquisitions was DKK 668 million. The Board of Directors proposes an ordinary dividend of DKK 6.00 per share, an increase of 4.3% compared to 2017.

3.5% Organic EBITDA growth

TRANSFORMING OUR BUSINESS

Fuelling the Growth was launched in Q4 2018 and is a Group-wide transformational program to increase commercial competitiveness and to drive gross margin enhancement, operational cost efficiency and savings.

5 Initiatives focused on commercial, cost and cash flow improvement

AN INTEGRATOR IN OUR INDUSTRY

We made progress on our M&A strategy. With the acquisitions of Thompson Cigar and Peterson Pipe Tobacco we cemented our position in the US online channel and strengthened our presence in the premium pipe tobacco segment. Both segments have been growing in recent years.

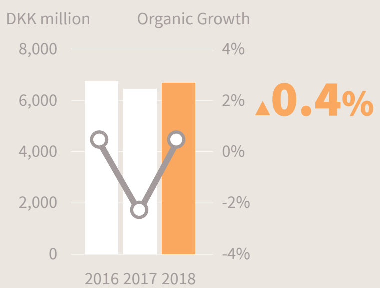
100 The acquisition of Thompson Cigar added about USD 100 million in annual sales

GROWING A CATEGORY

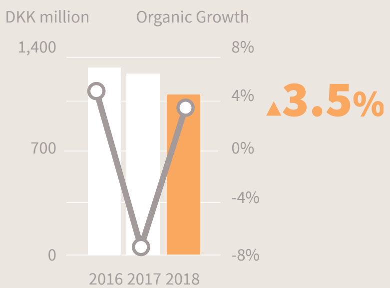
We took steps to continue the growth and development in the handmade cigar category, our biggest category. We strengthened our position across the value chain as we increased our market share in the branded business, acquired online retailer Thompson Cigar and expanded cigar superstore network.

>550m² Size of the new retail cigar superstore in Texas, US

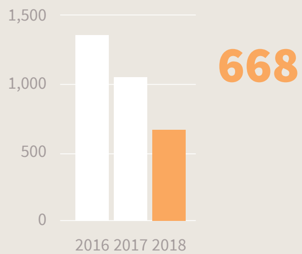
NET SALES



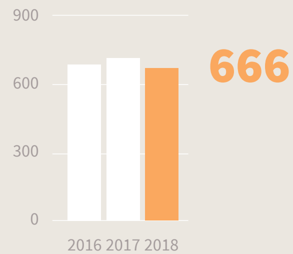
EBITDA



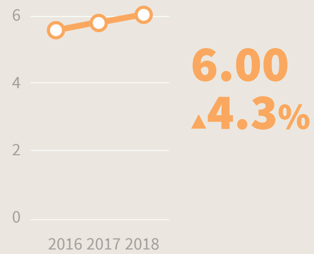
FREE CASH FLOW BEFORE ACQUISITIONS (DKK million)



NET PROFIT (DKK million)



PROPOSED ORDINARY DIVIDEND (DKK per share)



ANNUAL REPORT 2018

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2018 WRAP-UP

5-YEAR SUMMARY[1]

DKK million	2018	2017	2016	2015	2014
INCOME STATEMENT					
Net sales	6,718	6,464	6,746	6,732	6,126
Gross profit	3,201	3,095	3,225	3,239	2,947
EBITDA	1,089	1,232	1,279	1,247	1,177
EBIT	738	913	957	941	908
Net financial items	-37	-77	-72	-67	-68
Profit before tax	717	852	895	884	846
Income taxes	-51	-140	-213	-216	-206
Net profit	666	712	681	668	640
BALANCE SHEET					
Total assets	13,403	12,990	14,264	14,544	14,162
Equity	8,818	8,448	9,273	8,998	9,087
Net interest-bearing debt (NIBD)	2,585	2,247	2,469	3,011	2,698
Investment in property, plant and equipment	110	54	190	210	192
Total capital expenditures	125	109	235	236	215
CASH FLOW STATEMENT					
Cash flow from operating activities	784	1,049	1,358	1,285	1,056
Cash flow from investing activities	-511	-94	-219	-229	-471
Free cash flow	274	955	1,139	1,057	585
Free cash flow before acquisitions	668	963	1,139	1,057	895

	2018	2017	2016	2015	2014
KEY RATIOS, CONTINUED					
Net sales growth	3.9%	-4.2%	0.2%	9.9%	3.4%
Gross margin	47.7%	47.9%	47.8%	48.1%	48.1%
EBITDA margin	16.2%	19.1%	19.0%	18.5%	19.2%
Effective tax percentage	7.2%	16.4%	23.8%	24.5%	24.3%
Equity ratio	65.8%	65.0%	65.0%	61.9%	64.2%
Cash conversion	88.2%	110.2%	122.4%	119.0%	112.0%
Organic net sales growth	0.4%	-2.2%	0.4%	0.3%	2.9%
Gross margin before special items	47.9%	48.5%	49.1%	48.7%	48.1%
Organic EBITDA growth	3.5%	-7.4%	4.0%	2.2%	4.8%
EBITDA before special items (DKK million)	1,304	1,283	1,440	1,385	1,247
EBITDA margin before special items	19.4%	19.9%	21.4%	20.5%	20.3%
NIBD / EBITDA before special items	2.0	1.8	1.7	2.2	2.2
ROIC	6.4%	7.9%	7.8%	7.4%	7.7%
ROIC ex. goodwill and trademarks from 2010 merger	11.8%	14.8%	14.2%	13.3%	13.7%
Basic earnings per share (DKK)	6.7	7.1	6.8	6.7	6.4
Diluted earnings per share (DKK)	6.7	7.1	6.8	6.7	6.4
Number of shares issued ('000)	100,000	100,000	100,000	100,000	100,000
Number of treasury shares ('000)	367	367	412	-	-
Share price at year-end (DKK)	78.45	120.0	118.9	-	-
Dividend per share (DKK)	6.0	9.3	5.5	14.0	4.3
Pay-out ratio	90.2%	130.0%	80.7%	209.7%	66.7%

1. See definition/explanation of financial ratios in note 5.8.

LETTER FROM CHAIRMAN AND CEO

A TRANSFORMATIONAL YEAR

2018 was an important year for Scandinavian Tobacco Group as we took significant steps in the development of our company with the launch of a Group-wide transformational program and saw good progress on our strategy.

In 2018, Scandinavian Tobacco Group delivered on the financial guidance with a slight increase in organic net sales and 3.5% organic EBITDA growth. We generated free cash flow before acquisitions of DKK 668 million allowing us to propose a dividend payment of DKK 600 million to our shareholders.

We remain committed to maximizing total shareholder return. We recognize the importance of the dividend to many shareholders and regularly evaluate our total cash distribution to ensure it is aligned to the performance and investment needs of the business.

FUELLING THE GROWTH

Scandinavian Tobacco Group operates in attractive niche segments of the global tobacco industry with significant consolidation potential. In the course of 2018, we launched and implemented the transformational program Fuelling the Growth which will make us a stronger and more competitive company and better equipped to achieve our vision of becoming the undisputed global leader in cigars and pipe tobacco.

Fuelling the Growth represents an acceleration of the on-going modernisation of our company. It will make Scandinavian Tobacco Group a simpler and more focused company and improve the execution of our strategy. This will increase shareholder value by raising earnings capabilities, driving efficiencies and stimulating market share growth.

GOOD PROGRESS ON OUR STRATEGY

With Fuelling the Growth we are changing the way we are organised and the way we work. But our strategy and strategic objectives remain the same – and in 2018, we saw significant progress in all areas.

We improved our operational performance, simplified our business processes and have steadily increased efficiency by reducing complexity across the organisation. We closed the acquisitions of Thompson Cigar, a leading US online cigar retailer which strengthens our position in this growing market, and of Peterson Pipe Tobacco, a bolt-on acquisition with a portfolio of premium brands that increases our offering to our loyal pipe tobacco consumers. In addition, we opened the first of two planned cigar superstores in the state of Texas as part of our retail expansion in the US.

ENTERING 2019 IN GOOD SHAPE

Based on these achievements and with our strong brands, extensive tobacco expertise, global scale and market footprint we face 2019 with confidence. We have given ourselves every opportunity to create further value for shareholders and deliver on our strategy to be able to fulfil our vision of becoming the undisputed, global leader in cigars and pipe tobacco.

A key prerequisite for success in 2019 is our employees. In the past year, our employess have demonstrated impressive levels of energy and dedication and we would like to thank them all for their commitment and hard work.

Also, we would like to take this opportunity to thank our shareholders, customers and consumers for the interest and trust that they continue to show in our company.

Niels Frederiksen
President and CEO

Nigel Northridge
Chairman of the Board of Directors

WHY INVEST

STRONG CASH FLOW AND ATTRACTIVE DIVIDEND

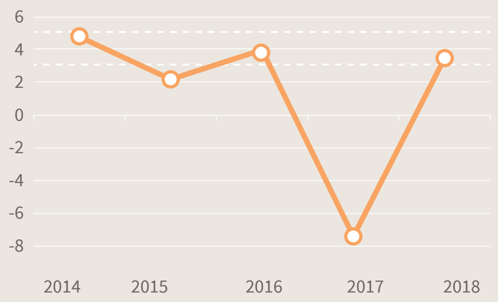
EBITDA GROWTH

Since 2014, we have delivered annual organic EBITDA growth of 2-5% with the exception of 2017.

Our ambition is to deliver average annual organic EBITDA growth of 3-5%.

ORGANIC EBITDA GROWTH

(%)



2014-2018 AVERAGE

~1.4%

ORGANIC EBITDA GROWTH

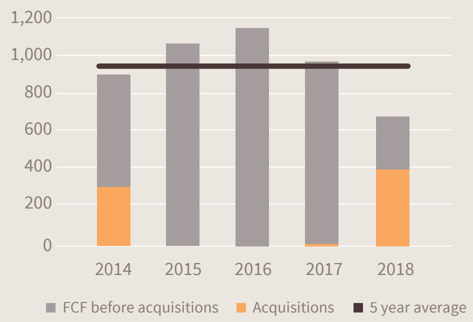
STABLE CASH FLOW

Since 2014, we have delivered an average annual free cash flow before acquisitions of DKK 944 million driven by a combination of a strong structural cash flow generation in our tobacco categories and focus on reducing working capital tied up in the operation.

In 2014, we made acquisitions for a total of DKK 310 million and in 2018 we invested DKK 394 million in Thompson Cigar and Peterson Pipe Tobacco.

FREE CASH FLOW BEFORE ACQUISITIONS

(DKK million)



2014-2018 AVERAGE

DKK944MILLION

FREE CASH FLOW BEFORE ACQUISITIONS

DIVIDEND

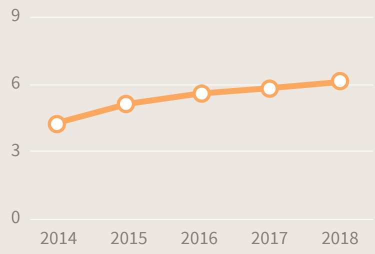
Since 2014, we have increased the annual ordinary dividend by an average of 8.7% (including a proposed dividend for 2018 of DKK 6.00 per share).

Extraordinary dividends of DKK 9.00 and 3.50 per share were paid out in 2015 and 2017 respectively.

Since the IPO in February 2016, we have paid out DKK 25.75 per share in ordinary and extraordinary dividends. This corresponds to 26% of the IPO-share price of DKK 100per share.

DIVIDEND PER SHARE

(DKK)



2014-2018 AVERAGE

8.7%

ORDINARY DIVIDEND GROWTH

STRATEGY

OUR VISION IS TO BE THE UNDISPUTED GLOBAL LEADER IN CIGARS AND PIPE TOBACCO

Our strategy is built on a simple framework with four business priorities and six must win battles.

The four business priorities outline the strategic focus for decisions; and the six must win battles describe how we execute our strategy.

BUSINESS PRIORITIES

Across categories and markets, our business priorities help us create value from our recognised brands, extensive tobacco expertise, global scale, market footprint and supply chain.

OUTPERFORM

To outperform the overall market where we compete we focus on winning market share and unlocking the value in market leadership.

GLOBALISE

To globalise our geographical footprint we expand our business into new markets by building, acquiring or merging.

SIMPLIFY

To simplify we do more with less by improving efficiency and reducing complexity.

EMPOWER

To foster speed, accountability and motivation we empower our people to ensure engaged and enabled employees with a winning mindset.

STRATEGY

OUR SIX MUST WIN BATTLES

Our six must win battles represent our key priorities and dictate the prioritisation of time and resources.

1 WIN IN MACHINE MADE CIGAR

Increase market share and optimise and manage prices effectively

2018 developments

1. Started implementation of turn-around in France
2. Market share growth in the UK, Belgium, Spain and Canada
3. Signature re-name project in Spain with no negative impact

2 ACCELERATE NORTH AMERICA

Accelerate growth and improve efficiency across our business in North America

2018 developments

1. Record year in General Cigar and growth in the online business
   2. Established two new North America commercial divisions
3. Retail expansion in Texas

3 DRIVE M&A

Develop and execute M&A strategy to strengthen our position

2018 developments

1. Acquisition of Thompson Cigar
2. Acquisition of Peterson Pipe Tobacco
3. Continued development and maturation of M&A pipeline

4 LEAD PERFORMANCE TO THE NEXT LEVEL

Improve efficiencies by developing leaner, faster and more agile operations

2018 developments

1. Acceleration of Lean efforts across production facilities
2. Optimisation of European logistic set-up
3. Pilot project on new technologies initiated

5 ENABLE A WINNING ORGANISATION

Invest in stronger HR capabilities, create global excellence centres and increase focus on accountability and performance

2018 developments

1. New organisational structure and operating model
2. Roll-out of global performance management process
3 Global strategic procurement established

6 RAISE IT CAPABILITIES

Bring IT to the next level to fully support the business

2018 developments

1. IT integration of Thompson Cigar ahead of schedule
2. Launch of new global HR IT system
3. New CRM system rolled out in all major markets

STRATEGY

FUELLING THE GROWTH

Fuelling the Growth was launched in Q4 2018 and is a Group-wide transformational program aiming to increase commercial competitiveness, gross margin enhancement, operational cost efficiency and savings.

The program supports our financial ambition of delivering average annual organic EBITDA growth of 3-5% by focusing on **Commercial** initiatives, **Cost** reduction and **Cash flow** improvement with the operational efforts organised under five overall initiatives.

The program will create shareholder value by ensuring sustainable net sales, strengthening earnings and dividend capabilities while simultaneously providing the posibility to participate in market consolidation.

Read more about Fuelling the Growth

INVESTMENT

SPECIAL ITEMS

Special items from Fuelling the Growth are front-loaded and will incur costs (special items) up to a level of DKK 250 million - DKK 182 million in 2018 and up to a level of DKK 70 million in the period 2019-2021. 2018-costs are higher than originally expected as a result of faster execution and the additional costs did not have any cash impact in 2018.

OPERATIONAL INITIATIVES

ORGANISATION

- Improve FTE/net sales ratio
- Reduce organisational layers from 10 to 7
- Eliminate 100-120 white collar positions

COMMERCIAL RESOURCES

- Establish four divisions anchored in the Executive Board
- Improve customer service level
- Win market shares in selected markets
- Increase number of active customers in online/catalogue business

GLOBAL LOGISTICS

- Optimise manufacturing network
- Optimise production allocation across factories
- Increase distribution efficiency and improve customer service

GLOBAL PROCUREMENT

- Establish a global procurement organisation
- Review Group purchases of ~DKK 4 billion to reduce expenses
- Reduce number of suppliers

OPERATIONAL COST EFFICIENCY

- Simplify product platforms
- Simplify SKU portfolio
- Increase capacity utilisation

FINANCIAL IMPACT

NET SAVINGS

Fuelling the Growth is expected to deliver net savings of approximately DKK 250 million with a full-year run-rate effect by the end of 2021.

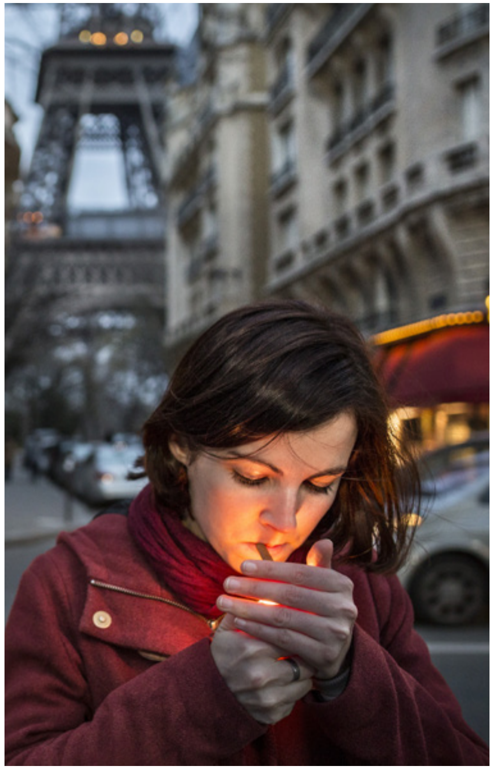
Net savings are slightly front-loaded in the period 2019-2022. The expected pay-back of the program is approximately 2 years.

OUR BUSINESS

OUR FIVE CATEGORIES

HANDMADE CIGARS

Our handmade cigars are rolled at our sites in three of the world's most significant tobacco-growing countries: the Dominican Republic, Honduras and Nicaragua.



MACHINE-MADE CIGARS

The production of the inner and outer leaves for our machine-made cigars is carried out in Indonesia and the Dominican Republic whereas the automated cigar production takes place in Belgium, the Netherlands and the US.

PIPE TOBACCO

Our pipe tobacco is produced at our sites in Assens, Denmark and in Tucker, GA in the US. Our facility in Assens remains one of the largest manufacturers of traditional pipe tobacco globally.

FINE-CUT TOBACCO

Our fine-cut tobacco is manufactured close to our main markets in the US and Northern Europe at our factories in Holstebro, Denmark and in Tucker, GA in the US.

ACCESSORIES AND CONTRACT MANUFACTURING

Our accessories and contract manufacturing (ACM) category comprises four sub-categories: contract manufacturing, sales of fire products and accessories, sales of chewing tobacco and matches and licenses.

OUR CATEGORIES

HANDMADE CIGARS

We strengthened our position across the value chain as we increased our market share in the branded business, acquired online retailer Thompson Cigar and expanded our brick and mortar retail network.

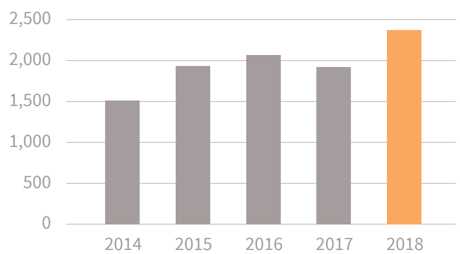
General Cigar had a record year and increased market share across all sales channels based on its strong brand portfolio, a series of successful product launches and successful efforts to foster strong relations with the trade.

With the acquisition of Thompson Cigar, the third largest online retailer in the US, Cigars International increased its share of the online channel and cemented its position as a leading player. The acquisition added about USD 100 million in annual sales and a low single-digit EBITDA. Integration was off to a convincing start and full integration is expected to be achieved by the end of 2019.

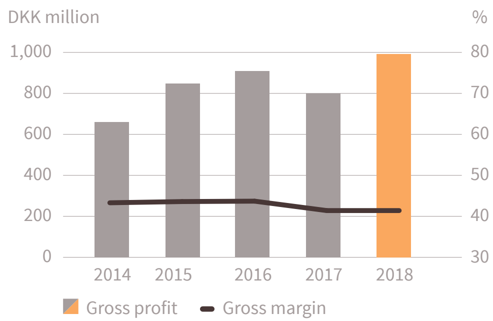
Cigars International opened the first of two planned brick and mortar retail superstores in Texas. The retail expansion is part of the strategy of growing and developing the premium cigar business and will be a strategic complement to our online retail business. In total, Cigars International operates four stores in the US and expects to announce three other locations during 2019.

Net sales for the handmade category were DKK 2,376 million (DKK 1,921 million) with organic growth of 5.6%. With the exception of 2017, the handmade category has had positive organic growth in net sales since 2010. The track-record has been established as a combination of a stable to slightly increasing demand and by leveraging our market leadership with a dedicated focus on customer experience.

NET SALES



GROSS PROFIT



Gross profit was DKK 984 million (DKK 795 million) with a gross margin of 41.4% (41.4%). Excluding Thompson Cigar the gross margin improved versus 2017.

DKK million	**2018**	**2017**
Net sales	2,376	1,921
Gross profit	984	795
Gross margin, %	**41.4%**	**41.4%**

	2018	**2017**
Net sales growth	23.7%	-7.1%
Exchange rates, acquisitions and reclassification	18.1%	-3.1%
Organic net sales growth	**5.6%**	**-4.0%**
- Volume impact	1.6%	-1.8%
- Price/mix impact	4.0%	-2.3%

Read more about the Thompson Cigar acquisition

OUR CATEGORIES

MACHINE-MADE CIGARS

In 2018, total consumption of machine-made cigars declined while we saw growth in the value-for-money segment across markets at the expense of premium and mainstream machine-made cigars which traditionally are our strongest segments.

In key markets like the UK, Belgium, Spain and Canada we grew our market share. Excluding France, the machine-made cigars category delivered positive organic growth in net sales.

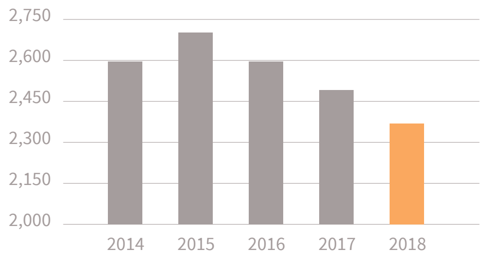
In France, our single largest machine-made cigars market, we experienced a difficult market environment following a substantial increase in excise taxes.
In an intensified competitive market with a growing value-for-money segment we lost market share and we currently have around 30% market share.
In response, we have increased focus on the value-for-money segment and strengthened our pricing and go-to-market strategy.

Further excise tax increases will take effect during 2019 and 2020 in France – and with a strengthened value-for-money portfolio we are better positioned to handle the resulting market changes. We intend to defend our leading position in France and it is our expectation that we will be able to improve our market share going forward.

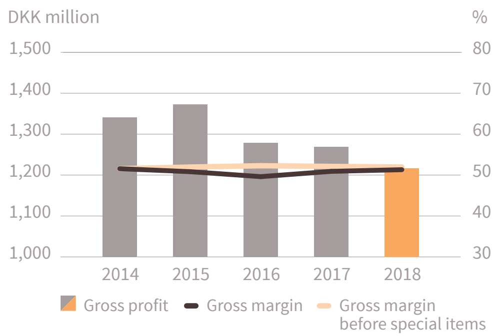
Net sales in machine-made cigars were DKK 2,367 million (DKK 2,491 million) with organic growth of -3.4%.

