



SCANDINAVIAN TOBACCO GROUP

Scandinavian Tobacco Group A/S

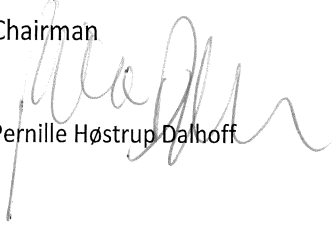
CVR-No. 31 08 01 85

Sandtoften 9, 2820 Gentofte

Annual Report 2019

The Annual Report has been considered and adopted on the
Company's Annual General Meeting 26 March 2020

Chairman


Pernille Høstrup Dalhoff



ANNUAL REPORT

2019



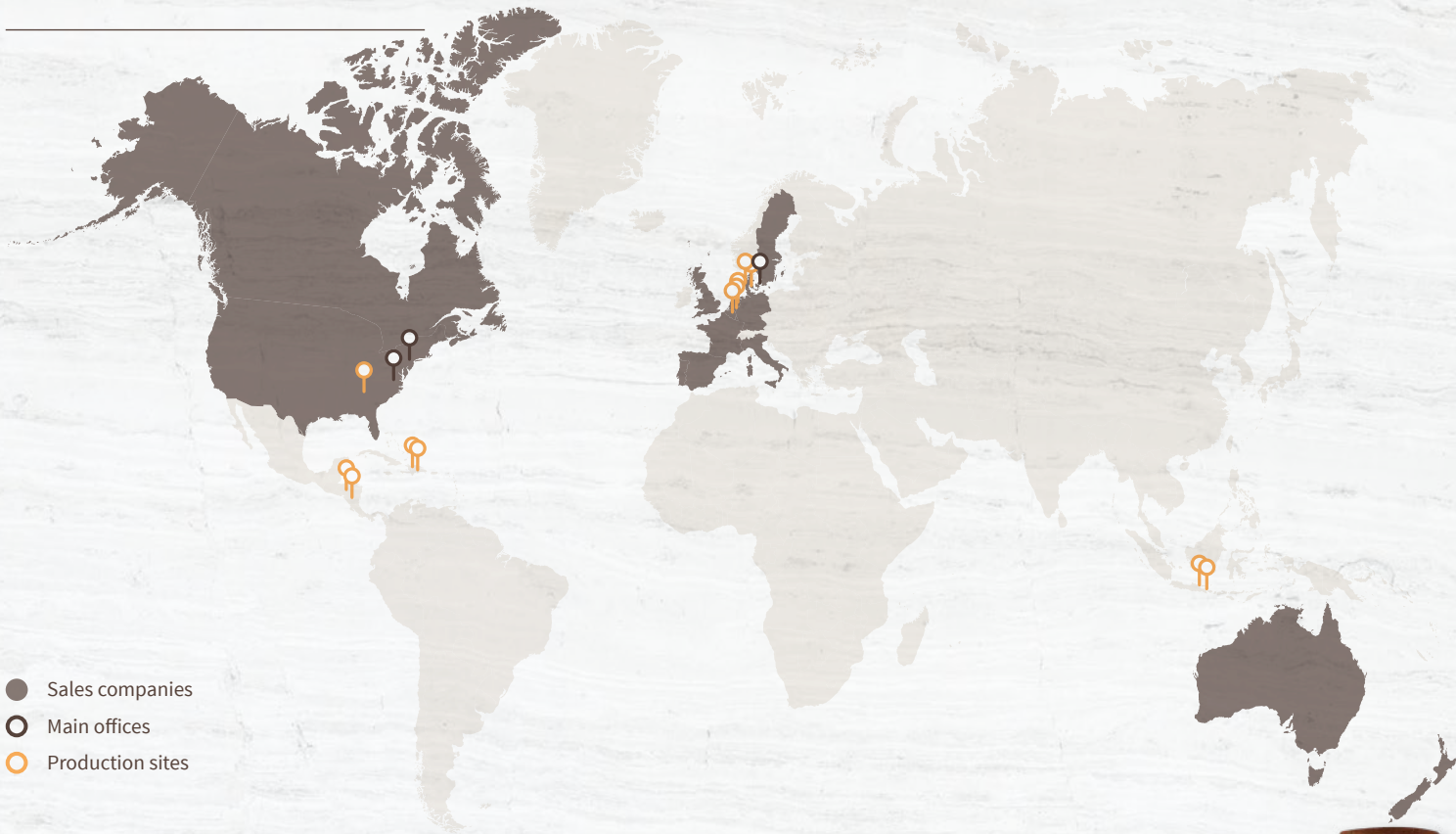
OUR PRESENCE

+200
LEADING BRANDS

14
COUNTRIES WITH SALES COMPANIES

6,900
EMPLOYEES WORLDWIDE

12
PRODUCTION SITES



KEY EVENTS

2019
JUL

ACQUISITION OF DUNHILL DESIGNS

Pipe tobacco trademarks and designs with premium reputation and positioning were acquired from Dunhill Tobacco Company of London Limited. The acquisition strengthened the Group's offering in the premium pipe tobacco category.

2019
AUG

US RETAIL EXPANSION

The plans for two Cigars International cigar Super-Stores in the Tampa area, Florida were unveiled. The stores are expected to open in 2020.

2019
SEP

ACQUISITION OF ROYAL AGIO CIGARS

In an important step towards the vision of becoming the undisputed global leader in cigars and pipe tobacco, Scandinavian Tobacco Group announced the acquisition of Royal Agio Cigars, a leading European cigar company in a deal with a transaction value of EUR 210 million.

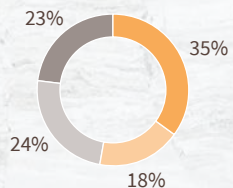
2019
OCT

OPTIMISING PRODUCTION FOOTPRINT

The decision to close Scandinavian Tobacco Group's facilities in Tucker, Georgia in the United States reduces - when implemented - the Group's number of production sites to 10.

NET SALES PER DIVISION

(DKK million)



● North America Online & Retail	2,398
● North America Branded	1,219
● Region Machine-Made Cigars	1,653
● Region Smoking Tobacco & Accessories	1,601



PERFORMANCE 2019

EXECUTING ON THE STRATEGY



STRONG RESULTS

We delivered a 7.1% organic EBITDA growth and free cash flow before acquisitions of DKK 1,187 million. The Board of Directors proposes an ordinary dividend of DKK 6.10 per share which is an increase of 1.7% compared to 2018, to be accompanied by an intended share buy-back program.

7.1%

Organic EBITDA growth

CONTINUOUS TRANSFORMATION

In 2019, we saw accelerated implementation of Fuelling the Growth, and with a new organisational structure and operating model we are well under way with a modernisation of our Group into a more agile and effective global organisation.

DKKm 250

Net cost savings by the end of 2021

THE INTEGRATOR OF OUR INDUSTRY

In a deal with a transaction value of EUR 210 million, we announced the acquisition of Royal Agio Cigars, a leading European cigar company, and took an important step towards our vision of becoming the undisputed global leader in cigars and pipe tobacco.

EURm 210

The transaction value of the deal to acquire Royal Agio Cigars

OPTIMISING FOOTPRINT

Since the foundation of our Group we have continuously been optimising our production footprint to adjust to declining markets. With the announced closure of our facility in Georgia, US we have since 2016 reduced our production footprint from 14 to 10.

4

Production facilities announced closed since 2016

COMMERCIAL PUSH

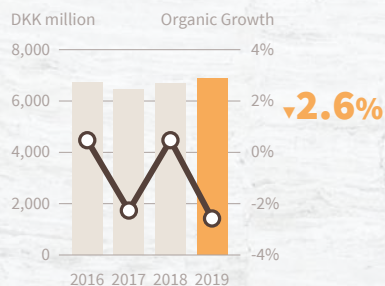
Substantial strides were made in the execution of commercial initiatives. In the important machine-made cigar market France, a turnaround delivered strong results, and Thompson Cigar was successfully integrated into the North American Online & Retail Division.