Gross profit was DKK 1,217 million (DKK 1,268 million) with a gross margin of 51.4% (50.9%). The gross margin before special items was 52.2% (52.4%).

NET SALES



GROSS PROFIT



DKK million	2018	2017
Net sales	2,367	2,491
Gross profit	1,217	1,268
Gross margin, %	**51.4%**	**50.9%**
Special items, net	-19	-37
Gross profit bef. special items	1,236	1,305
Gross margin bef. special items	**52.2%**	**52.4%**

	2018	2017
Net sales growth	-5.0%	-3.9%
Exchange rates, acquisitions and reclassification	-1.6%	-1.5%
Organic net sales growth	**-3.4%**	**-2.4%**
- Volume impact	-5.2%	-3.7%
- Price/mix impact	1.8%	1.3%

Read more about how we win in machine-made cigars

OUR CATEGORIES

PIPE TOBACCO

The market for traditional pipe tobacco has been declining for a number of years and we aim at offsetting market decline by effectively managing prices, winning market shares and gaining efficiencies.

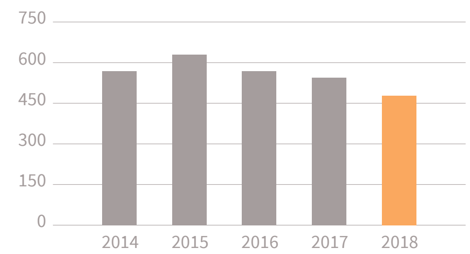
We saw accelerated volume decline in 2018 and the category did not perform well. Our shipments to markets in the Middle East, Africa and Asia declined due to inventory adjustments in the distribution channel – and we were not able to compensate for the volume decline despite ensuring price increases.

The acquisition of Peterson Pipe Tobacco, a small Irish pipe tobacco business with brands like Sherlock Holmes, Old Dublin and Connoisseur´s Choice, strengthened our position in the important premium pipe tobacco segment which has been growing in recent years. The acquisition of the Peterson brand portfolio is a good match to our existing pipe tobacco portfolio and increases our presence in important pipe tobacco markets like Germany, the UK, the US and Asia.

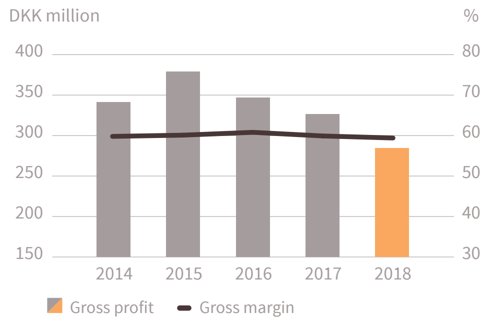
Net sales were DKK 478 million (DKK 544 million) with organic growth of -6.7%.

Gross profit was DKK 284 million (DKK 326 million) with a gross margin of 59.5% (59.9%). The margin was impacted by a 12.9% negative volume impact which could not be off-set by a positive mix impact.

NET SALES



GROSS PROFIT



DKK million	2018	2017
Net sales	478	544
Gross profit	284	326
Gross margin, %	**59.5%**	**59.9%**

	2018	2017
Net sales growth	-12.1%	-4.4%
Exchange rates, acquisitions and reclassification	-5.4%	-1.8%
Organic net sales growth	**-6.7%**	**-2.6%**
- Volume impact	-12.9%	-2.3%
- Price/mix impact	6.2%	-0.3%

OUR CATEGORIES

FINE-CUT TOBACCO

Total volume development for our fine-cut tobacco category improved compared to last year but remained negative in 2018.

We saw stronger volume declines compared with previous years in a key market like Norway as shipments remained volatile throughout the year after the introduction of plain packaging. We continue, however, to increase our market shares in the total market.

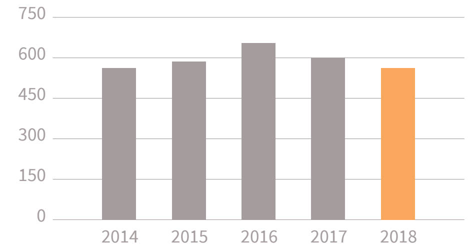
We delivered good growth in Israel and the Danish/German border trade. In Germany, an increasingly important market for our fine-cut tobacco category, organic net sales were negative for the year as increased price competition and promotional activities had a negative impact on the category price/mix. In the US we saw strong volume decline.

For the category, net sales were DKK 562 million (DKK 598 million) with organic growth of -2.4%.

Gross profit was DKK 332 million (DKK 364 million) with a gross margin of 59.1% (60.9%). The margin was negatively impacted by changes in the geographical mix.

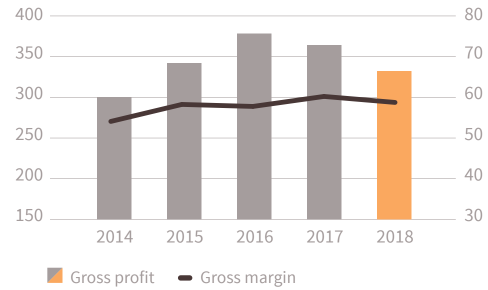
NET SALES

DKK million



GROSS PROFIT

DKK million %



DKK million	2018	2017
Net sales	562	598
Gross profit	332	364
Gross margin, %	**59.1%**	**60.9%**

	2018	2017
Net sales growth	-6.1%	-8.3%
Exchange rates, acquisitions and reclassification	-3.7%	-1.3%
Organic net sales growth	**-2.4%**	**-7.0%**
- Volume impact	-6.6%	-14.0%
- Price/mix impact	4.2%	7.0%

OUR CATEGORIES

ACCESSORIES AND CONTRACT MANUFACTURING

The category Accessories and Contract Manufacturing (ACM), previously called Other, delivered good financial performance with positive organic growth in net sales and increasing gross margins.

ACM is now our third largest category measured in sales. It is comprised of four sub-categories:

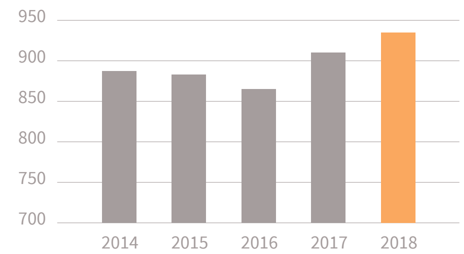
- Contract manufacturing of cigars, pipe tobacco and fine-cut tobacco products to third parties
- Sales of tobacco-related accessories and fire lighting products as well as distribution of lighters/matches
- Sale of chewing tobacco to third parties in Australia, Canada and some EU-countries
- Income from third party licensing of our brands

Contract manufacturing accounts for approximately 30% of the category's net sales with sales of tobacco-related accessories and fire lighting products accounting for approximately 40%.

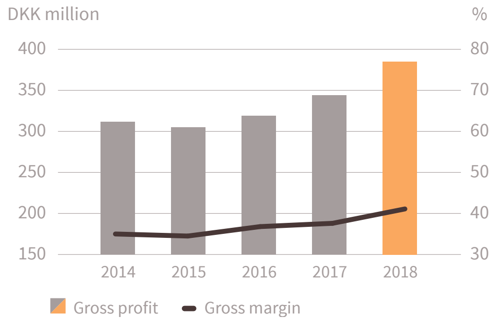
Net sales in 2018 were DKK 935 million (DKK 909 million). Organic growth in net sales of 3.5% was driven by a successful expansion of contract manufacturing of tobacco products, sales of accessories and fire products as well as a strong performance of chewing tobacco in Slovenia and Croatia.

Gross profit was DKK 384 million (DKK 342 million) with a gross margin of 41.1% (37.6%). The margin was impacted by mix changes between the sub-categories, contract pruning and generally improved pricing.

NET SALES



GROSS PROFIT



DKK million	2018	2017
Net sales	935	909
Gross profit	384	342
Gross margin, %	**41.1%**	**37.6%**

	2018	2017
Net sales growth	2.9%	5.2%
Exchange rates, acquisitions and reclassification	-0.6%	-1.2%
Organic net sales growth	**3.5%**	**6.4%**

GROUP FINANCIAL REVIEW

FINANCIAL HIGHLIGHTS 2018

NET SALES

Net sales increased by 3.9% to DKK 6,718 million (DKK 6,464 million) driven by the acquisition of Thompson Cigar and organic growth of 0.4%. Net sales were negatively impacted by reclassification and unfavourable exchange rate developments. Americas remained our largest market and grew its share of Group net sales to 51%. Europe and the Rest of the World account for 41% and 8% respectively.

GROSS PROFIT

Gross profit before special items increased by 2.7% to DKK 3,219 million (DKK 3,134 million). The increase was driven by organic net sales growth in the handmade cigars and ACM category as well as the Thompson Cigar acquisition. Volume declines in the machine-made cigars, pipe tobacco and fine-cut tobacco categories as well as unfavourable exchange rate developments affected gross profit negatively. Gross margin before special items decreased by 0.6 percentage points to 47.9% (48.5%).

OPERATING EXPENSES (OPEX)

OPEX before special items increased by 3.5% to DKK 1,915 million (DKK 1,851 million) due to the Thompson Cigar acquisition. Organic OPEX decreased by 2.2% to DKK 1,953 million (DKK 1,997 million) primarily due to a decrease in sales and marketing costs and the one-time loss of DKK 26 million that was booked in 2017 on the UK distributor Palmer & Harvey.

DKK million	2018	2017	Change in %
Net Sales			
Reported net sales	6,718	6,464	3.9
Reclassification		-139	
Acquisitions		497	
Effect from currency development	132		
Organic net sales	6,849	6,822	0.4
Gross Profit			
Gross profit before special items	3,219	3,134	2.7
Acquisitions		147	
Effect from currency development	62		
Organic gross profit	3,282	3,281	-
OPEX			
OPEX before special items	1,915	1,851	3.5
Acquisitions		147	
Effect from currency development	38		
Organic OPEX	1,953	1,997	-2.2

EBITDA

EBITDA before special items increased by 1.6% to DKK 1,304 million (DKK 1,283 million) while organic EBITDA grew by 3.5% driven by the reduction in organic OPEX. The EBITDA margin before special items dropped to 19.4% (19.9%) due to the acquisition of Thompson Cigar and despite a 0.3 percentage point positive impact from reclassification. EBITDA including special items of DKK -216 million (DKK -52 million) decreased by 11.6% to DKK 1,089 million (DKK 1,232 million) with an EBITDA margin at 16.2% (19.1%).

DKK million	2018	2017	Change In %
EBITDA	1,089	1,232	-11.6%
Special items	216	52	
EBITDA before special items	1,304	1,283	1.6%
Acquisitions		-	
Currency development	25		
Organic EBITDA	1,329	1,283	3.5%

GROUP FINANCIAL REVIEW

SPECIAL ITEMS

Special items (previously non-recurring items) was DKK 216 million and relate to integration and transaction costs of DKK 33 million in the acquisition of Thompson Cigar and DKK 182 million in relation to Fuelling the Growth. Costs related to Fuelling the Growth in 2018 were higher than originally expected as a result of faster elimination of white-collar positions and provisions for restructuring costs. These costs did not have any cash impact in 2018. Total special items in the period 2018-2021 in relation to Fuelling the Growth are still expected to be at a level up to DKK 250 million.

SPECIAL ITEMS

DKK million	2018			2017		
	Including special items	Special items	Before special items	Reported	Non recurring Items	Adjusted
Net sales	6,718	-	6,718	6,464	-	6,464
Gross profit	3,201	19	3,219	3,095	39	3,134
Gross-margin	47.7%		47.9%	47.9%		48.5%
OPEX	-2,112	197	-1,915	-1,864	13	-1,851
EBITDA	1,089	216	1,304	1,232	52	1,283
EBITDA-margin	16.2%		19.4%	19.1%		19.9%

BREAKDOWN – SPECIAL ITEMS

DKK million	2018	2017
EBITDA	1,089	1,232
Integration and transactions costs (Thompson Cigar)	33	2
TPD & FDA related costs	-	49
Restructuring, optimisation and efficiency programmes	182	16
Sale of building	-	-15
EBITDA before special items	**1,304**	**1,283**

EBIT

EBIT decreased by 19.2% to DKK 738 million (DKK 913 million) and was negatively impacted by special items of DKK 216 million and impairments of DKK 50 million (DKK 22 million) primarily related to trademarks.

TAX AND NET PROFIT

Income taxes were DKK 51 million (DKK 140 million). The effective tax rate was 7.2% (16.4%) – a decrease of 9.2 percentage point from last year's rate – due to an enacted tax rate reduction in the Netherlands from 25.0% in 2018 to 20.5% in 2021. This has significantly decreased the Group's deferred tax assets and liabilities. It should be noted that the tax rate for 2017 was lower than normal due to enacted US and Belgian tax reforms.

Net profit decreased by 6.5% to DKK 666 million (DKK 712 million). Basic earnings per share decreased by 6.3% to DKK 6.7 (DKK 7.1).

BALANCE SHEET

Total assets were DKK 13,403 million (DKK 12,990 million). Net working capital increased by 10.2% to DKK 2,340 million (DKK 2,122 million) due to the acquisition of Thompson Cigar and our exit from the agreement of selling trade receivables with a full year impact of DKK 159 million.

GROUP FINANCIAL REVIEW

CASH FLOW

Cash flow from operating activities declined by 25.2% to DKK 784 million (DKK 1,049 million) due to a negative change in working capital of DKK 101 million in 2018 versus a positive change in 2017 of DKK 168 million. Working capital was negatively impacted by the above-mentioned exit of selling trade receivable in 2018 whereas working capital was positively impacted by the inventory reduction program in 2017.

Cash flow from investing activities was an outflow of DKK 511 million (an outflow of DKK 94 million). CAPEX was DKK 125 million (DKK 109 million) and acquisitions was DKK 394 million (DKK 8 million). Free cash flow decreased by 71.3% to DKK 274 (DKK 955 million).

FINANCING

CASH FLOW

DKK million	**2018**	**2017**
EBITDA 2018	**1,089**	**1,232**
Fin. items, tax and other adjustments	203	-351
Cash flow from operations before NWC	**886**	**880**
Changes in working capital	-101	168
Cash flow from operations	**784**	**1,049**
Investments	-511	-94
Free cash flow 2018	**274**	**955**

Net interest bearing debt (NIBD) increased to DKK 2,585 million (DKK 2,247 million) driven by dividend payments of DKK 575 million and acquisitions of DKK 394 million, only partly off set by a positive cash flow from operations. NIBD/EBITDA before special items ended at 2.0x (1.8x).

DIVIDEND

For the financial year 2018, the Board of Directors proposes a dividend of DKK 6.00 per share corresponding to a total dividend of DKK 600 million and a pay-out ratio of 90% (130%).

FINANCIAL IMPACT OF FUELLING THE GROWTH

The program aims to deliver operational improvements with expected full-year run-rate net savings of approximately DKK 250 million by the end of 2021. Net savings are slightly front-loaded in the period 2019-2022. Fuelling the Growth had an immaterial impact on the 2018 results. The program is expected to incur costs (special items) up to a level of DKK 250 million. DKK 182 million have been expensed in 2018 and up to a level of DKK 70 million will be expensed in 2019-2021.

"In 2018, Scandinavian Tobacco Group delivered on the financial guidance with a slight increase in organic net sales and a 3.5% organic EBITDA growth. We generated free cash flow before acquisitions of DKK 668 million allowing us to propose a dividend payment of DKK 600 million to our shareholders."

Niels Frederiksen
President and CEO

Nigel Northridge
Chairman of the Board of Directors

FINANCIAL AMBITIONS AND 2019 GUIDANCE

FINANCIAL AMBITIONS

Scandinavian Tobacco Group's financial ambition is to deliver strong financial performance.

The Group's market share is expected to continuously increase driven by focus on innovation and core brands, sales and marketing excellence, dynamic pricing and leveraging of commercial resources. In addition, we aim to deliver growth in net sales and earnings through acquisitions.

Our ability to realise the financial ambitions are dependent on specific market and business developments and the ambitions are supplemented by a detailed annual guidance.

EARNINGS

We aim to continuously deliver average annual organic EBITDA growth of 3-5%. Our efforts to drive gross margin enhancement, improved operational cost efficiency and savings – including our current Fuelling the Growth program – are instrumental in delivering these continuous improvements.

FREE CASH FLOW

It is our ambition to achieve annual average growth in free cash flow before acquisitions and sizeable investments.

SHAREHOLDER RETURN POLICY

The Board of Directors objective is to distribute excess capital by way of share buybacks and/or dividends with an ambition of annual growth in ordinary dividend payments. This ambition reflects our financial targets of annual organic EBITDA growth and free cash flow improvements.

The Board of Directors will continuously evaluate the distribution of excess capital to shareholders based on a comparison of the projected leverage ratio (NIBD/EBITDA before special items) against a target of 2.5x. The Group maintains the flexibility to temporarily exceed the target in connection with dividend payments, acquisitions or investments. Our capital distributions will always take into account potential acquisitions and other liquidity needs.

FINANCIAL AMBITIONS AND 2019 GUIDANCE

2019 GUIDANCE

EARNINGS

We expect to generate organic EBITDA growth of more than 5%. Special items are expeceted to be approximately DKK 85 million related to the Fuelling the Growth program and Thompson Cigar integration. We expect progress to be driven by higher gross margins as well as improved operational cost efficiency and savings resulting from the Fuelling the Growth program. The acquisition of Thompson Cigar is expected to deliver positive synergies and scale benefits as the combined business' margins are gradually lifted towards Cigar International's pre-acquisition levels.

FREE CASH FLOW

Based on the projected earnings growth, we expect the Group's free cash flow to exceed DKK 750 million before any potential acquisitions.

ASSUMPTIONS

- Net sales are expected to increase slightly driven by positive organic growth in the handmade cigar category, the full-year consolidation of Thompson Cigar (aquired in April 2018) and a negative impact from the machine-made cigar category driven by the development in France.
- Financial expenses, excluding currency losses or gains, are expected at DKK 70 - 80 million.
- The effective tax rate is expected to be in the range of 21 - 23 %.
- Guidance and assumptions are based on current exchange rates. A 5% change in the USD/DKK exchange rate would impact net sales by approximately 2.5 percentage points and EBITDA by almost 2%.
- No contribution or expenses related to potential acquisitions are included.

Net sales, earnings and cash flow are unevenly distributed over the quarters with Q1 being the lowest.

	2018 GUIDANCE	2018 REALISED	2019 GUIDANCE
Organic net sales growth	Flat to slightly positive	0.4%	-
Organic EBITDA growth	>3%	3.5%	> 5%
Special items (DKK million)	~130	216	~ 85
Free cash flow before acquisitions (DKK million)	-	668	> 750
Ordinary dividend (DKK million)	>575	600	-

CORPORATE MATTERS

RISK MANAGEMENT

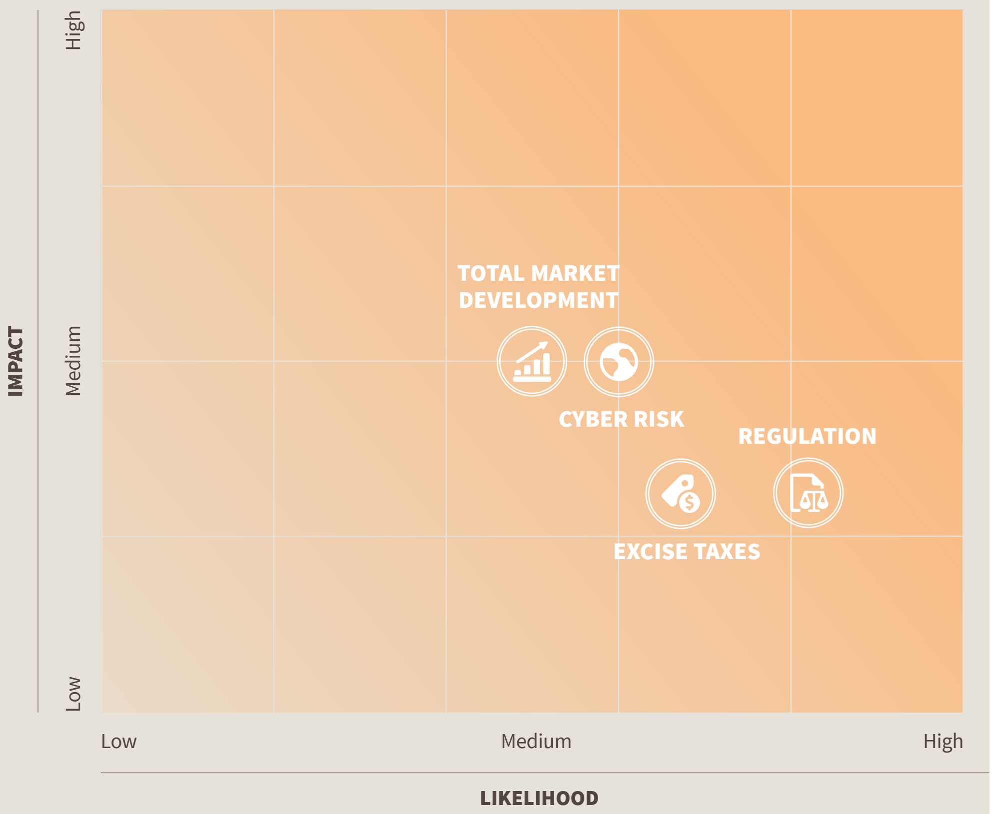
Uncertainties in the global marketplace are part of our everyday business activities. We monitor and manage our exposure to various risks in a structured and proactive way as we seek to identify, prioritise, and manage key risks at all levels of the business. The aim of our enterprise risk management process is to support better decision making through good understanding of risks and their likely impact, and proper mitigation of risks.

GOVERNANCE

The Board of Directors is responsible for the governance of risks in the Group. Appointed by the Board of Directors, the Audit Committee assists on its behalf in monitoring the effectiveness of our Group's risk management and internal control systems. In addition, the Audit Committee performs an annual review of key risk profiles and risk response. The Executive Management ensures risk identification, reporting, mitigation and discussions with the Audit Committee.

Our risk assessment for 2018 has been reviewed and discussed with the Audit Committee and subsequently the Board of Directors. The main risks identified for 2018 consist of regulation changes, increasing excise taxes, total market developments and cyber risk. The identified financial risks, including foreign exchange, interest rate, credit and liquidity risks can be found in note 4.2 on page 60.

RISK MANAGEMENT MAP



CORPORATE MATTERS

RISK MANAGEMENT

REGULATION

Regulations related to the tobacco industry continue to increase. Government and health officials aim with regulatory initiatives to affect customer behavior, discourage use of tobacco products and obstruct new product development. Most common regulatory initiatives include significant reporting obligations, various bans on tobacco product displays, plain packaging and ban on certain flavorings.