>30%

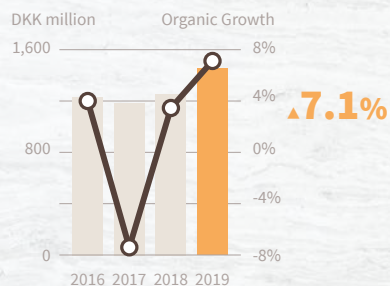
Market share in France of the machine-made cigar market

FINANCIAL FIGURES

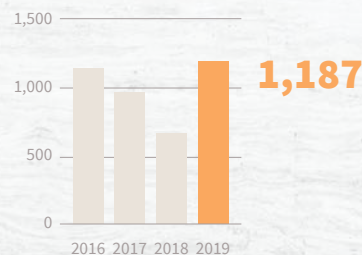
NET SALES



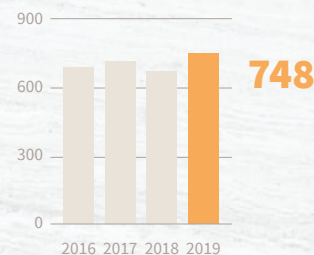
EBITDA BEFORE SPECIAL ITEMS



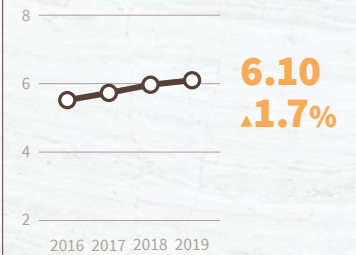
FREE CASH FLOW BEFORE ACQUISITIONS (DKK million)



NET PROFIT (DKK million)



PROPOSED ORDINARY DIVIDEND (DKK per share)



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MANAGEMENT REPORT

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Number 1 in traditional pipe tobacco globally

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.



Number 1 in online retail of cigars in the US

Number 1 in handmade cigars in the US



Number 1 in fine-cut tobacco in the US and Denmark





FIVE YEAR SUMMARY¹

DKK million	2019	2018	2017	2016	2015
INCOME STATEMENT					
Net sales	6,870	6,718	6,464	6,746	6,732
Gross profit before special items	3,314	3,219	3,134	3,314	3,282
EBITDA before special items	1,513	1,304	1,283	1,440	1,385
Special items	-133	-266	-69	-200	-151
EBIT	977	738	913	957	941
Net financial items	-45	-37	-77	-72	-67
Profit before tax	949	717	852	895	884
Income taxes	-201	-51	-140	-213	-216
Net profit	748	666	712	681	668
BALANCE SHEET					
Total assets	13,872	13,403	12,990	14,264	14,544
Equity	9,103	8,818	8,448	9,273	8,998
Net interest-bearing debt (NIBD)	2,330	2,585	2,247	2,469	3,011
Investment in property, plant and equipment	94	110	54	190	210
Total capital expenditures	122	125	109	235	236
CASH FLOW STATEMENT					
Cash flow from operating activities	1,300	784	1,049	1,358	1,285
Cash flow from investing activities	-50	-511	-94	-219	-229
Free cash flow	1,250	274	955	1,139	1,057
Free cash flow before acquisitions	1,187	668	963	1,139	1,057