Mitigating actions
We engage with regulators and stakeholders to ensure proper insights and knowledge about our industry and facilitate reasonable, transparent and balanced regulations. Through collaboration with national trade organisations we support governments in meeting their objectives with new regulations. We have dedicated resources monitoring regulatory initiatives and use significant resources preparing for and implementing new and updated regulations.

EXCISE TAXES

A major component of the retail price of tobacco products is excise tax. This component can be changed by national governments and is actively used to increase tax revenue and/or in an attempt to limit tobacco consumption. An alignment of excise tax rates across tobacco product categories would increase the excise on our products, impact the consumer price of our products and negatively impact our sales. Increases and alignments of excise taxes implemented unexpectedly or not in the expected frequency would limit our ability to adjust accordingly for production and sales.

Mitigating actions
We continuously monitor potential changes to excise taxes on our product categories. We adjust prices to the extent possible to pass on the effect of the increase to consumers if the market conditions allow. We govern seats in relevant industry associations and in collaboration with trade industry partners we actively engage in dialogue with regulators to limit the risk of market disruption based on excise alignment and change.

TOTAL MARKET DEVELOPMENT

The total tobacco market volume is declining. Although cigar volumes have shown higher resilience than cigarettes in our markets, the markets for machine-made cigars, pipe tobacco and fine-cut tobacco are declining. With presence in over 100 markets around the world, we have diversified our portfolio. Still, a significant and unexpected decrease in demand for tobacco products in one or more of our core markets would negatively impact our Group's net sales and earnings.

Mitigating actions
We continue to explore new markets to diversify even further and spreading the geographical risk. We continuously monitor the market trends, collect market research data and perform forecasts to project market developments and trends. The trend analysis helps us address adverse market conditions more promptly.

CYBER RISK

We operate in an environment of cyber security threats that are growing in number and sophistication. Successful attacks might result in business disruption, production stops, loss of image and direct financial loss. Disruptions to our online retail business platforms resulting in these becoming unavailable to customers would impact our sales and profitability. Further, our business platforms might be unavailable, keeping us from fulfilling engagements and responsibilities towards customers and employees.

Mitigating actions
We are focusing on implementation of security policies and business continuity management. We monitor and test our cyber resilience and IT enhancements – and continue updating our operating systems. We are increasing the awareness of cyber security amongst top management and employees.

CORPORATE MATTERS

CORPORATE SOCIAL RESPONSIBILITY

We are committed to honest and ethical behavior, and we want commercial partners, employees, civil society, regulators and others with whom we engage, to consider us to be trustworthy and transparent.

Our Code of Conduct describes the behaviour we expect from every one of our employees in order to ensure legal compliance and high ethical standards across our business. We expect all employees to set a good example of responsible business conduct. The Code of Conduct also comprises our fundamental beliefs and general policies in the area of Social Responsibility, including our commitment to respect human rights and labour rights, to limit our impact on the environment and our will to provide safe and healthy working conditions for our employees. Based on the Code of Conduct we develop internal policies, guidelines and take initiatives to turn the Code into actions and to improve in terms of sustainability. Our Code of Conduct is available online on **st-group.com/codeofconduct2018.pdf**

For the statutory statement on corporate social responsibility in compliance with section 99a of the Danish Financial Statements Act, see the Corporate Social Responsibility Report for 2018, which is available at: **st-group.com/csrreport2018.pdf**

▼19%

WORK RELATED ACCIDENTS

In 2018, the number of work-related accidents in our factories was 67, down from 83 in 2017, a decrease of 19%. The accident rate (number of accidents per 200,000 hours worked) decreased from 1.31 in 2017 to 1.01 in 2018. One accident is one too many, and we will in 2019 work to further reduce the risk of accidents.

▲11%

ENERGY CONSUMPTION

The Group has gradually installed energy-saving equipment over the years. In 2018, the energy consumption in the Group's production facilities increased by 11% compared to 2017 primarily due to the fact that the reporting included an additional facility not part of prior reporting.

▲5%-POINTS

TOBACCO WASTE RECYCLED

The amount of tobacco waste generated in the Group's production in 2018 increased by 2 percentage points compared to 2017. The share of the tobacco waste that was recycled increased from 30% to 35%.

2,800 TREES PLANTED

REFORESTATION PROJECT

Wood is used as fuel in the curing of certain tobacco types and is used for cigar boxes. In the Dominican Republic, we have for several years been actively involved in a reforestation project. In 2018, our employees made a valuable contribution to the reforestation in the local area by planting more than 2,800 trees. Since 2009, our employees have planted more than 25,000 trees.

CORPORATE MATTERS

CORPORATE GOVERNANCE

Scandinavian Tobacco Group A/S is incorporated in Denmark under Danish law. The company's shares were publicly listed on Nasdaq Copenhagen in 2016.

The Group's corporate governance is based on the Danish Companies Act, the Danish Financial Statements Act, the International Financial Reporting Standards (IFRS), the EU Market Abuse Regulation, Nasdaq Copenhagen A/S' Rules for Issuers of Shares and the company's articles of association among others.

The ultimate authority over the company is held by the shareholders who exercise their rights at general meetings. The annual report and amendments to the articles of association are approved by the general meeting which also elects members of the Board of Directors and the independent auditor.

The general meeting exercises its powers pursuant to the provisions of Scandinavian Tobacco Group's articles of association which are available on **st-group.com**. In 2018, the Annual General Meeting was held on 26 April and minutes of the meeting are available on **st-group.com.**

As a publicly listed company, Scandinavian Tobacco Group is required by law to report on its compliance with the Danish Recommendations on Corporate Governance, which can be found at **corporategovernance.dk**.

Reports by companies on good corporate governance must be presented in accordance with the 'comply or explain approach' which means that a company may chose not to comply with a specific recommendation and instead explain why it has chosen not to comply with the recommendation, and what it has chosen to do instead.

Scandinavian Tobacco Group complies with the corporate governance recommendations (with one instance of partial compliance). A detailed overview can be found in Scandinavian Tobacco Group's 2018 Statutory Report on Corporate Governance.

THE REPORT IS AVAILABLE ON

st-group.com/statutorygovernancereport2018.pdf

REMUNERATION

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 Danish Recommendations on Corporate Governance.

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, Board of Directors and Executive Management and rewards both short-term and long-term contributions and results. The remuneration policy can be found on **st-group.com/en/our-company/governance/reports-and-documents.**

A detailed description of the remuneration of the Board of Directors and the Executive Management and the remuneration paid in the financial year 2018 is included in 2018 Remuneration Report which can be found on **st-group.com/en/our-company/governance/reports-and-documents.**

DIVERSITY AND INCLUSION

The Board of Directors believes that members of the Board should be elected based on their professional experience and qualifications, but also that diversity improves the quality of discussions and decision-making not only in the Board of Directors but in the Group as a whole. Diversity brings strength to our Group. The Board of Directors has adopted the Group's Diversity and Inclusion Policy, which is available at **st-group.com/en/our-company/governance/reports-and-documents.**

A description of the company's activities to ensure relevant diversity at management levels, including the goals and accounting for its objectives and progress made in achieving the objectives can be found in the statutory report on the gender composition of the management for the financial year 2018 on **st-group.com/en/our-company/governance/reports-and-documents.**

CORPORATE MATTERS

BOARD OF DIRECTORS

NIGEL NORTHRIDGE
CHAIRMAN

Born in 1956
Nationality: Irish
Election period: 2018-2019
Joined the Board in 2016 and was elected Vice-Chairman in 2016 and Chairman in 2017

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

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

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

BOARD POSITIONS ETC.
Chairman of the board of Hogg Robinson Group PLC., Senior Independent Director at Inchcape PLC., Belfast City Airport (Non-Executive Chairman)

COMMITTEES
Chairman of the Nomination and Remuneration Committees

CONSIDERED INDEPENDENT
Yes

HENRIK BRANDT
VICE-CHAIRMAN

Born in 1955
Nationality: Danish
Election period: 2018-2019
Joined the Board in 2017 and was elected Vice-Chairman

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

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

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

BOARD POSITIONS
Chairman of the board of Toms Gruppen A/S, Rockwool International A/S, Fritz Hansen A/S, Intervare A/S, nemlig.com A/S, Uno Equity ApS, Danish Bake Holding ApS (Ole & Steen) Member of the board of Ferd Holding as, Norge, Gerda & Victor B. Strands Fond, Gerda & Victor B. Strand Holding A/S

COMMITTEES
Member of the Nomination and Remuneration Committees

CONSIDERED INDEPENDENT
Yes

ANDERS C. OBEL
CEO at C.W. Obel A/S

Born in 1960
Nationality: Danish
Election period: 2018-2019
Joined the Board in 2018

BSc in Economics and Business Administration from Copenhagen Business School.

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

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

BOARD POSITIONS
Chairman of the board of C.W. Obel Bolig A/S, C.W. Obel Ejendomme A/S, Obel-LFI Ejendomme A/S, Semco Maritime A/S, Semco Maritime Holding A/S, Goodvalley A/S, Anders Christen Obel Aps, Haxholm v/Anders Christen Obel.
Vice Chairman of the board of Fritz Hansen A/S, Danfoss Semco A/S and Skandinavisk Holding A/S. Member of the board of Scandinavian Tobacco Group's Gavefond, DMP Partners A/S, Erhvervsinvest Management A/S, Minkpapir A/S, PAL-CUT A/S, Safe Load A/S, C.W. Obels Fond, Danmark-Amerika Fondet, Fonden Det Obelske Jubilæumskollegium, Mullerupgaard- og Gl. Estrupfonden, Høvdingsgaard Fonden, Skjørringefonden and Woodmancott Fonden

COMMITTEES
-

CONSIDERED INDEPENDENT
Yes

CORPORATE MATTERS

BOARD OF DIRECTORS

SØREN BJERRE-NIELSEN

Born in 1952
Nationality: Danish
Election period: 2018-2019
Joined the Board in 2016

State-Authorized Public Accountant.
Master's degree in Economics and Business Administration from Copenhagen Business School.

COMPETENCIES
- Long professional experience in general and international management, including management of listed companies
- Expertise in economic and financial management
- Risk management
- Strategic business development

SELECTED FORMER EMPLOYMENT POSITIONS
- Executive Officer and Chief Financial Officer of Danisco A/S (now Dupont Nutrition Biosciences ApS) 1995-2011
- Managing Director at Deloitte 1986-1995
- Partner at Deloitte State Authorized Public Accountants 1981-1995

BOARD POSITIONS
Chairman of the board of MT Højgaard A/S, Højgaard Holding A/S, Højgaard Industri A/S, VKR Holding A/S, VELUX A/S and Fonden Erik Hoffmeyers Rejselegat
Member of the board of Aase og Jørgen Münters Fond

COMMITTEES
Chairman of the Audit Committee
Member of the Nomination and Remuneration Committees

CONSIDERED INDEPENDENT
Yes

DIANNE NEAL BLIXT

Born in 1959
Nationality: American
Election period: 2018-2019
Joined the Board in 2016

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

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

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

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

COMMITTEES
Member of the Audit Committee

CONSIDERED INDEPENDENT
Yes

LUC MISSORTEN

Born in 1955
Nationality: Belgian
Election period: 2018-2019
Joined the Board in 2016

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

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

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

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

COMMITTEES
Member of the Audit Committee

CONSIDERED INDEPENDENT
Yes

CORPORATE MATTERS

BOARD OF DIRECTORS

KURT ASMUSSEN

Born in 1963
Nationality: Danish
Election period: 2015-2019
Joined the Board in 2011

Technician.
Machinist degree from Teknisk Skole, Odense.

COMPETENCIES
Elected by the employees

SELECTED FORMER EMPLOYMENT POSITIONS
-

BOARD POSITIONS
-

COMMITTEES
-

CONSIDERED INDEPENDENT
No

LINDY LARSEN

Born in 1955
Nationality: Danish
Election period: 2015-2019
Joined the Board in 2016

Finance Business Partner, Business Services. MSc. Business Administration & Auditing from Copenhagen Business School.

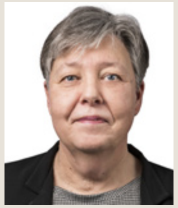
COMPETENCIES
Elected by the employees

SELECTED FORMER EMPLOYMENT POSITIONS
-

BOARD POSITIONS
Member of the Board of Directors and Manager of Scandinavian Tobacco Group Nykøbing ApS.

COMMITTEES
-

CONSIDERED INDEPENDENT
No



HANNE MALLING

Born in 1960
Nationality: Danish
Election period: 2015-2019
Joined the Board in 2010

Trademark Manager.
Bi-lingual Commercial Correspondent degree from Aarhus School of Business.

COMPETENCIES
Elected by the employees

SELECTED FORMER EMPLOYMENT POSITIONS
-

BOARD POSITIONS
-

COMMITTEES
-

CONSIDERED INDEPENDENT
No

MOGENS OLSEN

Born in 1967
Nationality: Danish
Election period: 2015-2019
Joined the Board in 2017

Operator Primary.

COMPETENCIES
Elected by the employees

SELECTED FORMER EMPLOYMENT POSITIONS
-

BOARD POSITIONS
-

COMMITTEES
-

CONSIDERED INDEPENDENT
No

CORPORATE MATTERS

BOARD OF DIRECTORS – ATTENDANCE 2018 MEETINGS

Board of Directors Meetings						
Nigel Northridge	Attended	Attended	Attended	Attended	Attended	Attended
Henrik Brandt	Attended	Attended	Attended	Attended	Attended	Attended
Henning Kruse Petersen	Attended	Not a board member	Not a board member	Not a board member	Not a board member	Not a board member
Dianne Neal Blixt	Attended	Did not attend	Attended	Attended	Attended	Attended
Anders Obel	Not a board member	Attended	Attended	Attended	Attended	Attended
Luc Missorten	Attended	Did not attend	Attended	Attended	Attended	Attended
Søren Bjerre-Nielsen	Attended	Attended	Attended	Attended	Attended	Attended
Mogens Olsen	Attended	Attended	Attended	Attended	Attended	Attended
Hanne Malling	Attended	Attended	Attended	Attended	Attended	Attended
Kurt Asmussen	Attended	Attended	Attended	Attended	Attended	Attended
Lindy Larsen	Attended	Attended	Attended	Attended	Attended	Attended

Audit Committee Meetings					
Søren Bjerre-Nielsen	Attended	Attended	Attended	Attended	Attended
Dianne Neal Blixt	Attended	Attended	Attended	Attended	Attended
Luc Missorten	Attended	Attended	Attended	Attended	Attended

Nomination Committee Meetings		
Nigel Northridge	Attended	Attended
Søren Bjerre-Nielsen	Attended	Attended
Henrik Brandt	Attended	Attended

Remuneration Committee Meetings			
Nigel Northridge	Attended	Attended	Attended
Søren Bjerre-Nielsen	Attended	Attended	Attended
Henrik Brandt	Attended	Attended	Attended

Attended
Did not attend
Not a board member at the time of the meeting

CORPORATE MATTERS

EXECUTIVE MANAGEMENT

The Executive Management, i.e. the formally registered management of the Company, consists of the CEO and the CFO. The day-to-day operations of the Company are managed by the Executive Board.

1 NIELS FREDERIKSEN

CEO

Niels Frederiksen (1964) became CEO of Scandinavian Tobacco Group in March 2015 and has held various positions in the Group since 1999, including Senior Vice President and Executive Vice President. Niels Frederiksen is currently also the chairman of the board of directors of Boman A/S and on the board of directors of Ingeniør Kaptajn Aage Nielsens Familiefond.

2 MARIANNE RØRSLEV BOCK

EXECUTIVE VICE PRESIDENT AND CFO

Marianne Rørslev Bock (1963) joined Scandinavian Tobacco Group in 2018 as Executive Vice President and Chief Financial Officer (CFO). Marianne Rørslev Bock joined the Group from a position as CFO of Brdr. Hartmann and has previously held various finance leadership positions in Danisco (1994-2012). Marianne Rørslev Bock holds board positions at TDC Group, Kemp & Lauritzen and at the Danish Financial Supervisory Authority.

3 JURJAN KLEP

PRESIDENT AND SENIOR VICE PRESIDENT, MACHINE-MADE CIGAR DIVISION

Jurjan Klep (1971) joined Scandinavian Tobacco Group in 1997 and has since held various sales and marketing positions in the Group. From 2008 to 2011 he was Managing Director of Scandinavian Tobacco Group Iberia before being appointed Senior Vice President of Sales. Jurjan Klep became Senior Vice President of the Machine-made Cigar Division in 2018.

4 VINCENT CREPY

EXECUTIVE VICE PRESIDENT, SUPPLY CHAIN

Vincent Crepy (1966) became Executive Vice President of Operations in September 2015. Vincent Crepy has held leading supply chain positions in Europe and the United States since 2001, including Ventura Foods LLC, Reckitt Benckiser and Proctor & Gamble.

5 RÉGIS BROERSMA

PRESIDENT AND SENIOR VICE PRESIDENT, NORTH AMERICA BRANDED BUSINESS DIVISION

Régis Broersma (1977) joined Scandinavian Tobacco Group in 2002 and has since held various positions in the Group including Managing Director of Scandinavian Tobacco Group Germany and President of General Cigar Co. Ltd.. Régis Broersma became Senior Vice President of the North America Branded Business Division in 2018.

6 CRAIG REYNOLDS

PRESIDENT AND EXECUTIVE VICE PRESIDENT OF NORTH AMERICA ONLINE & RETAIL DIVISION

Craig Reynolds (1955) joined Cigars International as Executive Vice President in 2009. In 2011, Craig Reynolds became President of Cigars International and was promoted to Executive Vice President for the handmade cigar business in 2015. In 2018, Craig Reynolds became Executive Vice President of the North America Online&Retail Division.

7 HANNE BERG

CHRO AND SENIOR VICE PRESIDENT

Hanne Berg (1966) joined Scandinavian Tobacco Group as Senior Vice President of HR in 2017. Prior to this, she was 10 years with the LEGO Group as an HR executive. Hanne Berg has held leading HR positions in various companies since 1996, including If Forsikring and Energinet.

8 HUW WILLIAMS

PRESIDENT AND SENIOR VICE PRESIDENT, SMOKING TOBACCO DIVISION

Huw Williams (1970) joined Scandinavian Tobacco Group in 2006 as Managing Director of Scandinavian Tobacco Group UK and became Senior Vice President of the Smoking Tobacco Division in 2018. Prior to joining the Group, Huw Williams held various positions within sales and retail in the UK including at Woolworths and Coors.

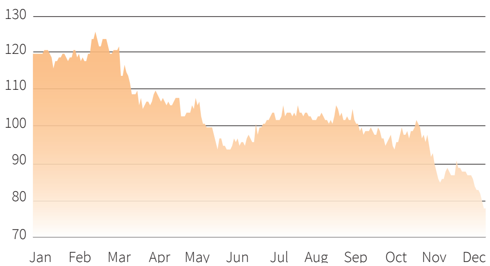
CORPORATE MATTERS

SHAREHOLDER INFORMATION

HIGHLIGHTS 2018

Scandinavian Tobacco Group is listed on Nasdaq Copenhagen. In 2018, the share price declined by 35%. In the same period the Nasdaq OMX25 index declined by 13%. Including dividend payments, the total return for Scandinavian Tobacco Group shareholders was negative by 29% in the period ending 31 December 2018.

Share price development



SHAREHOLDERS

Scandinavian Tobacco Group had almost 4,300 shareholders by the end of 2018. The company owns 0.4% of the share capital. As of 1 March 2019, the following investors have reported holdings of more than 5% of Scandinavian Tobacco Group's share capital and voting rights.

Chr. Augustinus Fabrikker Aktieselskab	>25%
C.W.Obel A/S	>10%
FMR LLC	>5%
Franklin Templeton Institutional, LLC	>5%
FIL Limited	>5%

Share data

Trading symbol	STG
ISIN	DK0060696300
Share capital (DKK)	100,000,000
Number of shares	100,000,000
Nominal value (DKK)	1 per share
Votes per share	1

Until 31 December 2020 the Board of Directors is authorised to increase the share capital by issuance of new shares of up to nominally DKK 10,000,000. Further, until 31 December 2020 the Board of Directors may increase the share capital by cash contribution by issuing new shares of up to DKK 1,000,000 nominally by a subscription by officers and employees of the company and its subsidiaries at a price below market price. The Board of Directors is also authorised until 31 December 2020 to allow the company to acquire its own shares of a maximum amount of nominally DKK 10,000,000 at a price deviating by no more than 10% from the listed price at the time of the acquisition. Reference is made to articles 5 and 6 of the articles of association.

DIVIDENDS

At the Annual General Meeting on 26 April 2018, the shareholders approved an ordinary dividend of DKK 5.75 per share to be paid out for the financial year 2017.

For the financial year 2018, the Board of Directors proposes that the Annual General Meeting approves a dividend of DKK 6.00 per share is paid to the shareholders. This will be equivalent to a total payment of DKK 600 million and a pay-out ratio of 90%. The proposed dividend of DKK 6.00 per share corresponds to an increase of 4.3% versus last year's ordinary dividend.

FAST AND TIMELY INFORMATION

We strive to ensure that relevant, accurate, balanced and timely information is made available to investors. Our website **investor.st-group.com** is the hub for information about Scandinavian Tobacco Group.

All company announcements are published through Nasdaq Copenhagen and, when required, the Financial Supervisory Authority. Our Investor Relations 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 **st-group.com.**

FINANCIAL INFORMATION

Scandinavian Tobacco Group publishes interim and annual reports which are available on our Group's website. The interim reports are exclusively available electronically and can be subscribed to via our website: **investor.st-group.com.**

Following our quarterly financial reports, the Executive Management delivers investor presentations and web-casted conference calls to provide participants with the opportunity to ask questions. Recorded webcasts of such presentations by the Executive Management will subsequently be available online.

FINANCIAL CALENDAR 2019

2019 23 MAY	2019 29 AUG	2019 14 NOV
Interim Report Q1	Interim Report Q2	Interim Report Q3

ANNUAL GENERAL MEETING

Scandinavian Tobacco Group's Annual General Meeting will be held

2019 10 APRIL

at 16.30 at Axelborg
Vesterbrogade 4A
1620 Copenhagen V

For additional information, investors may contact:

Torben Sand
Head of Investor Relations
Tel: +45 72 20 71 26
investor@st-group.com

SELL-SIDE ANALYSTS are available on: **investor.st-group.com/stock-information/analyst-coverage**

CORPORATE MATTERS

QUARTERLY FINANCIAL HIGHLIGHTS

	2018					2017				
DKK million	Q1	Q2	Q3	Q4	Full-year	Q1	Q2	Q3	Q4	Full-year
REPORTED DATA										
Net sales	1,285	1,780	1,887	1,765	6,718	1,379	1,673	1,721	1,691	6,464
Gross profit	613	853	916	819	3,201	648	786	846	815	3,095
EBITDA	196	335	374	184	1,089	201	315	388	328	1,232
EBIT	125	258	292	63	738	117	236	306	254	913
Net financial item	-15	1	-9	-14	-37	-22	-23	-18	-14	-77
Profit before tax	114	264	288	51	717	98	216	292	246	852
Income taxes	-26	-59	-67	101	-51	-24	-49	-68	1	-140
Net profit	88	205	221	152	666	75	166	224	247	712
OTHER FINANCIAL KEY DATA										
Special items, net	-3	-11	-24	-178	-216	-11	-35	-6	0	-52
EBITDA before special items	199	346	398	362	1,304	212	349	394	328	1,283
Organic EBITDA growth	1.2%	3.1%	-0.3%	10.2%	3.5%	-22.4%	-3.8%	-0.8%	-7.1%	-7.4%
Organic net sales growth	3.5%	1.6%	1.7%	-4.4%	0.4%	-9.5%	-1.1%	1.9%	-1.3%	-2.2%
Free cash flow bef. acquisitions	-76	213	327	204	668	48	251	350	314	963

CORPORATE MATTERS

QUARTERLY FINANCIAL HIGHLIGHTS

	2018					2017				
DKK million	Q1	Q2	Q3	Q4	Full-year	Q1	Q2	Q3	Q4	Full-year
CATEGORIES										
Handmade cigars										
Net sales	371	661	721	623	2,376	401	519	530	471	1,921
Gross profit	153	268	307	256	984	171	216	227	181	795
Organic net sales growth	6.8%	6.9%	7.9%	0.9%	5.6%	-8.6%	-3.2%	-2.8%	-2.5%	-4.0%
Machine-made cigars										
Net sales	472	618	660	616	2,367	523	635	665	668	2,491
Gross profit	248	333	352	284	1,217	260	303	345	361	1,268
Organic net sales growth	-1.0%	-2.4%	-0.7%	-9.0%	-3.4%	-12.5%	-0.8%	3.5%	-0.9%	-2.4%
Pipe tobacco										
Net sales	115	113	121	130	478	131	134	143	136	544
Gross profit	68	66	73	77	284	79	84	84	79	326
Organic net sales growth	-2.0%	-9.4%	-12.7%	-2.3%	-6.7%	-6.4%	-3.4%	6.0%	-6.1%	-2.6%
Fine-cut tobacco										
Net sales	107	141	151	163	562	126	148	156	168	598
Gross profit	58	83	91	100	332	73	88	98	105	364
Organic net sales growth	-8.0%	-0.9%	-1.3%	-0.7%	-2.4%	-18.4%	0.2%	-5.7%	-4.7%	-7.0%
Accessories & Contract Manufacturing										
Net sales	220	248	234	234	935	197	237	227	247	909
Gross profit	85	103	94	102	384	66	95	92	90	342
Organic net sales growth	18.6%	5.3%	1.4%	-7.9%	3.5%	3.4%	3.5%	13.3%	5.8%	6.4%

FINANCIAL STATEMENTS

SCANDINAVIAN TOBACCO GROUP A/S

CONSOLIDATED FINANCIAL STATEMENTS

SECTION 1
BASIS OF PREPARATION

SECTION 2
RESULTS FOR THE YEAR

SECTION 3
OPERATING ASSETS AND LIABILITIES

SECTION 4
CAPITAL STRUCTURE AND FINANCING ITEMS

SECTION 5
OTHER DISCLOSURES

1 JANUARY - 31 DECEMBER

STATEMENT OF COMPREHENSIVE INCOME

DKK million	Note	2018	2017
CONSOLIDATED INCOME STATEMENT			
Net sales	2.1	**6,717.5**	**6,463.5**
Cost of goods sold	2.1	-3,516.6	-3,368.2
Gross profit	2.1	**3,200.9**	**3,095.3**
Other external costs		-1,206.5	-1,141.5
Staff costs	2.2	-905.7	-735.5
Other income		-	13.4
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**1,088.7**	**1,231.7**
Depreciation and impairment	3.2	-127.1	-148.2
Earnings before interest, tax and amortisation (EBITA)		**961.6**	**1,083.5**
Amortisation and impairment	3.1	-224.1	-170.5
Earnings before interest and tax (EBIT)		**737.5**	**913.0**
Share of profit of associated companies, net of tax	4.3	16.7	16.1
Financial income	4.4	55.0	23.5
Financial costs	4.4	-92.4	-100.9
Profit before tax		**716.8**	**851.7**
Income taxes	2.5	-51.3	-140.1
Net profit for the year		**665.5**	**711.6**
Earnings per share			
Basic earnings per share (DKK)	4.5	6.7	7.1
Diluted earnings per share (DKK)	4.5	6.7	7.1

DKK million	Note	2018	2017
Net profit for the year		**665.5**	**711.6**
OTHER COMPREHENSIVE INCOME			
Items that will not be recycled subsequently to the Consolidated Income Statement:			
Actuarial gains and losses on pension obligations		5.5	17.8
Tax of actuarial gains and losses on pension obligations		-1.9	-10.7
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		11.6	26.8
Cash flow hedges, realisation of previously deferred gains/ losses to net sales and cost of goods sold		-	-0.9
Cash flow hedges, deferred gains/losses incurred during the year		-7.6	16.2
Tax of cash flow hedges		-1.0	-10.6
Foreign exchange adjustments on net investments in foreign operations		261.9	-680.3
Other comprehensive income for the year, net of tax		**268.5**	**-641.7**
Total comprehensive income for the year		**934.0**	**69.9**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

DKK million	Note	2018	2017
ASSETS			
Goodwill		4,561.8	4,255.8
Trademarks		2,922.6	3,013.9
IT software		75.9	99.4
Other intangible assets		308.8	181.9
Total intangible assets	3.1	**7,869.1**	**7,551.0**
Property, plant and equipment	3.2	1,219.5	1,217.3
Investments in associated companies	4.3	143.7	127.7
Deferred income tax assets	2.5	120.2	96.0
Other financial fixed assets	4.3	22.3	20.6
Total non-current assets		**9,374.8**	**9,012.6**
Inventories	3.3	2,598.7	2,421.0
Trade receivables	3.4	854.1	712.8
Other receivables		76.7	78.7
Corporate tax	2.5	121.2	76.9
Prepayments	3.5	66.8	83.2
Cash and cash equivalents		310.8	605.2
Total current assets		**4,028.3**	**3,977.8**
Total assets		**13,403.1**	**12,990.4**

DKK million	Note	2018	2017
EQUITY AND LIABILITIES			
Share capital	4.5	100.0	100.0
Reserve for hedging		7.0	4.0
Reserve for currency translation		742.3	480.4
Treasury shares		-40.5	-40.5
Retained earnings		8,009.4	7,904.3
Total equity		**8,818.2**	**8,448.2**
Bank loans	4.1	2,658.1	2,606.3
Deferred income tax liabilities	2.5	515.7	571.5
Pension obligations	3.7	240.8	237.8
Other provisions	3.6	33.7	33.7
Other liabilities		27.4	22.4
Total non-current liabilities		**3,475.7**	**3,471.7**
Trade payables		377.1	365.4
Corporate tax	2.5	132.4	170.5
Other provisions	3.6	104.1	27.4
Other liabilities		495.6	507.2
Total current liabilities		**1,109.2**	**1,070.5**
Total liabilities		**4,584.9**	**4,542.2**
Total equity and liabilities		**13,403.1**	**12,990.4**

1 JANUARY - 31 DECEMBER

CONSOLIDATED CASH FLOW STATEMENT

DKK million	Note	2018	2017
Net profit for the year		665.5	711.6
Depreciation, amortisation and impairment		351.2	318.7
Adjustments	5.2	206.7	180.0
Changes in working capital	4.6	-101.1	168.1
Special items, paid		-103.1	-122.3
Cash flow from operating activities before financial items		**1,019.2**	**1,256.1**
Financial income received		96.5	8.3
Financial costs paid		-111.4	-148.9
Cash flow from operating activities before tax		**1,004.3**	**1,115.5**
Tax payments	2.5	-219.8	-67.0
Cash flow from operating activities		**784.5**	**1,048.5**
Acquisitions	5.1	-394.1	-7.9
Investment in intangible assets	3.1	-15.3	-54.4
Investment in property, plant and equipment	3.2	-109.7	-54.1
Sale of property, plant and equipment		1.1	15.9
Dividend from associated companies	4.3	7.4	6.8
Cash flow from investing activities		**-510.6**	**-93.7**
Free cash flow		**273.9**	**954.8**

DKK million	Note	2018	2017
Dividend payment		-572.9	-896.7
Cash flow from financing activities		**-572.9**	**-896.7**
Net cash flow for the year		**-299.0**	**58.1**
Cash and cash equivalents, net at 1 January		605.2	570.3
Exchange gains/losses on cash and cash equivalents		4.6	-23.2
Net cash flow for the year		-299.0	58.1
Cash and cash equivalents, net at 31 December		**310.8**	**605.2**

1 JANUARY - 31 DECEMBER

STATEMENT OF CHANGES IN GROUP EQUITY

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
Equity at 1 January 2018	**100.0**	**4.0**	**480.4**	**-40.5**	**7,904.3**	**8,448.2**
COMPREHENSIVE INCOME FOR THE YEAR						
Net profit for the year	**-**	**-**	**-**	**-**	**665.5**	**665.5**
OTHER COMPREHENSIVE INCOME						
Cash flow hedges	-	4.0	-	-	-	4.0
Tax of cash flow hedges	-	-1.0	-	-	-	-1.0
Foreign exchange adjustments on net investments in foreign operations	-	-	261.9	-	-	261.9
Actuarial gains and losses on pension obligations	-	-	-	-	5.5	5.5
Tax of actuarial gains and losses on pension obligations	-	-	-	-	-1.9	-1.9
Total other comprehensive income	**-**	**3.0**	**261.9**	**-**	**3.6**	**268.5**
Total comprehensive income for the year	**-**	**3.0**	**261.9**	**-**	**669.1**	**934.0**
TRANSACTIONS WITH SHAREHOLDERS						
Share-based payments	-	-	-	-	8.9	8.9
Settlement of vested PSUs	-	-	-	-	-	-
Dividend paid to shareholders (note 4.5)	-	-	-	-	-575.0	-575.0
Dividend, treasury shares	-	-	-	-	2.1	2.1
Total transactions with shareholders	**-**	**-**	**-**	**-**	**-564.0**	**-564.0**
Equity at 31 December 2018	**100.0**	**7.0**	**742.3**	**-40.5**	**8,009.4**	**8,818.2**

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
Equity at 1 January 2017	**100.0**	**-27.5**	**1,160.7**	**-45.5**	**8,085.2**	**9,272.9**
COMPREHENSIVE INCOME FOR THE YEAR						
Net profit for the year	**-**	**-**	**-**	**-**	**711.6**	**711.6**
OTHER COMPREHENSIVE INCOME						
Cash flow hedge	-	42.1	-	-	-	42.1
Tax of cash flow hedges	-	-10.6	-	-	-	-10.6
Foreign exchange adjustments on net investments in foreign operations	-	-	-680.3	-	-	-680.3
Actuarial gains and losses on pension obligations	-	-	-	-	17.8	17.8
Tax of actuarial gains and losses on pension obligations	-	-	-	-	-10.7	-10.7
Total other comprehensive income	**-**	**31.5**	**-680.3**	**-**	**7.1**	**-641.7**
Total comprehensive income for the year	**-**	**31.5**	**-680.3**	**-**	**718.7**	**69.9**
TRANSACTIONS WITH SHAREHOLDERS						
Share-based payments	-	-	-	-	2.1	2.1
Settlement of vested PSUs	-	-	-	5.0	-5.0	-
Dividend paid to shareholders (note 4.5)	-	-	-	-	-900.0	-900.0
Dividend, treasury shares	-	-	-	-	3.3	3.3
Total transactions with shareholders	**-**	**-**	**-**	**5.0**	**-899.6**	**-894.6**
Equity at 31 December 2017	**100.0**	**4.0**	**480.4**	**-40.5**	**7,904.3**	**8,448.2**

SECTION 1

1.1 BASIS OF PREPARATION

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 and further requirements in the Danish Financial Statements Act.

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 and the functional currency of the parent company. 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 and deferred taxes (note 2.5)
- Intangible assets and property, plant and equipment including impairment (notes 3.1 and 3.2)
- Inventories (note 3.3)

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

IMPACT OF NEW ACCOUNTING STANDARDS

Based on an assessment of new or amended and revised accounting standards and interpretations ('IFRS') issued by the International Accounting Standards Board (IASB) and IFRS endorsed by the European Union effective on or after 1 January 2018, it has been assessed that the application of these new IFRS have not had a material impact on the Consolidated Financial Statements in 2018, and the Group does not anticipate any significant impact on future periods from the adoption of these new IFRS.

As of 1 January 2018 Scandinavian Tobacco Group has adopted IFRS 15 'Revenue from contracts with customers' with effect for financial years beginning on or after 1 January 2018. The standard was adopted using the modified retrospective method. The new standard established a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which Scandinavian Tobacco Group expects to be entitled in exchange for transferring goods to our customers. In general, revenue is recognised when control is transferred to the customer at a point in time. IFRS 15 did not have any significant impact on the Consolidated Financial Statements, but the implementation has resulted in additional revenue disclosures in note 2.1.

Scandinavian Tobacco Group early adopted IFRS 9 as of 1 January 2017. The impact is described in the 2017 Financial Statements.

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 16 'Leasing' with effective date 1 January 2019. The standard was endorsed by the EU in 2017, and Scandinavian Tobacco Group adopt it on the effective date.

  The standard will change accounting for leases, as it is to require capitalisation of the majority of the Group's operational lease contracts. To assess the impact from implementing the standard we have completed a review and analysis of the Group's contracts containing leases. The impact of the new standard will increase Property, plant and equipment and other liabilities by approximately DKK 235 million or 2% of total assets/liabilities at 1 January 2019. Furthermore, an improvement in EBITDA of approximately DKK 85 million for 2019 compared to 2018 is expected as lease costs will be classified as depreciation and financial costs. Net profit is not expected to be materially impacted. As a result, the related key ratios such as equity ratio, NIBD/adjusted EBITDA, EBITDA margins, cash conversion and ROIC will be impacted.

  The implementation of IFRS 16 will impact accounting policies and note disclosures. The Group's operational lease obligations are disclosed in note 5.3.

- IASB has issued IFRIC 23 'Uncertainty over income tax treatment' with effective date 1 January 2019. It was endorsed by EU in 2018.

  The interpretation clarifies the accounting for uncertainties in income taxes and is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The Group has assessed the impact of the standard and determined that it will not have any significant impact on the Consolidated Financial Statements.

BASIS OF CONSOLIDATION

Subsidiaries are all entities (including structured entities) which the Group controls. 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 entitiy. 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 acquisition 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

1.1 (CONTINUED)

BASIS OF PREPARATION

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.

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.

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. 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, distribution and bad debt allowance as well as office expenses, fee to statutory auditor, etc.

OTHER INCOME

Other income consists mainly of items of a secondary nature to the core activities, including gains on the sale of intangible assets, property, plant and equipment.

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 note 4.5.

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 disposal 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.

Cost of acquisition and proceeds from sale of treasury shares are recognised in reserve for treasury shares. Dividend received in relation to treasury shares are recognised in retained earnings.

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 determined 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 addition and disposals of intangible assets, property, plant and equipment, fixed asset investments, acquisition of entities, as well as dividend from associated companies.

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 comprises 'Cash at bank and in hand'.

The cash flow statement cannot be derived directly from the Consolidated Financial Statements.

1.2

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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:

- Income and deferred income taxes (note 2.5)
- Goodwill (note 3.1)
- Trademarks (note 3.1)
- Inventories (note 3.3)
- Pension obligations (note 3.7)
- Business combinations (note 5.1)

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

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.

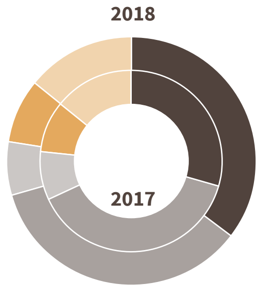
SECTION 2

2.1 GROSS PROFIT (NET SALES AND COST OF GOODS SOLD)

6,718

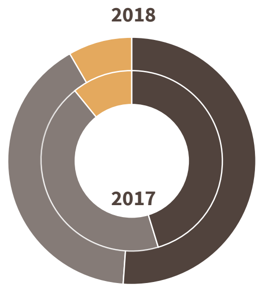
NET SALES (DKK million)

NET SALES PER CATEGORY (DKK million)



- Handmade cigars 2,376
- Machine-made cigars 2,367
- Pipe tobacco 478
- Fine-cut tobacco 562
- Accessories and Contract Manufacturing 935

NET SALES PER REGION (DKK million)



- Americas 3,443
- Europe 2,727
- Rest of world 548

SEGMENT INFORMATION 2018

DKK million	Handmade cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	ACM*	Not allocated	Total
Net sales	2,375.7	2,366.7	478.2	561.6	935.3	-	6,717.5
Cost of goods sold	-1,391.9	-1,149.8	-193.8	-230.0	-551.1	-	-3,516.6
Gross profit	**983.8**	**1,216.9**	**284.4**	**331.6**	**384.2**	**-**	**3,200.9**
Other external costs	-	-	-	-	-	-1,206.5	-1,206.5
Staff costs	-	-	-	-	-	-905.7	-905.7
Other income	-	-	-	-	-	-	-
EBITDA**	**-**	**-**	**-**	**-**	**-**	**-2,112.2**	**1,088.7**
Depreciation and impairment	-	-	-	-	-	-127.1	-127.1
Amortisation and impairment	-	-	-	-	-	-224.1	-224.1
EBIT	**-**	**-**	**-**	**-**	**-**	**-2,463.4**	**737.5**
Share of profit of associated companies, net of tax	-	-	-	-	-	16.7	16.7
Financial income	-	-	-	-	-	55.0	55.0
Financial costs	-	-	-	-	-	-92.4	-92.4
Profit before tax	**-**	**-**	**-**	**-**	**-**	**-2,484.1**	**716.8**
Goodwill allocated to segments	**1,974.5**	**1,494.7**	**637.8**	**272.1**	**182.7**	**-**	**4,561.8**

* Accessories and Contract Manufacturing
** Includes special items of DKK 216 million related to Fuelling the Growth and the acquisition of Thompson Cigar.

SEGMENT INFORMATION 2017

DKK million	Handmade cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	ACM*	Not allocated	Total
Net sales	1,920.7	2,491.5	544.3	597.9	909.1	-	6,463.5
Cost of goods sold	-1,125.9	-1,223.3	-218.4	-233.6	-567.0	-	-3,368.2
Gross profit	**794.8**	**1,268.2**	**325.9**	**364.3**	**342.1**	**-**	**3,095.3**
Other external costs	-	-	-	-	-	-1,141.5	-1,141.5
Staff costs	-	-	-	-	-	-735.5	-735.5
Other income	-	-	-	-	-	13.4	13.4
EBITDA**	**-**	**-**	**-**	**-**	**-**	**-1,863.6**	**1,231.7**
Depreciation and impairment	-	-	-	-	-	-148.2	-148.2
Amortisation and impairment	-	-	-	-	-	-170.5	-170.5
EBIT	**-**	**-**	**-**	**-**	**-**	**-2,182.3**	**913.0**
Share of profit of associated companies, net of tax	-	-	-	-	-	16.1	16.1
Financial income	-	-	-	-	-	23.5	23.5
Financial costs	-	-	-	-	-	-100.9	-100.9
Profit before tax	**-**	**-**	**-**	**-**	**-**	**-2,243.6**	**851.7**
Goodwill allocated to segments	**1,681.1**	**1,489.8**	**632.3**	**272.1**	**180.5**	**-**	**4,255.8**

* Accessories and Contract Manufacturing
** Includes special items of DKK 52 million primarily related to TPD & FDA.

2.1 (CONTINUED)

GROSS PROFIT (NET SALES AND COST OF GOODS SOLD)

NET SALES 2018

DKK million	Handmade cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	ACM*	Total
Americas	2,311.1	484.3	193.6	118.3	335.9	3,443.2
Europe	50.3	1,686.7	221.1	391.9	376.5	2,726.5
Rest of World	14.3	195.7	63.5	51.4	222.9	547.8
Total	**2,375.7**	**2,366.7**	**478.2**	**561.6**	**935.3**	**6,717.5**

* Accessories and Contract Manufacturing
Licence income and other sales of DKK 40.5 million are included in the 'Accessories and Contract Manufacturing' segment. DKK 31.0 million in Americas, DKK 6.2 million in Europe and Rest of World DKK 3.3 million.

NET SALES 2017

DKK million	Handmade cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	ACM*	Total
Americas	1,856.8	403.5	210.5	141.2	321.4	2,933.4
Europe	51.8	1,813.9	223.7	390.6	363.5	2,843.5
Rest of World	12.1	274.1	110.1	66.1	224.2	686.6
Total	**1,920.7**	**2,491.5**	**544.3**	**597.9**	**909.1**	**6,463.5**

* Accessories and Contract Manufacturing
Licence income and other sales of DKK 36.2 million are included in the 'Accessories and Contract Manufacturing' segment. DKK 25.5 million in Americas, DKK 10.2 million in Europe and Rest of World DKK 0.5 million.

GEOGRAPHIC INFORMATION

In the table above, sales to external customers are attributable to the country of the customers' domicile and in the table non-current assets are based on the country of the entities' domicile.

The Group is domiciled in Denmark. Net sales from external customers in Denmark amount to DKK 190.1 million (DKK 200.2 million), and net sales from external customers outside Denmark amount to DKK 6,527.4 million (DKK 6,263.3 million). Individual, material countries (>10% of total net sales) are the US DKK 3,151.3 million (DKK 2,648.0 million).

Individual, material countries (>10% of total non-current assets) are the US DKK 4,281.7 million (DKK 3,807.6 million) and the Netherlands DKK 2,112.0 million (DKK 2,189.3 million).

DKK million	2018	2017
Non-current assets[1]		
Americas	4,335.9	3,860.1
Europe	4,875.1	5,009.6
Rest of world	21.3	26.3
Total non-current assets	**9,232.3**	**8,896.0**

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

Total non-current assets in Denmark amount to DKK 1,858.1 milion (DKK 1,947.5 million).

§ ACCOUNTING POLICIES

Net Sales
The Group derives revenue from the transfer of goods at a point in time. Revenue is measured at the fair value of the considera-tion received or receivable and is recognised exclusive of VAT, excise and net of discounts/rebates relating to the sale. Revenue from our retail activities includes excise. Revenue from external customers come from the sale of goods on a wholesale, retail, online & catalogue and business to business basis.

Revenue from the sale of goods is recognised in the income statement when the control of the goods has been transferred to the customer.