DKK million	2019	2018	2017	2016	2015
KEY RATIOS, CONTINUED					
Net sales growth	2.3%	3.9%	-4.2%	0.2%	9.9%
Gross margin before special items	48.2%	47.9%	48.5%	49.1%	48.7%
EBITDA margin before special items	22.0%	19.4%	19.9%	21.4%	20.5%
Effective tax percentage	21.2%	7.2%	16.4%	23.8%	24.5%
Equity ratio	65.6%	65.8%	65.0%	65.0%	61.9%
Cash conversion	118.6%	88.2%	110.2%	122.4%	119.0%
Organic net sales growth	-2.6%	0.4%	-2.2%	0.4%	0.3%
Organic EBITDA growth	7.1%	3.5%	-7.4%	4.0%	2.2%
NIBD / EBITDA before special items	1.5	2.0	1.8	1.7	2.2
ROIC	8.2%	6.4%	7.9%	7.8%	7.4%
ROIC ex. goodwill	13.5%	10.4%	12.7%	12.2%	11.5%
Basic earnings per share (DKK)	7.5	6.7	7.1	6.8	6.7
Diluted earnings per share (DKK)	7.5	6.7	7.1	6.8	6.7
Number of shares issued ('000)	100,000	100,000	100,000	100,000	100,000
Number of treasury shares ('000)	316	367	367	412	-
Share price at year-end (DKK)	81.25	78.45	120.0	118.9	-
Dividend per share (DKK)	6.1	6.0	9.3	5.5	14.0
Pay-out ratio	81.6%	90.2%	130.0%	80.7%	209.7%

1. See definition/explanation of financial ratios in note 5.8. The years 2015-2018 are not adjusted in relation to IFRS16.

LETTER FROM CHAIRMAN AND CEO

FIT FOR THE FUTURE

2019 was yet another transformative year. We accelerated the modernisation of our company, announced the biggest acquisition in the history of our Group and announced further reductions in our manufacturing footprint.

One of many changes in 2019 in Scandinavian Tobacco Group was our reporting structure. We have aligned it with the new divisional structure of the Group and for the first time we are announcing full-year results in the four divisions: North America Online & Retail, North America Branded, Region Machine-Made Cigars and Region Smoking Tobacco & Accessories.

Across the four divisions, the financial performance for 2019 was strong. We delivered a 7.1% organic EBITDA growth while generating a strong free cash flow before acquisitions of DKK 1,187 million. Despite the disappointing development in net sales caused by a soft year for the handmade cigar category in the US, we were still able to revise our financial guidance on cash flow upwards towards the end of the year.

The strong cash flow performance was based on improving operating margins, a disciplined approach to net working capital management across our business and is a testament to the strength of the underlying business of Scandinavian Tobacco Group. The strong cash flow allows us to propose a dividend payment of DKK 6.10 per share to our shareholders and initiate a share buy-back program of a total value of up to DKK 300 million.

STEADY TRANSFORMATION

Since the announcement of the transformational program Fuelling the Growth in 2018, we have worked hard to modernise and change our Group from a complex and decentralized entity towards a more simple, agile and effective global organisation. In 2019, we saw accelerated implementation and good progress on several initiatives resulting in improved operational performance, increased cost efficiency and faster than expected net savings. Specifically, we successfully implemented a new divisional structure, initiated a solid turnaround in the important machine-made cigar market in France and conducted a business analysis of the Group's North America online business.

Fuelling the Growth is embedded in all aspects of our business. With a new operating model ensuring improved competitiveness and a persistent focus on efficiency, costs and cash, the program is a key component in the execution of our strategy and in the future value creation for Scandinavian Tobacco Group.

GAME-CHANGING ACQUISITION

In 2019, we saw progress in all aspects of our strategy: We improved our operational performance, expanded into new markets and increased efficiency. And we took an important step in shaping the future Scandinavian Tobacco Group by announcing the biggest acquisition in recent history of the Group; that of Royal Agio Cigars. The acquisition was closed on 2 January 2020.

Royal Agio Cigars is a successful and well-established cigar company and - with complementary brands and

We have worked hard to modernise and change our Group towards a more simple, agile organisation.

a strong geographic fit - a great strategic match. From a position of strength, the acquisition enables us to build a leading company in our industry with the size required to grow, the tobacco know-how to innovate and the portfolio to serve our consumers with the industry's most attractive brands.

INVESTING IN THE BUSINESS

During the year, we started several initiatives to raise our capabilities within IT and digitalisation, key areas for long-term success. Data management and ERP platforms are key to make us more efficient and the ongoing strategic upgrade of the commercial online platforms in the US will strengthen our offering to consumers in this important area. These investments in skills and expertise are to continue in the coming years in our effort to strengthen our global IT capabilities and to ensure that we have the right digital platforms in place for future growth.