The Group does not expect to have any contracts where the period between the transfer of the goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

In 2018 we changed the classification of import duty in selected markets since it is perceived equal to normal excise but previously recognised in both net sales and cost of goods sold. From 1 January 2018 net sales were recognised exclusive this "excise like" import duty. The impact on the Consolidated Financial Statements for 2018 is a reduction of both net sales and COGS of DKK 123.8 million (DKK 139.1 million in 2017, which is not restated), an increase in gross margin of 0.9%-point and an EBITDA margin increase of 0.3%-point. The reclassification has no impact on gross profit or EBITDA.

Cost of Goods Sold
Cost of goods sold comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consuma-bles, 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 accessories and contract manufacturing.

The 'handmade cigars' segment includes sales of handmade cigars (own and 3rd party).

The 'machine-made cigars' segment includes sales of machine-made cigars (own and 3rd party).

The 'pipe tobacco' segment includes sales of pipe tobacco (own and 3rd party).

The 'fine-cut tobacco' segment includes sales of fine-cut tobacco (own and 3rd party).

The 'accessories and contract manufacturing' 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 internal management reporting.

There have been no material transactions between the different segments.

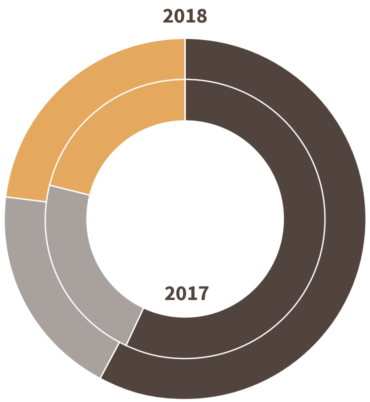
No operating segments have been aggregated to form the reported business segments.

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

2.2
STAFF COSTS

DKK million	2018	2017
Wages and salaries	1,324.2	1,141.4
Pensions - defined contribution plans	48.1	49.5
Pensions - defined benefit plans	18.1	17.3
Social security costs	161.8	152.8
Total staff costs for the year	**1,552.2**	**1,361.0**
Staff costs included in intangible assets and property, plant and equipment	-	-4.7
Change in employee costs included in inventories	-13.0	3.7
Total staff costs expensed to the income statement	**1,539.2**	**1,360.0**

EMPLOYEES PER REGION (%)



DKK million	2018	2017
Included in the income statement:		
Cost of goods sold	633.5	624.5
Staff costs	905.7	735.5
Total included in the income statement	**1,539.2**	**1,360.0**
Average number of employees in the Group	**8,172**	**7,579**

REMUNERATION OF THE BOARD OF DIRECTORS AND EXECUTIVE BOARD

Total fees to the Board of Directors and Executive Board amounted to DKK 68.4 million (DKK 47.5 million).

Executive Board

The Executive Board's remuneration is assessed annually and compared to the remuneration level of similar international companies in terms of size and complexity.

The members of the Executive Board are subject to the Group's long-term incentive programme (LTIP) according to which the participants receive an annual grant of performance share units (PSUs). The CEO receives an annual grant of PSUs corresponding in value to 40% of the current annual base salary, whereas the CFO receives a grant of PSUs corresponding to 30% of the annual base salary. Other key management (members of the Executive Board who are not members of the Executive Management) receive an annual grant of PSUs corresponding in value to 15-30% of the current annual base salary. The value of the PSUs follows the trading value of the Scandinavian Tobacco Group shares during the three-year performance period. The shares, if any, to be allocated to each participant under the LTIP following the performance period will be determined on the basis of the initial PSUs, with the addition of any dividend PSUs granted, adjusted by the performance in the performance period against the pre-defined KPI multiplier (between 0.0 and 2.0). For a further description of the share based incentive programmes please refer to note 2.3.

Members of the Executive Board are subject to a short-term incentive programme (STIP) according to which they may receive an annual target bonus of 20% with a potential bonus of up to 40% of the annual base salary for the CEO and 25% target bonus with a potential bonus of up to 50% for the CFO. Other members of the Executive Board may receive an annual target bonus of 25-30% with a potential bonus up to 50-60%. Both the Executive Management's bonus and the bonus for other Executive Board members are based on two parameters: EBITDA growth and cash related KPI's (cash conversion).

The individual employment contracts for members of the Executive Management may be terminated with 12-24 months' notice and for other Executive Board members with 6-24 months' notice.

Within 12 months after a change of the control or delisting of the Company, the CEO may terminate his employment and he will be entitled to 24 months remuneration as if he had been terminated by the Company. Also, the CEO will be eligible to receive a proportional share of his stay-on bonus. If the Company should wish to terminate the CFO within 18 months after a change of the control or delisting of the Company, the CFO is entitled to a notice of 24 months.

The CEO is entitled to a stay-on bonus payable on each 1 January of 2021 and 2024, provided that the Executive Manager continues to be employed in the same position in the company. If the Executive Manager terminates his position, or is terminated for breach of contract, he is no longer entitled to the stay-on bonus. If the employment is terminated by the company for a reason other than breach of contract by the Executive Manager, or if the Executive Manager terminates the employment due to breach by the company, the Executive Manager will be entitled to a proportionate share of any unpaid stay-on bonus.

Certain members of key management are entitled to either loyalty payments or stay-on bonus. Loyalty payments are related to employment at the company on each of the sixth and ninth anniversary of the start of employment and will in that case, be entitled to a lump sum payment corresponding, to nine times of gross monthly salary applicable on such dates. If the company terminates the key manager's employment without adequate cause, the key manager will be entitled to a proportionate part of the next upcoming loyalty payment. Stay-on bonus is based on continued employment in the same position beyond 31 May 2020

2.2 (CONTINUED)
STAFF COSTS

corresponding to 12 months' base salary applicable at that time and a proportionate share if the employment is terminated earlier.

For the year 2018, the total cost of remuneration for the Executive Board amount to DKK 62.1 million (DKK 40.5 million).

§ **ACCOUNTING POLICIES**

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

BOARD OF DIRECTORS

Members of the Board of Directors receive fixed annual fees. Remuneration of the members of the Board of Directors may not include any incentive element. Ordinary members receive a fixed annual fee while the Chairman and Vice Chairman receive multiples thereof. Board members who are also members of a board committee as chairperson or ordinary committee member receive an additional fixed fee reflecting the additional work and responsibility that follows from being on a committee.

In 2018, members of the Board of Directors and the board committees received fixed annual fees in the aggregate amount of DKK 6.1 million (DKK 6.7 million). Furthermore DKK 0.2 million (DKK 0.3 million) were paid during 2018 related to social security taxes and similar taxes imposed by non-Danish authorities in relation to the remuneration.

EXECUTIVE BOARD 2018

DKK million	Salary and benefits****	Bonus	Pension	Stay-on bonus/loyalty programme	Share-based incentive programme	Total
Niels Frederiksen	7.1	1.9	-	2.0	2.0	13.0
Marianne Rørslev Bock*	0.9	0.3	-	-	0.0	1.2
Sisse Fjelsted Rasmussen**	2.7	0.9	-	-	0.8	4.4
Total Executive Management	**10.7**	**3.1**	**-**	**2.0**	**2.8**	**18.6**
Other key management*****	23.1	7.2	0.2	6.7	6.3	43.5
Total Executive Board	**33.8**	**10.3**	**0.2**	**8.7**	**9.1**	**62.1**

EXECUTIVE BOARD 2017

DKK million	Salary	Bonus	Pension	Stay-on bonus/loyalty programme	Share-based incentive programme	Total
Niels Frederiksen	6.7	0.7	-	3.1	0.3	10.8
Christian Hother Sørensen	4.6	0.6	-	1.5	0.1	6.8
Sisse Fjelsted Rasmussen	3.8	0.5	-	1.6	0.1	6.0
Rob Zwarts***	3.9	0.1	0.2	-	0.4	4.6
Vincent Crepy	3.6	0.4	-	0.9	0.2	5.1
Total Executive Management	**22.6**	**2.3**	**0.2**	**7.1**	**1.1**	**33.3**
Other key management	5.1	0.6	0.5	0.9	0.1	7.2
Total Executive Board	**27.7**	**2.9**	**0.7**	**8.0**	**1.2**	**40.5**

* Marianne Rørslev Bock joined the Group as CFO and member of the Executive Management on 15 October 2018.

** Sisse Fjelsted Rasmussen left her position as CFO and member of the Executive Management on 1 June 2018, but stayed at the Group until 31 August 2018. Total salary cost until 31 August 2018 is included.

*** Rob Zwarts left his position as Executive Vice President Special Projects on 1 May 2017.

**** In 2018 benefits are included. 2017 comparisons have not been adjusted.

***** Includes severance pay in the amount of DKK 8.9 million related to salaries and benefits, DKK 2.0 million related to bonus, DKK 3.9 million related to stay-on bonus/loyalty payment and DKK 3.6 million related to share-based incentive programme.

DKK thousand

Board of Directors	Position	Joined the Board	Left the Board	Board	Committees	Total
Nigel Northridge	Chairman	Apr 2016		1,200	200	1,400
Henrik Brandt	Vice-chairman	Apr 2017		700	100	800
Søren Bjerre-Nielsen	Board member	Feb 2016		400	400	800
Dianne Neal Blixt	Board member	Feb 2016		400	150	550
Luc Missorten	Board member	Feb 2016		400	150	550
Henning Kruse Petersen	Board member	Oct 2010	April 2018	133	-	133
Anders Obel	Board member	April 2018		273	-	273
Kurt Asmussen	Employee represen.	Oct 2010		400	-	400
Hanne Malling	Employee represen.	Oct 2010		400	-	400
Lindy Larsen	Employee represen.	Jul 2016		400	-	400
Mogens Olsen	Employee represen.	Jul 2017		400	-	400
Total 2018				**5,106**	**1,000**	**6,106**
Total 2017				**5,647**	**1,073**	**6,720**

Social security taxes and similar taxes:
In addition to the above remuneration to the Board of Directors, the company may pay social security taxes and similar taxes imposed by non-Danish authorities in relation to the remuneration. In 2018 the company paid DKK 194 thousand compared to DKK 264 thousand in 2017.

2.3
SHARE-BASED PAYMENTS

VALUE OF THE PROGRAMMES AND IMPACT ON THE INCOME STATEMENT

	TSP 2016	LTIP 2016	LTIP 2017	LTIP 2018
Total PSUs granted	100,282	126,537	101,154	92,841
Fair value of PSUs expected to vest at grant date, DKK million	10.7	11.6	5.5	9.2
Fair value of PSUs expected to vest at 31 December 2018, DKK million	-	6.5	6.0	9.6
Recognised in the income statement in 2018, DKK million*	-	2.6	2.7	3.6
Not yet recognised in respect of PSUs expected to vest, DKK million	-	-	1.6	6.0

* DKK 8.9 million (DKK 2.1 million) was recognised in Staff costs.

OUTSTANDING PSUS

	Executive Board				
TSP 2016 (number of PSUs)	Niels Frederiksen	Sisse Fjelsted Rasmussen	Other Key Management	Senior Management	Total
Outstanding at 1 January 2017	26,336	11,726	45,166	13,199	96,427
Adjustment	2,304	1,026	3,953	1,153	8,436
Granted	1,053	469	1,806	527	3,855
Vested	-15,472	-6,889	-26,536	-7,752	-56,649
Outstanding at 31 December 2017	**14,221**	**6,332**	**24,389**	**7,127**	**52,069**
Outstanding at 1 January 2018	14,221	6,332	24,389	7,127	52,069
Cancelled	-14,221	-6,332	-24,389	-7,127	-52,069
Outstanding at 31 December 2018	-	-	-	-	-

	Executive Board				
LTIP 2016 (number of PSUs)	Niels Frederiksen	Sisse Fjelsted Rasmussen	Other Key Management	Senior Management	Total
Outstanding at 1 January 2017	26,336	11,726	45,166	27,923	111,151
Granted	2,106	937	3,611	2,180	8,834
Cancelled	-	-	-	-673	-673
Outstanding at 31 December 2017	**28,442**	**12,663**	**48,777**	**29,430**	**119,312**
Outstanding at 1 January 2018	28,442	12,663	48,777	29,430	119,312
Transferred	-	-	5,673	-5,673	-
Granted	1,562	695	2,990	1,305	6,552
Cancelled	-	-	-	-767	-767
Outstanding at 31 December 2018	**30,004**	**13,358**	**57,440**	**24,295**	**125,097**

	Executive Board				
LTIP 2017 (number of PSUs)	Niels Frederiksen	Sisse Fjelsted Rasmussen	Other Key Management	Senior Management	Total
Outstanding at 1 January 2017	-	-	-	-	-
Granted	24,001	10,321	36,803	24,764	95,889
Outstanding at 31 December 2017	**24,001**	**10,321**	**36,803**	**24,764**	**95,889**
Outstanding at 1 January 2018	24,001	10,321	36,803	24,764	95,889
Transferred	-	-	4,607	-4,607	-
Granted	1,318	567	2,273	1,107	5,265
Cancelled	-	-	-	-2,100	-2,100
Outstanding at 31 December 2018	**25,319**	**10,888**	**43,683**	**19,164**	**99,054**

2.3 (CONTINUED)
SHARE-BASED PAYMENTS

LTIP 2018 (number of PSUs)	Executive Board: Niels Frederiksen	Executive Board: Marianne Rørslev Bock	Executive Board: Sisse Fjelsted Rasmussen	Executive Board: Other Key Management	Senior Management	Total
Outstanding at 1 January 2018	-	-	-	-	-	-
Granted	25,828	2,692	-	41,804	22,517	92,841
Cancelled	-	-	-	-	-2,126	-2,126
Outstanding at 31 December 2018	**25,828**	**2,692**	**-**	**41,804**	**20,391**	**90,715**

All outstanding PSUs are hedged by treasury shares.

§ ACCOUNTING POLICIES

Scandinavian Tobacco Group operates a number of equity-settled, share-based compensation plans.

The value of services received in exchange for granted performance-based share units (PSUs) is measured at fair value at the grant date and recognised in the income statement under staff costs over the vesting period with a corresponding increase in equity.

The fair value of granted PSUs is measured using a Black-Scholes valuation model taking into consideration the terms and conditions upon which the PSUs were granted.

On initial recognition, an estimate is made of the number of PSUs expected to vest. The estimated number is subsequently revised for changes in the number of PSUs expected to vest due to non-market based vesting conditions.

Share-based incentive programmes
Scandinavian Tobacco Group has two equity-settled share-based incentive programmes;

i) a long-term incentive programme (LTIP) for members of the Executive Management and members of senior management, and
ii) a transition share programme (TSP) for certain members of the Executive Management and certain members of senior management.

Upon vesting, each PSU entitles the holder to receive one share in Scandinavian Tobacco Group at no cost. The actual number of shares vesting may range between 0 and 200% of the grant and is determined by a service period (TSP: 2 years; LTIP: 3 years) and the achievement of certain performance indicators in the financial years 2018-2020 for the LTIP 2018 (organic EBITDA growth and cash conversion), 2017-2019 for the LTIP 2017 (organic EBITDA growth and inventory reduction), 2016-2018 for the LTIP 2016 (organic EBITDA growth and inventory reduction) and the financial years 2016-2017 for the TSP 2016 (organic net sales and EBITDA growth).

In April 2017, part of the PSUs granted under the TSP 2016 vested and the participants received shares in Scandinavian Tobacco Group A/S at no cost. In April 2018 the remaining part was cancelled as the performance indicators were not achieved and the programme has lapsed.

Under the LTIP, new PSUs were granted to plan participants in 2018. This was the third grant following the IPO in 2016.

Prior to vesting, holders of PSUs are not entitled to any of the rights which shareholders hold, except from the right to dividends which will be converted into additional PSUs (both ordinary and extraordinary dividends).

For a further description of the programme, please refer to note 2.2.

APPLIED ASSUMPTIONS AT THE TIME OF GRANT

	LTIP 2018	LTIP 2017	LTIP 2016	TSP 2016
Share price (DKK)	107.70 / 86.75	124.50 / 110.20 110.70	103.50 / 108.97	103.50 / 108.97
Risk-free interest rate	0.6% – 1.7%	0.3% – 0.5%	0.3% – 0.5%	0.3% – 0.5%

2.4
MANAGEMENT'S HOLDINGS OF STG SHARES

Management's Holdings of Shares	At the beginning of the year[1]	Additions during the year	Disposals during the year	At the end of the year	Market value[2] DKK million
Nigel Northridge	5,000	-	-	5,000	0.4
Henrik Brandt	67,112	-	-	67,112	5.3
Søren Bjerre-Nielsen	2,000	-	-	2,000	0.2
Luc Missorten	-	2,000	-	2,000	0.2
Dianne Neal Blixt	1,700	-	-	1,700	0.1
Anders Obel	14,550	5,720	-	20,270	1.6
Kurt Asmussen	500	-	-	500	-
Lindy Larsen	242	-	-	242	-
Hanne Malling	250	-	-	250	-
Mogens Olsen	460	1,490	-	1,950	0.2
Board of Directors in total	**91,814**	**9,210**	**-**	**101,024**	**7.9**
Niels Frederiksen	50,474	9,526	-	60,000	4.7
Marianne Rørslev Bock	-	-	-	-	-
Vincent Crepy	4,400	-	-	4,400	0.3
Craig Reynolds	1,582	-	-	1,582	0.1
Hanne Berg	-	1,286	-	1,286	0.1
Jurjan Klep	1,500	1,000	-	2,500	0.2
Huw Williams	76	2	-	78	-
Régis Broersma	1,120	1,500	-	2,620	0.2
Executive Board in total	**59,152**	**13,314**	**-**	**72,466**	**5.7**
Total Board of Directors and Executive Board	**150,966**	**22,524**	**-**	**173,490**	**13.6**

1) Following the changes in the Board of Directors and the Executive Board, the holding of shares at the beginning of the year has been updated compared with the Annual Report 2017.
2) Calculation of market value is based on the quoted share price of DKK 78.45 at the end of the year.

2.5

INCOME AND DEFERRED INCOME TAXES

7.2

EFFECTIVE TAX RATE (%)

51.3

INCOME STATEMENT TAX EXPENSE (DKK million)

DKK million	2018	2017
Tax expense		
Current income tax	-136.8	-183.3
Deferred income tax	82.6	21.9
Total	**-54.2**	**-161.4**
Tax is allocated as follows:		
Tax in the income statement	-51.3	-140.1
Tax on other comprehensive income related to:		
Hedging instruments	-1.0	-10.6
Actuarial gains and losses on pension obligations	-1.9	-10.7
Total	**-54.2**	**-161.4**
Income tax receivable/payable (net) - in the balance sheet:		
Corporate tax receivables	121.2	76.9
Corporate tax payables	132.4	170.5
Total (net)	**11.2**	**93.6**

DKK million	2018	2017
Income tax receivable/payable (net):		
Balance at 1 January	93.6	-27.4
Currency adjustments	0.6	4.7
Prior-year tax adjustment	-1.2	-12.1
Tax paid on account in current year	-222.9	-203.2
Received regarding previous years	52.1	162.0
Paid regarding previous years	-49.0	-25.8
Current income tax	138.0	195.4
Balance at 31 December	**11.2**	**93.6**
Deferred tax (net) – in the balance sheet		
Deferred income tax assets	120.2	96.0
Deferred income tax liabilities	515.7	571.5
Deferred income tax liabilities (net)	**395.5**	**475.5**
Deferred tax (net)		
Balance 1 January	475.5	499.9
Currency adjustments	2.6	-2.5
Change in deferred tax charge	-82.6	-21.9
Balance at 31 December	**395.5**	**475.5**
Breakdown of deferred income tax liabilities (net):		
Intangible assets	529.9	584.0
Property, plant and equipment	52.8	47.1
Inventories	-41.9	-45.6
Receivables	-1.2	-2.3
Pensions	-47.0	-47.9
Other liabilities	-34.4	-19.8
Tax losses to be carried forward	-18.0	-6.5
Other	-44.7	-33.5
Total (net)	**395.5**	**475.5**

2.5 (CONTINUED)

INCOME AND DEFERRED INCOME TAXES

DKK million	2018	2017
Breakdown of tax in the income statement:		
Tax calculated at 22.0% of profit before tax	-157.7	-187.4
Tax according to income statement	-51.3	-140.1
Variance	**106.4**	**47.3**
Tax effect of:		
Non-deductable costs	-8.6	-10.5
Income from associated companies	3.7	3.5
Non-taxable income	2.9	1.3
Prior-year adjustments	0.9	4.3
Other tax percentages	17.9	13.3
Effect of enacted changes of tax rates*	57.8	29.3
Other	31.8	6.1
Total	**106.4**	**47.3**

* Effect of enacted change of tax rates in 2018 is related to gradual reduction of the Dutch corporate income tax rate from 25.0% in 2018 to 20.5% in 2021. The effect in 2017 is related to reduction of the US federal corporate income tax rate from 35% to 21% and two phase reduction of the Belgian corporate income tax rate from 33.99% in 2017 to 29.58% in 2018 and 25.0% in 2020.

At 31 December 2018 the Group has no unrecognised tax assets (DKK 0.0 million).

UNCERTAIN TAX POSITIONS

As an international business the Group is exposed to uncertain tax positions and changes in legislation in the jurisdictions in which it operates. The Group's uncertain tax positions relate to cross-border transfer pricing, interpretation of new or complex tax legislation and tax arising on the valuation of assets. The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on interpretation of legislation, management experience and professional advice.

Provisions arising from uncertain tax positions reflected in the calculation of tax assets and liabilities are included in current corporate tax liabilities.

It is possible that amounts paid will be different from the amounts provided.

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.

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 and prior year adjustments. 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.

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 carryforwards, 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.

KEY ACCOUNTING ESTIMATES

Management has made estimates in determining the provisions for uncertain tax positions, deferred tax assets and deferred tax liabilities and the extent to which deferred tax assets are recognised. The Group recognises only deferred tax assets if these tax assets can be offset against positive taxable income in the foreseeable future. The estimates are made on the basis of business plans for the forthcoming years.

SECTION 3

3.1 INTANGIBLE ASSETS

15.3

ADDITIONS (DKK million)

2018

DKK million	Goodwill	Trademarks	IT software	Other intangible assets	Total
Accumulated cost at 1 January	4,256.7	4,104.0	343.0	318.6	9,022.3
Exchange rate adjustment	143.2	58.0	4.0	15.6	220.8
Acquisition	162.8	20.7	-	142.3	325.8
Addition	-	0.2	15.1	-	15.3
Disposal	-	-	-0.1	-	-0.1
Accumulated cost at 31 December	4,562.7	4,182.9	362.0	476.5	9,584.1
Accumulated amortisation and impairment at 1 January	0.9	1,090.1	243.6	136.7	1,471.3
Exchange rate adjustment	-	15.8	1.8	2.1	19.7
Amortisation	-	114.4	40.8	28.9	184.1
Impairment	-	40.0	-	-	40.0
Disposal	-	-	-0.1	-	-0.1
Accumulated amortisation and impairment at 31 December	0.9	1,260.3	286.1	167.7	1,715.0
Carrying amount at 31 December	**4,561.8**	**2,922.6**	**75.9**	**308.8**	**7,869.1**

Other intangible assets

Other intangible assets mainly comprise acquired name rights, customer relations and distribution rights.