CONTINUED AGILITY

With declining markets and increasing regulation being

constants in our industry, we are obligated to demonstrate agility. Looking ahead to 2020, we will continue to adapt our business to the tough market conditions and demonstrate cost discipline while transforming and modernising our Group to become better equipped to execute on the strategy and achieve our vision of becoming the undisputed global leader in cigars and pipe tobacco.

Based on the successful improvements to the core business in 2019 and the acquisition of Royal Agio Cigars, the Group is in a strong position to grow and create further value for our shareholders in 2020.

We would like to thank our customers, business partners as well as our shareholders and especially our employees for their contribution in 2019 and for their efforts in making it another successful year for Scandinavian Tobacco Group.



Niels Frederiksen
President
and CEO



Nigel Northridge
Chairman of the
Board of Directors



INVESTMENT CASE

EBITDA GROWTH

Since 2015 we have delivered an average annual organic EBITDA growth of 1.9%. Our ambition is to deliver an average annual organic EBITDA growth of 3-5%.

ORGANIC EBITDA GROWTH

▲ **1.9%**

2015-2019
average

STABLE CASH FLOW

For the past five years, we have delivered an average annual free cash flow before acquisitions of DKK 1,003 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.

FREE CASH FLOW BEFORE ACQUISITIONS

1,003

DKKm,
2015-2019
average

STRONG CASH DISTRIBUTION

Including a proposed ordinary dividend for 2019 of DKK 6.10 per share, we have since the IPO in February 2016, paid out DKK 32 per share in ordinary and extraordinary dividends.

This corresponds to DKK 3.2 billion.

ORDINARY DIVIDEND GROWTH

▲ **5.1%**

2016-2019
CAGR

OUR STRATEGY

Our strategy is built on a 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.

SIMPLIFY

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

GLOBALISE

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

EMPOWER

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

2019 DEVELOPMENT ON MUST WIN BATTLES

1

WIN IN MACHINE-MADE CIGAR

Increase market share and optimise and manage prices effectively

2019 developments

A turnaround in the important French market was initiated with a brand launch in the growing value for money segment as a key driver. Also, top brands Café Crème and Captain Black made a re-entry into the Turkish market, and general portfolio simplification continued.

4

LEAD PERFORMANCE TO THE NEXT LEVEL

Improve efficiencies by developing leaner, faster and more agile operations

2019 developments

Implementation of Lean across all the Group's production facilities was completed with roll-out at the Indonesian operations. Simultaneously, the acceleration of Lean efforts resulted in productivity improvements across production facilities.

2

ACCELERATE NORTH AMERICA

Accelerate growth and improve efficiency across our business in North America

2019 developments

Cigars International's retail expansion continued and plans for two new cigar superstores in Florida were disclosed. Also, the integration of Thompson Cigar - acquired in 2018 - was successfully completed, while a business analysis of the full online sales platforms was initiated.

5

ENABLE A WINNING ORGANISATION

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

2019 developments

A new organisational structure and operating model was implemented across the global organisation. Also, a new global IT system supporting standardisation and harmonisation of HR processes globally was rolled out.

3

DRIVE M&A

Develop and execute M&A strategy to strengthen our position

2019 developments

The acquisition of Royal Agio Cigars represents the biggest acquisition in recent history of the Group, while the acquisition of pipe tobacco trademarks and designs from Dunhill Tobacco Company of London Limited reinforced the Group's position in the premium pipe tobacco category.

6

RAISE IT CAPABILITIES

Bring IT to the next level to fully support the business

2019 developments

The project of transforming and harmonising ERP platforms was initiated. So were the first steps in a Group-wide data management process aiming to standardise all Group data and increase data transparency.

STRATEGY

FUELLING THE GROWTH

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

The implementation of Fuelling the Growth accelerated in 2019 on several initiatives resulting in improved operational performance, increased cost efficiency and faster than expected net savings.