2017

DKK million	Goodwill	Trademarks	IT software	Other intangible assets	Total
Accumulated cost at 1 January	4,592.9	4,262.5	317.2	322.0	9,494.6
Exchange rate adjustment	-341.7	-158.5	-7.0	-6.2	-513.4
Acquisition	5.5	-	-	-	5.5
Addition	-	-	51.6	2.8	54.4
Disposal	-	-	-18.8	-	-18.8
Accumulated cost at 31 December	4,256.7	4,104.0	343.0	318.6	9,022.3
Accumulated amortisation and impairment at 1 January	0.9	1,002.9	231.7	117.5	1,353.0
Exchange rate adjustment	-	-25.8	-1.9	-6.1	-33.8
Amortisation and impairment	-	113.0	32.2	25.3	170.5
Disposal	-	-	-18.4	-	-18.4
Accumulated amortisation and impairment at 31 December	0.9	1,090.1	243.6	136.7	1,471.3
Carrying amount at 31 December	**4,255.8**	**3,013.9**	**99.4**	**181.9**	**7,551.0**

2018

	Handmade cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	ACM**	Total
Allocated goodwill (DKK million)	1,974.5	1,494.7	637.8	272.1	182.7	4,561.8
WACC after-tax (%)	6.4	6.4	6.4	6.4	6.4	n.a.
WACC pre-tax (%)	7.8	7.8	7.8	7.8	7.8	n.a.
Terminal growth (%)	1.0	1.0	-2.0	1.0	1.0	n.a.
Allocated trademarks with indefinite useful lives (DKK million)	304.0	1,051.0	197.0	14.7	119.7	1,686.4

2017

	Handmade cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	ACM**	Total
Allocated goodwill (DKK million)	1,681.1	1,489.8	632.3	272.1	180.5	4,255.8
WACC after-tax (%)	6.7	6.7	6.8	6.7	6.7	n.a.
WACC pre-tax (%)	8.3	8.3	8.4	8.3	8.3	n.a.
Terminal growth (%)	1.0	1.0	1.0	1.0	1.0	n.a.
Allocated trademarks with indefinite useful lives (DKK million)*	291.3	1,047.7	194.6	14.6	118.0	1,666.2

* 2017 comparison numbers have been adjusted compared to the Annual Report 2017 due to change in allocation keys.

** Accessories and contract manufacturing.

3.1 (CONTINUED)
INTANGIBLE ASSETS

DKK million	Indefinite trademarks allocated to segment*	Remaining amortisation period	Carrying amount 2018	Carrying amount 2017
Captain Black, Bugler and Kite	2,3,4,5	Indefinite / 12 years	754.3	741.3
Café Crème	2	Indefinite	482.4	482.4
Tiedemanns		17 years	181.8	196.0
Mercator**		9 years	259.2	289.1
La Paz	2	Indefinite	215.2	215.2
Other trademarks	1,2,3,4	Indefinite / 1-17 years	1,029.7	1,089.9
Total			**2,922.6**	**3,013.9**

* 1) Handmade cigars, 2) Machine-made cigars, 3) Pipe tobacco, 4) Fine-cut tobacco, 5) Accessories and contract manufacturing.
** Trademark value from 'Other' trademarks that related to Mercator has been added to Mercator 2018. 2017 value is also adjusted.

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) based on Management's projections. Management has used an overall expectation of positive growth in EBITDA in the budget period (also in 2017).

The terminal growth is based on adjusted historical development taking into account expected future development. Discount rates are based on the risk-free rate adjusted for the inherent risk for each individual cash generating unit. The applied assumptions for each individual cash generating unit are illustrated in the tables above (on page 51).

For trademarks Management has used a discount rate (WACC after tax) between 6.4% and 13.8% (pre-tax WACC between 7.8% and 17.0%). The weighted average WACC after tax is 7.0% (pre-tax 8.7%). The discount rates are based on the risk-free rate adjusted for the inherent risk for each individual trademark. Terminal growth in EBITDA is set between -5.0% and 1.0% and is based on adjusted historical development taking into account expected future development.

When goodwill and trademarks with indefinite useful lives were tested for impairment in 2018 (and 2017), 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, except for the Pipe tobacco segment where a 1%/2% increase in discount rate would result in impairment of respectively DKK 26.4 million/142.4 million. Furthermore a negative terminal growth of 3.5%/4.0% would result in impairment of respectively DKK 34.0 million/74.8 million.

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 increasing market shares 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 above.

§ 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.

3.1 (CONTINUED)

INTANGIBLE ASSETS

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 have 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 for the coming years. 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 4,561.8 million (DKK 4,255.8 million). The carrying value of trademarks with indefinite useful lives amounted to DKK 1,686.4 million (DKK 1,666.2 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 1,236.2 million (DKK 1,347.7 million). Amortisation amounted to DKK 114.4 million (DKK 113.0 million). In 2018 an impairment of DKK 40 million regarding the pipe tobacco trademark Erinmore is recognised in the income statement. The impairment is a consequence of decline in volumes in key markets as well as adjusted expectations concerning future cash flows for the trademark. The value in use of DKK 45 million is calculated by using a valuation model based on discounted expected future cash flows (DCF-model covering a 5-year budget period) based on Management's projections by using an average discount rate (WACC after tax) of 9.2%. During 2018, Management did not identify any other indications of impairment.

3.2
PROPERTY, PLANT AND EQUIPMENT

109.7

ADDITIONS (DKK million)

2018 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	788.3	721.4	209.0	71.5	32.9	1,823.1
Exchange rate adjustment	10.4	5.1	4.4	2.8	1.3	24.0
Acquisition	-	-	6.2	-	-	6.2
Additions	2.5	11.0	5.1	1.7	89.4	109.7
Disposals	-	-6.1	-2.8	-1.5	-	-10.4
Transfers/Reclassifications	63.0	-1.1	11.7	-1.6	-72.0	-
Accumulated cost at 31 December	864.2	730.3	233.6	72.9	51.6	1,952.6
Accumulated depreciation and impairment at 1 January	202.5	237.4	131.9	31.2	2.8	605.8
Exchange rate adjustment	4.0	1.3	2.9	1.3	-	9.5
Depreciation	33.6	53.7	25.0	4.4	-	116.7
Depreciation on disposals	-	-5.3	-2.7	-1.3	-	-9.3
Impairment	-	3.6	-	-	6.8	10.4
Transfers/Reclassifications	22.8	-18.5	-2.0	-2.3	-	-
Accumulated depreciation and impairment at 31 December	262.9	272.2	155.1	33.3	9.6	733.1
Carrying amount at 31 December	**601.3**	**458.1**	**78.5**	**39.6**	**42.0**	**1,219.5**

2017 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	843.0	791.8	226.8	76.6	48.5	1,986.7
Exchange rate adjustment	-18.7	-25.3	-15.3	-8.0	-1.9	-69.2
Additions	-	1.4	2.4	0.2	50.1	54.1
Disposals	-44.9	-74.2	-28.8	-0.6	-	-148.5
Transfers	8.9	27.7	23.9	3.3	-63.8	-
Accumulated cost at 31 December	788.3	721.4	209.0	71.5	32.9	1,823.1
Accumulated depreciation and impairment at 1 January	220.9	236.2	143.3	29.9	-	630.3
Exchange rate adjustment	-5.4	-11.1	-9.3	-3.4	-	-29.2
Depreciation	31.9	62.6	26.0	5.3	-	125.8
Depreciation on disposals	-44.9	-69.2	-28.8	-0.6	-	-143.5
Impairment	-	18.9	0.7	-	2.8	22.4
Accumulated depreciation and impairment at 31 December	202.5	237.4	131.9	31.2	2.8	605.8
Carrying amount at 31 December	**585.8**	**484.0**	**77.1**	**40.3**	**30.1**	**1,217.3**

§ **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.

3.3
INVENTORIES

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

DKK million	2018	2017
Raw materials and consumables	1,150.6	1,187.2
Work in progress	295.5	319.7
Finished goods, goods for resale and excise stamps	1,152.6	914.1
Total	**2,598.7**	**2,421.0**
Movements in the Group provision for obsolete stock are as follows:		
Provision for obsolete stock 1 January	-110.3	-133.7
Additions for the year	-22.8	-50.3
Reversal of for the year	14.5	7.8
Write-downs during the year	42.8	61.0
Effect of exchange rate adjustments	-0.6	4.9
Total provision at 31 December	**-76.4**	**-110.3**

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 2,883.1 million (DKK 2,743.7 million).

§ 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 is 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.

3.4
TRADE RECEIVABLES

DKK million	2018	2017
Trade receivables (net) at 31 December comprised the following:		
Trade receivables (gross)	869.0	755.9
Provision for bad debt	-14.9	-43.1
Trade receivables (net)	**854.1**	**712.8**
Movements in the Group provision for bad debt are as follows:		
Provision for bad debt at 1 January	-43.1	-22.1
Additions for the year	-4.6	-33.3
Reversals for the year	7.6	3.1
Confirmed losses	25.0	8.8
Effect of exchange rate adjustments	0.2	0.4
Total provision at 31 December	**-14.9**	**-43.1**
Non-impaired trade receivables can be specified as follows:		
Current	703.7	529.4
Overdue < 30 days	108.3	164.4
Overdue 31 - 60 days	28.4	13.5
Overdue 61 - 90 days	6.8	3.1
Overdue 91 - 180 days	5.8	1.0
Overdue > 180 days	1.1	1.4
Total	**854.1**	**712.8**
Provision for bad debt can be specified as follows:		
Current	-4.5	-3.8
Overdue <30 days	-1.1	-21.5
Overdue 31 - 60 days	-0.3	-10.8
Overdue 61 - 90 days	-2.5	-2.5
Overdue 91 - 180 days	-1.6	-1.2
Overdue > 180 days	-4.9	-3.3
Total	**-14.9**	**-43.1**

§ **ACCOUNTING POLICIES**

Trade receivables are measured in the balance sheet at amortised cost less provisions for expected credit losses. Expected credit losses are determined by using the simplified expected credit loss model (ECL).

The ECLs on trade receivables are estimated by using a matrix by reference to geography, past default experience, analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions in which the debtors operate and an assessment of the forecast direction of developments at the reporting date.

3.5
PREPAYMENTS

§ **ACCOUNTING POLICIES**

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

3.6
OTHER PROVISIONS

DKK million	2018	2017
Balance at 1 January	61.1	150.2
Exchange rate adjustment	0.1	-0.2
Discounting cost	0.9	0.7
Addition during the period	107.3	1.5
Utilised during the period	-26.1	-70.5
Reversed provision unused	-5.5	-20.6
Carrying amount at 31 December	**137.8**	**61.1**
Non-current	33.7	33.7
Current	104.1	27.4
Total	**137.8**	**61.1**

Other provisions mainly consist of restructuring costs in relation to Fuelling the Growth and the close-down of factories. The restructuring costs are primarily related to redundancy payments.

§ **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.

3.7
PENSION OBLIGATIONS

Post-employment defined benefit – recognised in the balance sheet:

DKK million	2018	2017
Present value of funded obligations	234.0	200.1
Fair value of plan assets	-131.1	-106.2
Deficit (+) / surplus (-)	102.9	93.9
Present value of unfunded obligations	137.9	143.9
Net asset (-) / liability (+) in the balance sheet	**240.8**	**237.8**
Amounts in the balance sheet		
Liabilities	240.8	237.8
Assets	-	-
Net asset (-) / liability (+) in the balance sheet	**240.8**	**237.8**

DKK million	2018	2017
Movement during the period in the net asset (-)/ liability (+)		
Balance at 1 January	237.8	263.8
Recognised in the income statement	27.1	26.3
Actuarial gain recognised in comprehensive income, financial assumptions	-6.8	-17.7
Actuarial gain recognised in comprehensive income, demographic assumptions	1.3	-0.1
Benefit payments to employees	-13.5	-18.4
Employer contributions	-5.4	-2.8
Currency effect	0.3	-13.3
Balance at 31 December	**240.8**	**237.8**

Actuarial assumptions

Actuarial assumptions used for valuation (expressed as weighted averages and in %)	2018	2017
Discount rate	3.3	3.4
Future salary increases	4.0	4.1

Significant actuarial assumptions regarding the determination of the pension obligation is 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 occuring at the end of the period.

	2018		2017	
DKK million	1%-point increase	1%-point decrease	1%-point increase	1%-point descrease
Discount rate	-37.3	44.3	-38.9	46.1
Future salary increse	41.5	-29.6	49.6	-35.1

DKK million	2018	2017
CHANGE IN THE DEFINED BENEFIT OBLIGATIONS AND PLAN ASSETS		
Defined benefit obligations – movement		
Balance at 1 January	362.6	375.4
Current service costs	18.0	16.8
Interest cost	10.9	10.3
Recognised past service costs	-	-0.1
Actuarial losses (+)/gains (-)	-4.0	-15.6
Benefits paid	-16.3	-25.8
Settlements	0.1	0.6
Currency effect	0.6	-13.2
Other	-	14.2
Balance at 31 December	**371.9**	**362.6**
Plan assets – movement in fair value		
Balance at 1 January	124.8	111.6
Interest income	1.8	1.3
Actuarial losses (-)/gains (+)	1.5	2.2
Employer contributions	8.7	5.6
Benefits paid	-6.1	-10.2
Currency effect	0.4	0.1
Other	-	14.2
Balance at 31 December	**131.1**	**124.8**

The actual return on plan assets in 2018 was a gain of DKK 3.3 million (DKK 3.5 million).

3.7 (CONTINUED)
PENSION OBLIGATIONS

Categories of plan assets:	2018		2017		2018	2017
DKK million	Quoted	Unquoted	Quoted	Unquoted	Total	Total
Categories of plan assets						
Bonds	29.2	100.9	27.9	95.9	130.1	123.8
Other	1.0	-	1.0	-	1.0	1.0
Total	30.2	100.9	28.9	95.9	131.1	124.8

The weighted average duration of the defined benefit obligation is 11.8 years (12.2 years).

DKK million	2018	2017
Post-employment benefit plans recognised in income statement		
Current service costs	18.0	16.8
Interest on net obligation	9.0	9.0
Recognised past service costs	-	-0.1
Settlements	0.1	0.6
Net income (-)/expense (+) reported in the income statement	**27.1**	**26.3**
The income/expenses for defined benefit plans are reported under the following headings in the income statement:		
Staff costs	18.1	17.3
Financial costs	9.0	9.0
Net income (-)/expense (+) reported in the income statement	**27.1**	**26.3**

Amounts recognised in other comprehensive income

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

	2018	2017
Net actuarial losses (+)/ gains (-)	-5.5	-17.8
Effect of asset limit	-	-
Cumulative net actuarial losses (+)/ gains (-)	151.8	156.6

EXPECTED CONTRIBUTION NEXT YEAR

Expected contributions for post-employment benefit plans for the year ending December 31, 2018 amounts to DKK 14.6 million (DKK 10.7 million).

DEFINED CONTRIBUTION PLANS

The Group has certain obligations under defined contributions plans. Contributions to these plans are determined by provisions in the respective plans. Costs for defined contribution plans charged to the income statement for the year amounts to DKK 48.1 million (DKK 49.5 million).

DEFINED BENEFIT PLANS IN PRIMARILY BELGIUM, GERMANY, FRANCE, INDONESIA, THE DOMINICAN REPUBLIC AND THE US

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 employees who entered service before August 1991 and have since then been closed for new employees. 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). 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 non-qualified plans that cover a small group of inactive employees where benefits are paid out of corporate assets.

§ ACCOUNTING POLICIES

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 expenses 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.

3.7 (CONTINUED)

PENSION OBLIGATIONS

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.

SECTION 4

4.1
BANK LOANS

1,157

UNUSED COMMITTED CREDIT FACILITIES (DKK million)

DKK million	2018	2017
Financial institutions are recognised in the balance sheet as follows:		
Non-current liabilities	2,658.1	2,606.3
Total	**2,658.1**	**2,606.3**

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	2018	2017	2018	2017
EUR	Floating	Term	30/09/2021	560.1	558.4	574.6	574.6
EUR	Floating	Term	30/09/2022	1,120.1	1,116.7	1,157.9	1,156.6
USD	Floating	Term	30/09/2021	326.0	310.4	334.0	319.5
USD	Floating	Term	30/09/2022	651.9	620.8	673.4	643.5
EUR	Floating	RCF	30/09/2022	-	-	-	-
Total				**2,658.1**	**2,606.3**	**2,739.9**	**2,694.2**

* 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% (100%) 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.

§ **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.

4.2
FINANCIAL RISKS AND INSTRUMENTS

Maturity at 31 december 2018	0-1 Year	1-5 Years	After 5 years	Total*	Fair value level 2**	Carrying amount
LIQUIDITY						
Recognised at amortised cost						
Financial institutions	49.6	2,794.5	-	2,844.1	2,739.9	2,658.1
Trade payables	377.1	-	-	377.1	-	377.1
Other liabilities	487.6	6.1	-	493.7	-	493.7
Total	**914.3**	**2,800.6**	**-**	**3,714.9**	**-**	**3,528.9**
Recognised at fair value						
Interest rate swaps	13.4	28.0	-	41.4	27.8	27.8
Currency swaps	1.5	-	-	1.5	1.5	1.5
Total	**14.9**	**28.0**	**-**	**42.9**	**-**	**29.3**
Total financial liabilities	**929.2**	**2,828.6**	**-**	**3,757.8**	**-**	**3,558.2**
Recognised at amortised cost						
Cash and cash equivalents	310.8	-	-	310.8	-	310.8
Trade receivables	854.1	-	-	854.1	-	854.1
Other receivables	66.2	-	-	66.2	-	66.2
Total	**1,231.1**	**-**	**-**	**1,231.1**	**-**	**1,231.1**
Recognised at fair value						
Interest rate swaps	12.6	25.2	-	37.8	29.1	29.1
Currency swaps	3.7	-	-	3.7	3.7	3.7
Total	**16.3**	**25.2**	**-**	**41.5**	**-**	**32.8**
Total financial assets	**1,247.4**	**25.2**	**-**	**1,272.6**	**-**	**1,263.9**

* 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 rates 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.

4.2 (CONTINUED)

FINANCIAL RISKS AND INSTRUMENTS

Maturity at 31 december 2017	0-1 Year	1-5 Years	After 5 years	Total*	Fair value level 2**	Carrying amount
LIQUIDITY						
Recognised at amortised cost						
Financial institutions	34.6	2,701.4	-	2,736.0	2,694.2	2,606.3
Trade payables	365.4	-	-	365.4	-	365.4
Other liabilities	493.2	-	-	493.2	-	493.2
Total	**893.2**	**2,701.4**	**-**	**3,594.6**	**-**	**3,464.9**
Recognised at fair value						
Interest rate swaps	17.6	46.3	-	63.9	31.0	31.0
Currency swaps	5.4	-	-	5.4	5.4	5.4
Total	**23.0**	**46.3**	**-**	**69.3**	**-**	**36.4**
Total financial liabilities	**916.2**	**2,747.7**	**-**	**3,663.9**	**-**	**3,501.3**
Recognised at amortised cost						
Cash and cash equivalents	605.2	-	-	605.2	-	605.2
Trade receivables	712.8	-	-	712.8	-	712.8
Other receivables	70.8	-	-	70.8	-	70.8
Total	**1,388.8**	**-**	**-**	**1,388.8**	**-**	**1,388.8**
Recognised at fair value						
Interest rate swaps	1.3	3.5	-	4.8	28.4	28.4
Currency swaps	0.1	-	-	0.1	0.1	0.1
Total	**1.4**	**3.5**	**-**	**4.9**	**-**	**28.5**
Total financial assets	**1,390.2**	**3.5**	**-**	**1,393.7**	**-**	**1,417.3**

* 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 rates 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.

FINANCIAL RISKS

FOREIGN EXCHANGE RISK

Fluctuating currency rates influence the Group's reported income statement, balance sheet and 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.

TRANSLATION RISK

Translation risk arises from the translation of subsidiaries' income statement and net assets into DKK. The single most significant currency is USD.

The Group does not hedge with financial contracts against translation effects, although borrowings in currencies other than DKK are used to partly mitigate translation risk.

TRANSACTION RISK

Transaction risk arises from cash flows in currencies other than the functional currencies of the Group's subsidiaries. Transaction risk is as a general rule not hedged with financial contracts as the impact from transaction risks is considered to be within the Group's risk appetite.

The Group closely monitors foreign exchange risk mainly related to the following currencies: USD, NOK, SEK, GBP, CAD, AUD, RUB and IDR. The Group considers both DKK and EUR as base currencies due to the historically fixed currency band between DKK and EUR.

A 5% increase/decrease in the USD rate versus DKK and EUR would impact net earnings before tax positively/negatively by DKK 1.0 million (DKK 2.5 million) and impact other comprehensive income positively/negatively by DKK 1.5 million (DKK 1.0 million) arising from financial assets and liabilities. The sensitivity analysis does not include financial assets and liabilities in the functional currency of the Group's subsidiaries and translation risk from consolidation of income statement.

INTEREST RATE RISK

Fluctuating interest rates influence the Group's income statement, balance sheet 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 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.

Types of interest rate risks: Cash flow risk, where future cash flows is uncertain due to future interest rate movements. Fair value risk, where the underlying asset or liability's value is impacted by the future interest rate level.

It is the aim of the Group to hedge its known and certain interest rate exposures. Cash flow risk is hedged while Fair value risk is not hedged. Therefore, the Group only actively hedges the floating rate interest payments on long term debt, meaning term loans with a maturity exceeding one year. The cash flow risk on these term loans are hedged up to 100%.

Hedging instruments: Hedging of the ineterst exposure is mitigated via financial derivatives where there is a direct economic relation to the underlying risk – Interest rate fluctuations. The Group therefore engage

4.2 (CONTINUED)

FINANCIAL RISKS AND INSTRUMENTS

in interest derivatives such as interest rate swaps (IR swap), with the aim to hedge the cash flow risk arising from paying floating interest on underlying term loans. IR swap, is an agreement where STG exchange futures payments flows from either floating rate denominated interest payments for a fixed rate interest payment for a given period or vice versa. Thus by engaging in an IR swap, STG then effectually exchanges its floating denominated interest payments to a fixed rate and thus mitigate the uncertainty regarding interest rate movements effect on loan payments. STG use IR swap to fix the future interest rates via matching the floating interest on the loan in exchange for a fixed rate for the reminder of the hedged period.

As long as the fixing rate and terms on the floating leg of IR swap and loan are the same the hedge will be 100% effective.

Ineffectiveness in the hedge arises from deviations in underlying terms between the loan and IR swap. Sources of ineffectiveness are mismatch in terms, such as a floor or cap on the interest in either the loan or hedge. In such case, a miss match in terms, then this will result in ineffectiveness which will impact the income statement as described under Hedge Accounting.

As at the balance sheet date, the Group has interest rate swap agreements totalling a notional amount of EUR 225.0 million (EUR 225.0 million) and USD 150.0 million (USD 150.0 million), which relates to bank loans.

Ineffectiveness has impacted the income statement by a cost of DKK 2.5 million (DKK 3.3 million).

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 impact (before tax) other comprehensive income positively by DKK 46.0 million (DKK 52.1 million) and DKK 34.4 million (DKK 45.6 million), respectively and a positive impact on the financial items of DKK 8.0 million (DKK 17.1 million).

CREDIT RISK

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 2018 included trade receivables with a net book value of DKK 854.1 million (DKK 712.8 million), representing a gross receivable balance of DKK 869.0 million (DKK 755.9 million) and a provision for expected credit losses of DKK 14.9 million (DKK 43.1 million), based on the expected credit loss model (ECL). The ECLs on trade receivables are estimated by using a matrix by reference to geography, past default experience, analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions in which the debtors operate and an assessment of the forecast direction of developments at the reporting date.

In addition, overdue but not impaired receivables as at 31 December 2018 which have not been written down totalled DKK 150.4 million (DKK 183.4 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.

FINANCIAL CREDIT RISK

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.

In the event of bankruptcy among the lending banks, the Group has in accordance with the Danish Bankruptcy Act the right to offset cash deposits in the counterparty bank debt totalling DKK 0.0 million at 31 December 2018 (DKK 7.9 million).

LIQUIDITY RISK

The Group ensures the availability of the required liquidity through a combination of cash management and uncommitted as well as committed credit facilities. To centralise and optimise liquidity the Group utilises cash pooling in addition to intercompany lending and borrowing as well as currency swaps.

The Group has a committed revolving credit facility of EUR 155.0 million (EUR 155.0 million), which matures in 2021 and 2022 with EUR 51.7 million and EUR 103.3 million, respectively. The undrawn amount of the credit facility at 31 December 2018 was EUR 155.0 million (EUR 155.0 million).

To reduce refinancing risk the Group ensures that term loans and committed credit facilities are split between providers and that maturity dates are diversified.

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 as at 31 December 2018 of outstanding derivative contracts was positive by DKK 1.3 million (negative by DKK 2.6 million), all related to interest rate swaps. Income statement was impacted by DKK 2.5 million (DKK 3.3 million) related to the ineffectiveness part of interest rate swaps.

4.2 (CONTINUED)
FINANCIAL RISKS AND INSTRUMENTS

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 225.0 million and USD 150.0 million (EUR 225.0 million and USD 150.0 million). Interest rate swaps follow the maturity profile of the bank term loans (see note 4.1).

The net fair value stated will be transferred from the reserve for hedging (other comprehensive income) 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.

Currency swaps are used to manage group liquidity over the short term. The net fair value as at 31 December 2018 of outstanding currency swaps was positive by DKK 2.2 million (negative by DKK 5.3 million). As at the balance sheet date, the Group has outstanding currency swaps with a notional amount of DKK 1,182.8 million (DKK 863.7 million).

§ 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/financial fixed assets 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 like 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.

Financial risk management policy and strategy
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 the 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 cost and 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.

4.3
FINANCIAL FIXED ASSETS

7.4

DIVIDEND (DKK million)

2018

DKK million	Investments in associated companies
Cost at 1 January	92.6
Addition	-
Deduction	-
Accumulated cost at 31 December	92.6
Accumulated revaluation and impairment at 1 January	35.1
Dividends	-7.4
Currency translation	6.7
Profit after tax	16.7
Accumulated revaluation and impairment at 31 December	51.1
Carrying amount at 31 December	**143.7**

2017

DKK million	Investments in associated companies
Cost at 1 January	92.6
Addition	-
Deduction	-
Accumulated cost at 31 December	92.6
Accumulated revaluation and impairment at 1 January	42.0
Dividends	-6.8
Currency translation	-16.2
Profit after tax	16.1
Accumulated revaluation and impairment at 31 December	35.1
Carrying amount at 31 December	**127.7**

Other financial fixed assets amount to DKK 22.3 million (DKK 20.6 million) and comprise non-current part of the positive market value of financial instruments.

4.3 (CONTINUED)

FINANCIAL FIXED ASSETS

NAME AND COUNTRY OF INCORPORATION
Caribbean Cigar Holdings Group Co. S.A, Panama

DKK million	2018	2017
Profit & loss		
Revenue	413.2	342.6
Profit for the year	87.5	79.4
Other comprehensive income	-	-
Total comprehensive income	**87.5**	**79.4**
Financial position		
Non-current assets	41.9	43.2
Current assets	509.7	429.3
Non-current liabilities	1.6	1.3
Current liabilities	71.0	64.9
% Interest held	**20%**	**20%**

The financial information stated above is based on estimates.

Reconciliation carrying amount		
Scandinavian Tobacco Group's share of Caribbean Cigar Holdings Group's equity	95.8	81.2
Goodwill concerning Caribbean Cigar Holdings Group	53.8	51.3
Elimination of internal profit	-5.9	-4.8
Carrying amount at 31 December	**143.7**	**127.7**

§ 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.

4.4

FINANCIAL INCOME AND COSTS

DKK million	2018	2017
FINANCIAL INCOME		
Interest on deposits in financial institutions etc.	3.9	3.3
Exchange gains	44.4	15.2
Other financial income	6.7	5.0
Total	**55.0**	**23.5**

DKK million	2018	2017
FINANCIAL COSTS		
Interest to financial institutions etc.	59.9	67.2
Interest part of pension cost	9.0	9.0
Exchange losses	13.5	10.2
Other financing costs	10.0	14.5
Total	**92.4**	**100.9**

Interest on debt to financial institutions etc. includes realisation of previously deferred losses from interest rate swaps of DKK 11.6 million (DKK 26.8 million).

Other financing costs include discounting effect of provisions of DKK 0.9 million (DKK 0.7 million) and ineffectiveness of interest rate swaps of DKK 2.5 million (DKK 3.3 million).

§ ACCOUNTING POLICIES

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

4.5

SHARE CAPITAL, TREASURY SHARES, DIVIDEND AND EARNINGS PER SHARE

600

PROPOSED DIVIDEND (DKK million)

Development in share capital:

DKK million	
2014-2017	-
At the beginning of the year	**100.0**
2018	-
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.

Treasury shares:

	Nominal value (DKK million)	Number of shares (in thousands)	Purchase price (DKK million)	% of share capital
Treasury shares at 1 January 2018	0.4	367	40.5	0.4
Addition	-	-	-	-
Settlement of vested PSU's	-	-	-	-
Treasury shares at 31 December 2018	**0.4**	**367**	**40.5**	**0.4**

The market value of treasury shares at 31 December 2018 was DKK 28.8 million (DKK 44.1 million).

The holding of treasury shares are regarded as hedge for the share-based incentive programmes.

According to the authorisation of the General Meeting, the Board of Directors may allow the Company to acquire treasury shares up to a total holding of 10% of the nominal share capital at a price quoted on Nasdaq Copenhagen at the time of acquisition with a deviation of up to 10%. In addition, the Board of Directors is authorised to increase the share capital by up to 10%. The authorisation to the Board of Directors will be in force until 31 December 2020.

Net cash distribution to shareholders (dividend):	Dividend DKK million	Per share DKK
2014 (proposed dividend in 2013 Annual Report)	382.0	3.8
2015 (proposed dividend in 2014 Annual Report)	427.0	4.3
2015 (extraordinary dividend)	900.0	9.0
2016 (proposed dividend in 2015 Annual Report)	500.0	5.0
2017 (proposed dividend in 2016 Annual Report)	550.0	5.5
2017 (extraordinary dividend)	350.0	3.5
2018 (proposed dividend in 2017 Annual Report)	575.0	5.8

Retained earnings end of 2018 include proposed dividend of DKK 600 million (DKK 6.0 per share).

Earnings per share:

Earnings per share is presented as both basic and diluted earnings per share. Basic earnings per share is calculated as net profit divided by the average number of shares outstanding. Diluted earnings per share is calculated as net profit divided by the sum of average number of shares outstanding, including the dilutive effect of outstanding share bonus programmes. Please refer to note 5.8 for a description of the calculation of basic and diluted earnings per share.

DKK million	2018	2017
Net profit for the year	665.5	711.6
Average number of shares outstanding (in 1,000 shares)	100,000	100,000
Average number of treasury shares (in 1,000 shares)	-367	-379
Average number of shares - basic (in 1,000 shares)	99,633	99,621
Dilutive effect of outstanding PSUs (in 1,000 shares)	170	113
Average number of shares outstanding, including dilutive effect of PSUs (in 1,000 shares)	99,803	99,735
Basic earnings per share (DKK)	6.7	7.1
Diluted earnings per share (DKK)	6.7	7.1

4.6

CHANGES IN WORKING CAPITAL (CASH FLOW STATEMENT)

DKK million	2018	2017
Change in receivables	-76.7	-33.9
Change in inventories	53.5	263.0
Change in liabilities	-77.9	-61.0
Total	**-101.1**	**168.1**

§ **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.

4.7

NET INTEREST-BEARING DEBT

DKK million	2018	2017
Interest-bearing liabilities, net	2,654.6	2,614.2
Pensions	240.8	237.8
Cash equivalents	-310.8	-605.2
Total	**2,584.6**	**2,246.8**

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 EBITDA before special items) while maintaining flexibility to increase leverage temporarily, for example to pursue acquisitions. At 31 December 2018 the ratio was 2.0 (1.8).

4.8

CHANGES IN FINANCING LIABILITIES

DKK million	2018	2017
Balance at 1 January	2,606.3	2,730.7
Exchange rate adjustment	51.8	-124.4
Carrying amount at 31 December	**2,658.1**	**2,606.3**

SECTION 5

5.1 BUSINESS COMBINATIONS

With effect from 2 April 2018, STG acquired, in an asset deal, the business of Thompson and Co. of Tampa, a leading US Online Cigar Retailer. The total consideration transferred is paid in cash. The accounting for the business combination is considered provisional as changes to the accounting can be made up until 1 April 2019. However, no major changes are expected.

Thompson and Co. of Tampa

Thompson is a leading online retail cigar business in the US, a market where approximately two thirds of all handmade cigars are sold online. A family-owned business, Thompson was founded in 1915 and is based in Tampa, Florida. It has annual net sales of around USD 100 million and 185 employees. Thompson provides STG access to established, recognised and appreciated auction and retail websites, a substantial and attractive customer base, as well as a retail store and a call centre facility in Tampa and strengthens STG position in the online retail cigar channel in the US.

Fair value of acquired net assets and recognised goodwill

Net assets and goodwill are provisional and may be adjusted and off-balance sheet items may be recorded within the 12 months period of the acquisition date in compliance with IFRS 3. Net assets have been adjusted to comply with STG's accounting policies and financial reporting requirements.

The provisional calculated goodwill relates to synergies from merging the business into the existing internet and catalogue business in the US including optimisations within sales, marketing and procurement, workforce and business expertise.

Impact on Consolidated Income Statement

The Financial Statements includes net sales of DKK 572 million with a net profit of DKK 9 million from the acquisition. The net impact on the 2018 consolidated financial statements' net sales is DKK 541 million, and constitue of Thompson's net sales offset by STG's internal net sales to Thompson of DKK 31 million.

On a proforma basis, if the acquisition had been effective from 1 January 2018 the business of Thompson would in 2018 have contributed DKK 709 million to net sales (gross DKK 719 million offset by STG's sales to Thompson in Q1 2018) and DKK 7 million on net profit.

Transaction costs

Total transaction costs related to the acquisition amounts to DKK 6 million, of which DKK 2 million was recognised in 2017 Financial Statements and DKK 4 million in 2018 Financial Statements. Transaction costs are recognised in 'Other External costs'.

Peterson Pipe Tobacco

In July 2018 the Group acquired Peterson Pipe Tobacco. Net sales and total assets of Peterson Pipe Tobacco constitute less than 0.2% the Group's net sales and total assets. Given the insignificance of the acquisition, no information according to IFRS 3 Business Combination has been disclosed in the Annual Report for 2018.

KEY ACCOUNTING ESTIMATES

The most significant assets acquired generally comprise goodwill, trademarks, tradenames, customer relations and inventories. As no active market exists for the majority of acquired assets, the fair value is based on Management's projections and estimates. The methods applied are based on the present value of future cash flows related to the specific asset. Estimates of fair value are associated with uncertainty and may be adjusted subsequently.

DKK million	Provisional fair value at date of acquisition
Intangible assets	142.3
Property, plant and equipment	6.2
Inventories	125.9
Trade receivables	9.6
Other receivables	1.5
Prepayment	1.6
Total assets	**287.1**
Trade payables	47.1
Other liabilities	21.2
Total liabilities	**68.3**
Acquired net assets	218.8
Consideration transferred	381.6
Goodwill from acquisition	162.8

The recognised goodwill is tax deductible.

§ ACCOUNTING POLICIES

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measued at acquisition date fair value.

Acquisition-related costs are expensed as incurred and included in “Other External costs”.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. If uncertainties exist at the acquisition date regarding identification or measurement of identifiable assets, liabilities and contingent liabilities or regarding the consideration transferred, initial recognition will take place on the basis of provisionally determined fair values. If identifiable assets, liabilities and contingent liabilities are subsequently determined to have a different fair value at the acquisition date from that first assumed, goodwill is adjusted up until 12 months after the acquisition date. Thereafter no adjustments are made to goodwill, and changes in estimates of contingent consideration relating to business combinations are recognised under “Other income and costs”.

Goodwill is initially measured at cost. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all assets acquired and all liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, the gain is recognised in the income statement. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination.

5.2
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	2018	2017
Financial items	37.4	77.4
Share of profit of associated companies, net of tax	-16.7	-16.1
Income taxes	51.3	140.1
(Gains)/losses from sale of property, plant and equipment	-	-13.4
Special items, paid	103.1	122.3
Other provisions movement	76.7	-89.1
Bad debt allowance and provision for obselete stock movements	-62.1	-2.5
Other adjustments	17.0	-38.8
Total	**206.7**	**180.0**

5.3
CONTINGENT LIABILITIES

DKK million	2018	2017
Lease expenditures charged to the income statement during the year	120.8	117.7
Future minimum lease payment under operating lease contracts and rent commitments amounts to:		
Within 1 year	97.4	87.8
Between 1 and 5 years	115.8	125.3
After 5 years	17.2	6.0
Total	**230.4**	**219.1**

LEASE OBLIGATIONS
The Group has entered into operating lease agreements for land, offices and warehouses, cars and equipment. The lease terms are between 1 and 20 years, and the majority of the lease agreements are renewable at the end of the lease period at market rate.

GUARANTEE OBLIGATIONS
The Group has (via 3rd parties) issued guarantees totalling DKK 512.4 million (DKK 539.8 million), primarily issued towards 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.

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.

§ **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.

5.4
RELATED-PARTY TRANSACTIONS

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

DKK million	2018	2017
Caribbean Cigar Holdings Group Co. S.A (associated company)		
Purchase of products by Scandinavian Tobacco Group	-90.8	-74.0
Skandinavisk Holding A/S (controlled by the Augustinus Foundation)		
Services provided by Scandinavian Tobacco Group A/S	-	2.5
Tivoli (controlled by the Augustinus Foundation)		
Purchase of products and sponsorship	-	-0.5
Swedish Match AB (significant incluence from key management until 7 December 2017)		
Purchase of products by Scandinavian Tobacco Group	-	-87.8
Sale of products from Scandinavian Tobacco Group	-	75.7

5.4 (CONTINUED)
RELATED-PARTY TRANSACTIONS

Related parties comprise companies controlled by the Augustinus Foundation, key management and Caribbean Cigar Holdings Group Co. S.A. Key management are Scandinavian Tobacco Group A/S' Board of Directors and Executive Board as well as management in the controlling companies.

For information on remuneration to the Management of Scandinavian Tobacco Group A/S, please refer to note 2.2 and note 2.3. For an overview of Group companies, please refer to note 5.7. There have not been and there are no loans to key management personnel in 2018 or 2017.

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

OWNERSHIP AND CONSOLIDATED FINANCIAL STATEMENTS
For information concering major shareholders, please refer to Shareholder information in the Management Report, page 31. No major shareholders have controlling influence of STG.

5.5
EVENTS AFTER THE REPORTING PERIOD

The Group has not experienced any significant events after 31 December 2018 which have an impact on the annual report.

5.6
FEE TO STATUTORY AUDITOR

DKK million	2018	2017
Statutory audit	6.1	5.5
Audit-related services	1.2	1.8
Tax advisory services	0.5	1.4
Other services	0.3	0.4
Total fee to statutory auditors	**8.1**	**9.1**

Fees for non-audit services in addition to the statutory audit of the financial statements, which were provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab to the Group amounted to DKK 1.1 million. Non-audit services in addition to the statutory audit of the financial statements comprise services relating to mergers and acquisitions as well as other general accounting and tax consultancy services.

5.7
ENTITIES IN SCANDINAVIAN TOBACCO GROUP

Company	Country	Ownership	Activity: Production	Activity: Sales and marketing	Activity: Administration	Activity: Finance
PARENT COMPANY						
Scandinavian Tobacco Group A/S	Denmark	–		X	X	X
SUBSIDIARIES BY REGION						
EUROPE						
Bogaert Cigars N.V.	Belgium	100%		X		
Scandinavian Tobacco Group Belux N.V.	Belgium	100%		X		
Scandinavian Tobacco Group Lummen N.V.	Belgium	100%	X			
Scandinavian Tobacco Group Belgium Services N.V.	Belgium	100%			X	
Scandinavian Tobacco Group Wuustwezel N.V.	Belgium	100%			X	
Scandinavian Tobacco Group Zagreb d.o.o.	Croatia	100%		X		
Scandinavian Tobacco Group Assens A/S	Denmark	100%	X	X		
Scandinavian Tobacco Group Denmark A/S	Denmark	100%		X		
Scandinavian Tobacco Group Nykøbing ApS	Denmark	100%			X	
STG Finans ApS	Denmark	100%				X
STG Latin Holding ApS	Denmark	100%			X	
Peter Stokkebye Tobaksfabrik A/S	Denmark	100%		X		
Scandinavian Tobacco Group France S.A.S	France	100%		X		
Scandinavian Tobacco Group Deutschland GmbH	Germany	100%		X		
Scandinavian Tobacco Group Italy S.R.L.	Italy	100%		X		
Scandinavian Tobacco Group Norway AS	Norway	100%		X		
STG Portugal S.A.	Portugal	100%		X		
Scandinavian Tobacco Group d.o.o.	Slovenia	100%		X		
Scandinavian Tobacco Group Spain S.A.U.	Spain	100%		X		
Intermatch Sweden AB	Sweden	100%			X	
STG Sweden AB	Sweden	100%		X		
P.G.C. Hajenius B.V.	The Netherlands	100%		X		
Scandinavian Tobacco Group Eersel B.V.	The Netherlands	100%	X	X	X	
Scandinavian Tobacco Group Nederland B.V.	The Netherlands	100%		X		
Scandinavian Tobacco Group Tobacco Service B.V.	The Netherlands	100%		X		
ST Cigar Group Holding B.V.	The Netherlands	100%			X	
STG Finance B.V.	The Netherlands	100%				X
Scandinavian Tobacco Group Bethlehem Sales B.V.	The Netherlands	100%		X	X	
Scandinavian Tobacco Group United Kingdom Limited	United Kingdom	100%		X		
Peterson Pipe Tobacco - DAC	Ireland	100%			X	
ASIA						
Scandinavian Tobacco Group Hong Kong Limited	Hong Kong	100%		X		
PT Scandinavian Tobacco Group Indonesia	Indonesia	100%	X			
AUSTRALIA AND NEW ZEALAND						
Scandinavian Tobacco Group Australia Pty Ltd	Australia	100%		X		
Scandinavian Tobacco Group New Zealand Ltd	New Zealand	100%		X		
AFRICA						
Scandinavian Tobacco Nigeria Ltd.	Nigeria	100%			X	
AMERICA						
Scandinavian Tobacco Group Canada Holding Inc.	Canada	100%			X	
Scandinavian Tobacco Group Canada Inc.	Canada	100%		X		
General Cigar Dominicana S.A.S.	The Dominican Republic	100%	X			

5.7 (CONTINUED)

ENTITIES IN SCANDINAVIAN TOBACCO GROUP

			Activity			
Company	Country	Ownership	Production	Sales and marketing	Administration	Finance
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%		✓		
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%			✓	
Schell Acquistion 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%			✓	
Cigars International Texas, LLC	United States	100%		✓		
Bethlehem Restaurant Corporation, Inc.	United States	100%		✓		
CI Hamburg Superstore Lounge, LLC	United States	100%		✓		
CI Florida, LLC	United States	100%		✓		
Lilly Online, LLC	United States	100%		✓		
Lilly Distribution	United States	100%		✓		

*Doing business in the Dominican Republic.

5.8
EXPLANATION OF FINANCIAL RATIOS

GROSS MARGIN = Gross profit / Net sales

EBIT MARGIN = EBIT / Net sales

CASH CONVERSION = CFFO before interest and tax, excluding payment of special items – Maintenance CAPEX / Adjusted operating profit (EBITA before special items)

NET INTEREST-BEARING DEBT = Interest-bearing liabilities and pensions less cash equivalents and interest-bearing receivables

BASIC EARNINGS PER SHARE = Net profit / Average number of shares outstanding

DIVIDEND PER SHARE = Proposed and interim dividend / Average number of shares outstanding

EBITDA MARGIN = EBITDA / Net sales

TAX PERCENTAGE = Tax / Profit before tax

EQUITY RATIO = Equity / Total assets

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

DILUTED EARNINGS PER SHARE = Net profit / Average number of shares outstanding + dilutive effect of the outstanding performance stock units (PSUs)

PAY-OUT RATIO = Proposed and interim dividend / Net profit

ORGANIC NET SALES GROWTH: is defined as growth in net sales before special items and impact from currencies, acquisitions and change in accounting policies

ORGANIC EBITDA GROWTH: is defined as growth in EBITDA before special items and impact from currencies, acquisitions and change in accounting policies

* Average invested capital comprises 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

FINANCIAL STATEMENTS OF THE PARENT COMPANY

NOTES

1 JANUARY - 31 DECEMBER

INCOME STATEMENT - PARENT COMPANY

DKK million	Note	2018	2017
Other income		**280.7**	**224.8**
Other external costs		-171.7	-122.2
Staff costs	2	-141.3	-115.9
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**-32.3**	**-13.3**
Depreciation	3	0.0	-0.6
Earnings before interest, tax and amortisation (EBITA)		**-32.3**	**-13.9**
Amortisation	3	-14.0	-11.5
Earnings before interest and tax (EBIT)		**-46.3**	**-25.4**
Result of investments in affiliated companies, net of tax	4	410.9	435.2
Financial income	5	119.9	91.3
Financial costs	6	-101.4	-99.8
Profit before tax		**383.1**	**401.3**
Income taxes	7	5.1	8.4
Net profit for the year		**388.2**	**409.7**

DKK million	Note	2018	2017
DISTRIBUTION OF PROFIT			
Proposed distribution of profit:			
Proposed dividend		600.0	575.0
Retained earnings		-211.8	-165.3
Total		**388.2**	**409.7**

BALANCE SHEET AT 31 DECEMBER - PARENT COMPANY

DKK million	Note	2018	2017
ASSETS			
Other intangible assets		36.0	41.6
Intangible assets	8	**36.0**	**41.6**
Leasehold improvements		-	-
Property, plant and equipment	9	**-**	**-**
Investments in affiliated companies	10	10,974.8	10,309.9
Other financial fixed assets		22.3	20.6
Financial fixed assets		**10,997.1**	**10,330.5**
Fixed assets		**11,033.1**	**10,372.1**
Receivables from affiliated companies		2,249.3	2,776.1
Other receivables		11.6	10.5
Income tax receivable		67.5	56.1
Prepayments	11	16.2	24.1
Total receivables		**2,344.6**	**2,866.8**
Cash and cash equivalents		**223.9**	**475.9**
Current Assets		**2,568.5**	**3,342.7**
Assets		**13,601.6**	**13,714.8**

DKK million	Note	2018	2017
EQUITY, PROVISIONS AND LIABILITIES			
Share capital		100.0	100.0
Retained earnings		5,935.8	5,932.4
Treasury shares		-40.5	-40.5
Proposed dividend		600.0	575.0
Equity		**6,595.3**	**6,566.9**
Deferred income tax liabilities	7	11.4	8.5
Other provisions	12	15.0	4.7
Provisions		**26.4**	**13.2**
Bank loans		2,658.1	2,606.3
Other liabilities		26.5	22.4
Long-term liabilities		**2,684.6**	**2,628.7**
Liabilities to affiliated companies		4,188.4	4,396.0
Trade creditors		45.7	45.3
Other provisions	12	9.3	-
Other liabilities		51.9	64.7
Current liabilities		**4,295.3**	**4,506.0**
Liabilities		**6,979.9**	**7,134.7**
Equity, provisions and liabilities		**13,601.6**	**13,714.8**
Contingent liabilities	13		
Financial instruments	14		
Related-party transations	15		
Fee to statutory auditor	16		
Ownership	17		

1 JANUARY - 31 DECEMBER

STATEMENT OF CHANGES EQUITY - PARENT COMPANY

DKK million	Share capital	Retained earnings	Treasury shares	Proposed dividend	Total
Equity at 1 January 2018	100.0	5,932.4	-40.5	575.0	6,566.9
Cash flow hedges	-	4.0	-	-	4.0
Tax of cash flow hedges	-	-1.0	-	-	-1.0
Share-based payments	-	8.9	-	-	8.9
Equity movement in subsidiaries	-	3.6	-	-	3.6
Foreign exchange adjustments of net investments in foreign subsidiaries	-	197.6	-	-	197.6
Dividend paid to shareholders	-	-	-	-575.0	-575.0
Dividend, treasury shares	-	2.1	-	-	2.1
Profit / loss for the year	-	-211.8	-	600.0	388.2
Equity at 31 December 2018	**100.0**	**5,935.8**	**-40.5**	**600.0**	**6,595.3**

DKK million	Share capital	Retained earnings	Treasury shares	Proposed dividend	Total
Equity at 1 January 2017	100.0	6,942.1	-45.5	550.0	7,546.6
Cash flow hedges	-	42.1	-	-	42.1
Tax of cash flow hedges	-	-10.6	-	-	-10.6
Share-based payments	-	2.1	-	-	2.1
Settlement of vested PSUs	-	-5.0	5.0	-	-
Equity movement in subsidiaries	-	7.1	-	-	7.1
Foreign exchange adjustments of net investments in foreign subsidiaries	-	-533.4	-	-	-533.4
Dividend paid to shareholders	-	-350.0	-	-550.0	-900.0
Dividend, treasury shares	-	3.3	-	-	3.3
Profit / loss for the year	-	-165.3	-	575.0	409.7
Equity at 31 December 2017	**100.0**	**5,932.4**	**-40.5**	**575.0**	**6,566.9**

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.

NOTE 1
ACCOUNTING POLICIES

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 separate 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 and certain trademark amortisations.

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 follow 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 Group note 3.7.

Share based payments
In relation to share-based payments, the provisions in IFRS 2 have been adopted as the Danish Financial Statements Act does not regulate share-based payments settled via equity instruments, but only cash-settled share-based payments. Derogation from the Danish Financial Statements Act for share based payments means that the year's cost for share-based payments are not recognised as a liability in the balance sheet, but directly in the statement of equity. For the monetary impact, please refer to the statement of changes in equity and note 2.

NOTE 2
STAFF COSTS

DKK million	2018	2017
Salaries	133.4	108.5
Pensions	7.6	7.4
Social security costs	0.3	-
Total	**141.3**	**115.9**
Average number of employees	**95**	**92**

Remuneration of the board of directors and executive board***
Total fees to the Board of Directors and Executive Board amounted to DKK 68.4 million (DKK 47.5 million).

2018

DKK million Executive Board	Salary and benefits	Bonus	Pension	Stay-on bonus/loyalty programme	Share-based incentive programme	Total
Niels Frederiksen	7.1	1.9	-	2.0	2.0	13.0
Marianne Rørslev Bock*	0.9	0.3	-	-	-	1.2
Sisse Fjelsted Rasmussen**	2.7	0.9	-	-	0.8	4.4
Total Executive Management	**10.7**	**3.1**	**-**	**2.0**	**2.8**	**18.6**
Other key management****	23.1	7.2	0.2	6.7	6.3	43.5
Total Executive Board	**33.8**	**10.3**	**0.2**	**8.7**	**9.1**	**62.1**

* Marianne Rørslev Bock joined the Group as CFO and member of the Executive Management on 15 October 2018.
** Sisse Fjelsted Rasmussen left her position as CFO and member of the Executive Management on 1 June 2018, but stayed at the Group until 31 August 2018. Total salary cost until 31 August 2018 is included.
*** Executive Board comprise the Executive Management (registered members) and other key management (not registered members).
**** Includes severance pay in the amount of DKK 8.9 million related to salaries and benefits, DKK 2.0 million related to bonus, DKK 3.9 million related to stay-on bonus/loyalty payment and DKK 3.6 million related to share-based incentive programme.

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.

For a further description of the Performance Share Units programme (PSU) please refer to Group note 2.3.

For a detailed description of remuneration of the Board of Directors and Executive Board please refer to Group note 2.2.

NOTE 2 (CONTINUED)
STAFF COSTS

2017

DKK million

Executive Board	Salary	Bonus	Pension	Stay-on bonus/loyalty programme	Share-based incentive programme	Total
Niels Frederiksen	6.7	0.7	-	3.1	0.3	10.8
Christian Hother Sørensen	4.6	0.6	-	1.5	0.1	6.8
Sisse Fjelsted Rasmussen	3.8	0.5	-	1.6	0.1	6.0
Rob Zwarts*	3.9	0.1	0.2	-	0.4	4.6
Vincent Crepy	3.6	0.4	-	0.9	0.2	5.1
Total Executive Management	**22.6**	**2.3**	**0.2**	**7.1**	**1.1**	**33.3**
Other key management	5.1	0.6	0.5	0.9	0.1	7.2
Total Executive Board	**27.7**	**2.9**	**0.7**	**8.0**	**1.2**	**40.5**

* Rob Zwarts left his position as Executive Vice President Special Projects on 1 May 2017.

DKK thousand

Board of Directors	Position	Joined the Board	Left the Board	Board	Committees	Total
Nigel Northridge	Chairman	Apr 2016		1,200	200	1,400
Henrik Brandt	Vice-chairman	Apr 2017		700	100	800
Søren Bjerre-Nielsen	Board member	Feb 2016		400	400	800
Dianne Neal Blixt	Board member	Feb 2016		400	150	550
Luc Missorten	Board member	Feb 2016		400	150	550
Henning Kruse Petersen	Board member	Oct 2010	April 2018	133	-	133
Anders Obel	Board member	April 2018		273	-	273
Kurt Asmussen	Employee represen.	Oct 2010		400	-	400
Hanne Malling	Employee represen.	Oct 2010		400	-	400
Lindy Larsen	Employee represen.	Jul 2016		400	-	400
Mogens Olsen	Employee represen.	Jul 2017		400	-	400
Total 2018				**5,106**	**1,000**	**6,106**
Total 2017				**5,647**	**1,073**	**6,720**

Social security taxes and similar taxes:

In addition to the above remuneration to the Board of Directors, the company may pay social security taxes and similar taxes imposed by non-Danish authorities in relation to the remuneration. In 2018 the company paid DKK 194 thousand compared to DKK 264 thousand in 2017.

NOTE 3
DEPRECIATION AND AMORTISATION

DKK million	2018	2017
Depreciation		
Leasehold improvements	-	0.6
Total	**-**	**0.6**
Amortisation		
Other intangible assets	14.0	11.5
Total	**14.0**	**11.5**

NOTE 4
RESULT OF INVESTMENTS IN AFFILIATED COMPANIES, NET OF TAX

DKK million	2018	2017
Result of investments in affiliated companies, net of tax	410.9	435.2
Total	**410.9**	**435.2**

NOTE 5
FINANCIAL INCOME

DKK million	2018	2017
Interest on deposits in financial institutions, etc.	2.5	1.2
Interest on balances with affiliated companies	85.1	75.2
Exchange gains, net	32.3	14.9
Total	**119.9**	**91.3**

NOTE 6
FINANCIAL COSTS

DKK million	2018	2017
Interest on debt to financial institutions, etc.	59.2	65.7
Interest on balances with affiliated companies	31.0	21.6
Other financing costs	0.6	8.0
Exchange losses, net	10.6	4.5
Total	**101.4**	**99.8**

NOTE 7
INCOME TAXES

DKK million	2018	2017
Current income tax	-8.4	32.9
Deferred income tax	3.2	-41.5
Adjustment regarding prior years, current income tax	0.4	-1.2
Adjustment regarding prior years, deferred income tax	-0.3	1.4
Total	**-5.1**	**-8.4**

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. Scandinavian Tobacco Group A/S is the management company of the jointly taxed companies and settles corporate taxes with the tax authorities.

DKK million	2018	2017
BREAKDOWN OF DEFERRED INCOME TAX:		
Intangible assets	7.6	8.6
Property, plant and equipment	-0.4	-0.4
Receivables	7.5	7.3
Other liabilities	-3.3	-7.0
Total	**11.4**	**8.5**
BREAKDOWN OF INCOME TAXES:		
Tax calculated at 22% of profit before tax	**84.3**	**88.3**
TAX EFFECT OF:		
Adjustment regarding prior years	0.1	0.2
Non-deductable costs	1.0	0.2
Other		-1.4
Result of investments in affiliated companies	-90.5	-95.7
Total	**-5.1**	**-8.4**
Deferred income tax 1 January	8.5	48.6
Deferred income tax in income statement	2.9	-40.1
Deferred income tax 31 December	**11.4**	**8.5**

NOTE 8
INTANGIBLE ASSETS

2018

DKK million	Other intangible assets
Accumulated cost at 1 January	109.9
Addition	8.4
Accumulated cost at 31 December	118.3
Accumulated amortisation at 1 January	68.3
Amortisation	14.0
Accumulated amortisation at 31 December	82.3
Carrying amount at 31 December	**36.0**

NOTES 9

PROPERTY, PLANT AND EQUIPMENT

2018

DKK million	Equipment, tools and fixtures	Leasehold improvements	Total
Accumulated cost at 1 January	0.2	6.7	6.9
Accumulated cost at 31 December	0.2	6.7	6.9
Accumulated depreciation at 1 January	0.2	6.7	6.9
Accumulated depreciation at 31 December	0.2	6.7	6.9
Carrying amount at 31 December	**-**	**-**	**-**

NOTES 10

INVESTMENTS IN AFFILIATED COMPANIES

DKK million	2018	2017
Accumulated cost at 1 January	13,011.6	13,026.6
Addition	1,070.5	-
Disposal	-	-15.0
Accumulated cost at 31 December	14,082.1	13,011.6
Accumulated revaluation and impairment at 1 January	-2,701.7	-2,320.1
Dividends	-1,017.7	-290.5
Currency translation	197.6	-533.4
Equity adjustments	3.6	7.1
Profit after tax	410.9	435.2
Accumulated revaluation and impairment at 31 December	-3,107.3	-2,701.7
Carrying amount at 31 December	**10,974.8**	**10,309.9**

Goodwill of DKK 2,597.3 million (DKK 2,647.1 million) is included in the carrying amount at 31 December 2018.

NOTE 10 (CONTINUED)
INVESTMENTS IN AFFILIATED COMPANIES

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 S.A.	The Dominican Republic	100%
Scandinavian Tobacco Group Deutschland GmbH	Germany	100%
Scandinavian Tobacco Group Hong Kong Limited	Hong Kong	100%
Peterson Pipe Tobacco Designated Activity Company	Ireland	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%
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%
STG 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 Group note 5.7.

NOTE 11
PREPAYMENTS

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

NOTE 12
OTHER PROVISIONS

DKK million	Other provisions
Balance at 1 January 2018	4.7
Disposal during the year	-
Additions during the year	19.6
Utilised during the year	-
Balance at 31 December 2018	**24.3**
Expected due:	
Within 1 year	9.3
Between 1 and 5 years	15.0
After 5 years	-
Total	**24.3**

NOTE 13
CONTINGENT LIABILITIES

Guarantee obligations

The Company has guarantee obligations totalling DKK 508 million at 31 December 2018 (DKK 532 million).

Lease obligations

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

DKK million	2018	2017
Within 1 year	25.0	26.6
Between 1 and 5 years	1.0	2.0
After 5 years	-	-
Total	**26.0**	**28.6**

NOTE 14
FINANCIAL INSTRUMENTS

Reference is made to Group note 4.2.

NOTE 15
RELATED-PARTY TRANSACTIONS

Related parties comprise companies controlled by the Augustinus Foundation and key management. Key management are Scandinavian Tobacco Group A/S' Board of Directors and Executive Board (Executive Management and other key management) as well as management in the controlling companies.

The income statement include the following transactions with related parties:

DKK million	2018	2017
Affiliated companies		
Services provided by Scandinavian Tobacco Group A/S	286.0	224.1
Services provided to Scandinavian Tobacco Group A/S	-5.3	-5.2
Financial income	85.1	75.2
Financial cost	-31.0	-21.6
Skandinavisk Holding A/S (controlled by the Augustinus Foundation)		
Services provided by Scandinavian Tobacco Group A/S	-	2.5
Tivoli (controlled by the Augustinus Foundation)		
Purchase of products and sponsorship	-	-0.5

For information on remuneration to the Management of Scandinavian Tobacco Group A/S, please refer to note 2. For an overview of affiliated companies, please refer to note 10. There have not been and there are no loans to key management personnel in 2018 or 2017.

NOTE 16
FEE TO STATUTORY AUDITOR

DKK million	2018	2017
Statutory audit	1.0	0.9
Audit-related services	0.7	1.3
Tax advisory services	0.1	0.1
Total	**1.8**	**2.3**

NOTE 17
OWNERSHIP

As of 1 March 2019 the following investors have reported holdings of more than 5% of Scandinavian Tobacco Group's share capital/voting rights:

Chr. Augustinus Fabrikker Aktieselskab	> 25%
C.W.Obel A/S	> 10%
FMR LLC	> 5%
Franklin Templeton Institutional, LLC	> 5%
FIL Limited	> 5%

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 2018.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act. 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 2018 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 2018.

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, 14 March 2019

EXECUTIVE MANAGEMENT

Niels Frederiksen
CEO

Marianne Rørslev Bock
CFO

BOARD OF DIRECTORS

Nigel Northridge
Chairman

Henrik Brandt
Vice chairman

Søren Bjerre-Nielsen

Dianne Neal Blixt

Luc Missorten

Anders Obel

Kurt Asmussen

Lindy Larsen

Hanne Malling

Mogens Olsen

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Scandinavian Tobacco Group A/S

OUR OPINION

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2018 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

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 2018 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2018 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited

The Consolidated Financial Statements of Scandinavian Tobacco Group A/S for the financial year 1 January to 31 December 2018 comprise the statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow, the statement of changes in group equity and the notes, including summary of significant accounting policies.

The Financial Statements of the parent company of Scandinavian Tobacco Group A/S for the financial year 1 January to 31 December 2018 comprise the income statement, the balance sheet, the statement of changes in equity and the notes, including summary of significant accounting policies.

Collectively referred to as the "Financial Statements".

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment

Following the admission of shares of Scandinavian Tobacco Group A/S for the listing on Nasdaq Copenhagen, we were first appointed auditors of Scandinavian Tobacco Group A/S on 26 April 2017. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 2 years, including the financial year 2018.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2018. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
IMPAIRMENT OF GOODWILL AND CERTAIN TRADEMARKS The principal risk in relation to goodwill and certain trademarks is impairment due to for example changes in local regulations, changes to excise duties, and changes in the strategy of the Group. Management prepared valuations of the operating segments Handmade cigars, Machine-made cigars, Pipe tobacco, Fine-cut tobacco and Accessories and Contract Manufacturing. Values for strategic trademarks with indefinite life are separately tested for impairment. Values for other trademarks are separately tested for impairment if indications exist. The most critical assumptions are the estimation of future cash flows, especially development in volume, average sales and cost prices, terminal growth, the discount rates and the allocation of and income to each of the cash generation units. We focused on this area as the determination of whether elements of goodwill and certain trademarks are impaired involves complex and subjective judgements by the Management about the future results of the relevant parts of the business. Refer to Note 3.1 in the Financial Statements.	Our audit procedures included assessing the Group's impairment model. We obtained impairment tests prepared by Management and evaluated the reasonableness of estimates and judgements made by Management in preparing these. We challenged Management analysis around the key drivers of the cash flow forecasts including the ability to increase market share and achieve price increases in declining markets. We also evaluated the appropriateness of the key assumptions including discount rates, short-term and long-term growth rates and performed sensitivities across the reporting segments. We used our own specialist to evaluate the discount rates. We tested the reliability of Management's estimates by comparing budgeted figures to actual figures for the past years.
UNCERTAIN TAX POSITIONS The Group operates in a complex multinational tax environment and related risks in transfer pricing cases with domestic and foreign tax authorities. Management is required to exercise considerable judgement when determining the appropriate provision amount for uncertain tax positions. We focused on this area given the number of judgements involved and the complexities of dealing with tax rules and regulations in numerous jurisdictions. Refer to Note 2.5 in the Financial Statements.	We evaluated relevant controls regarding completeness of records of uncertain tax positions and Management's procedure for estimating the provision for uncertain tax positions. We discussed with Management issues relating to determining the appropriate provision for uncertain tax positions. In addition, we used our own tax specialists and evaluated the adequacy of Management's key assumptions and read relevant correspondence with tax authorities to assess the valuation of uncertain tax positions.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

STATEMENT ON MANAGEMENT REPORT

Management is responsible for Management Report.

Our opinion on the Financial Statements does not cover Management Report, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management Report and, in doing so, consider whether Management Report is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management Report includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management Report is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management Report.

MANAGEMENT’S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

In preparing the Financial Statements, Management is responsible for assessing the Group’s and the Parent Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 14 March 2019

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

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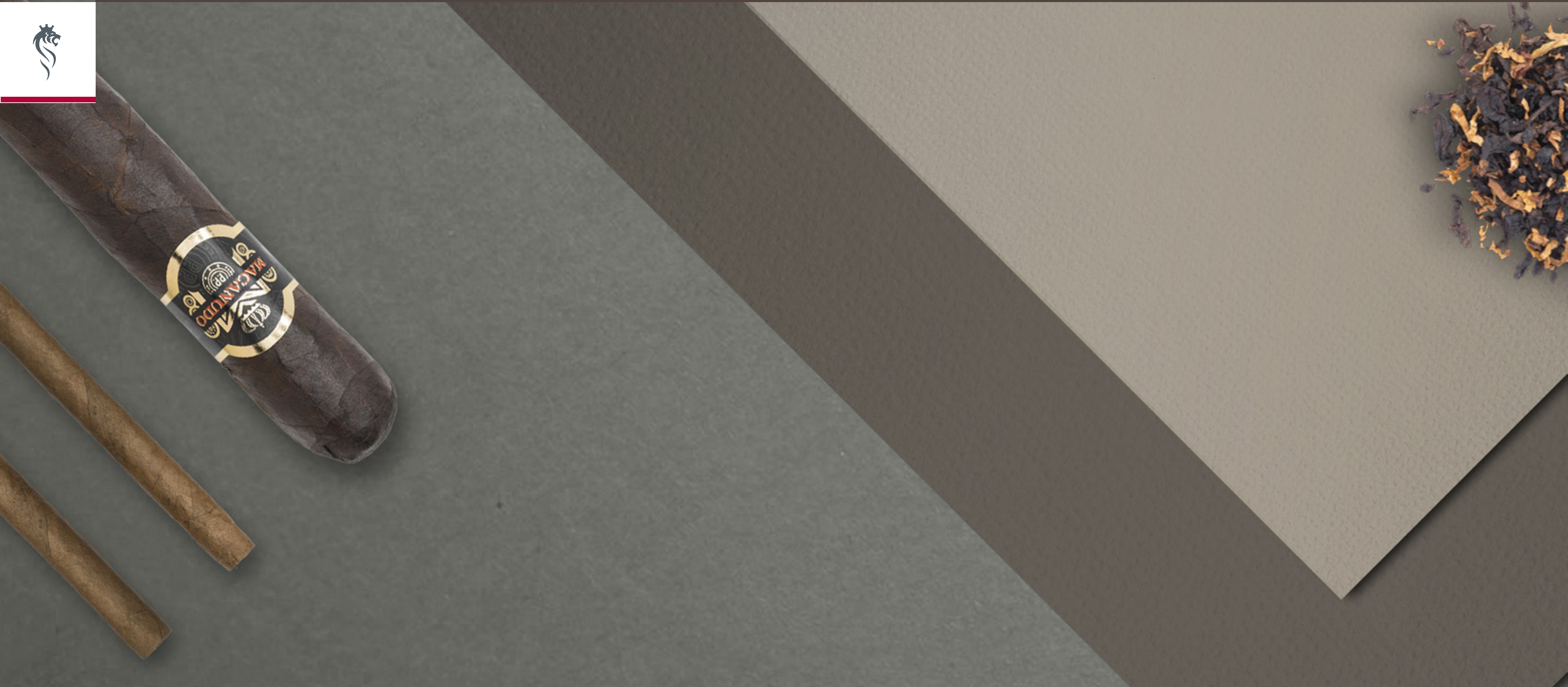

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