Focusing on commercial initiatives, cost reduction and cash flow improvement, Fuelling the Growth is integral to all aspects of the business. With a new organisation and operating model improving competitiveness and with a persistent focus on efficiency and costs, the program is a key component in the execution of the

strategy – and for future value creation at Scandinavian Tobacco Group.

The program supports the financial ambition of an 3-5% annual average organic EBITDA growth. The operational efforts are organised under five overall initiatives: organisation, commercial resources, global logistics, global procurement and operational cost efficiency.

Fuelling the Growth creates shareholder value by ensuring strong competitiveness, strengthening earnings and dividend capabilities while simultaneously providing the possibility to participate in market consolidation.



FINANCIAL IMPACT

SPECIAL ITEMS

Special items from Fuelling the Growth remain front-loaded and will incur costs (special items) up to a level of DKK 250 million. Special items in 2019 were DKK 32 million with special items totalling DKK 214 million for 2018-2019.

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 front-loaded in the period 2019-2022 and have been realised faster than originally expected with more than a third realised in 2019.

KEY OPERATIONAL INITIATIVES IN 2019



ORGANISATION

New organisational structure and operating model implemented



COMMERCIAL RESOURCES

Turnaround in France and strategy review of the Group's North America online platforms



GLOBAL LOGISTICS

Consolidation of logistics set-up in EU and North America



GLOBAL PROCUREMENT

Review of the majority of Group spending and reduction in number of suppliers



OPERATIONAL COST EFFICIENCY

Further optimisation of production footprint and Lean roll-out to all facilities

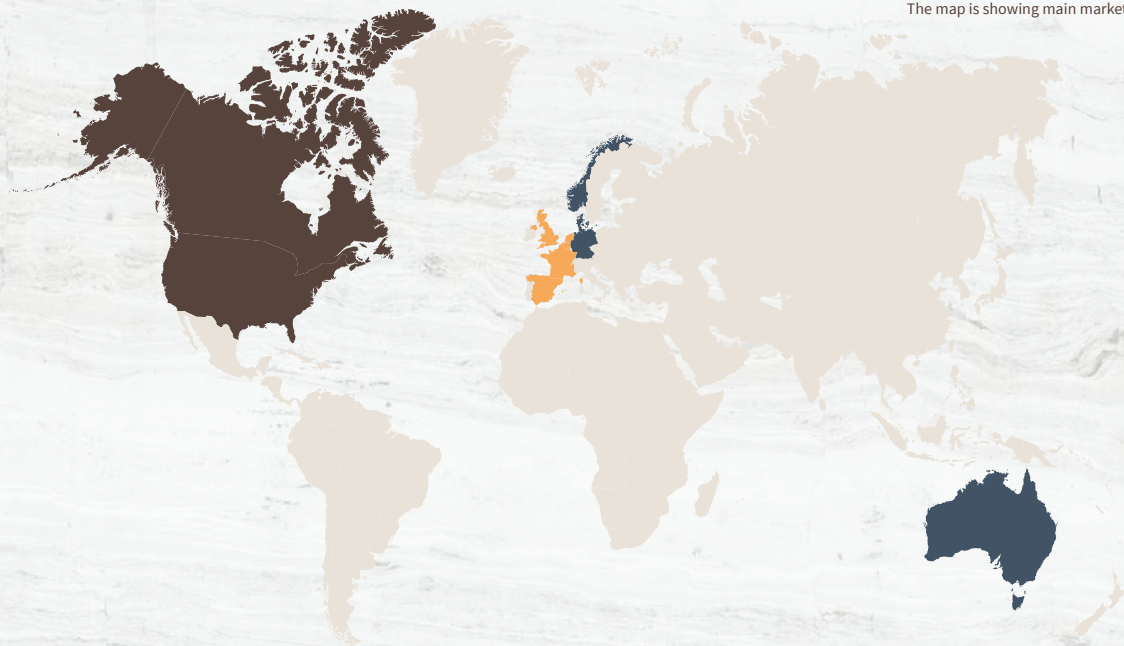


The map is showing main markets

OUR BUSINESS

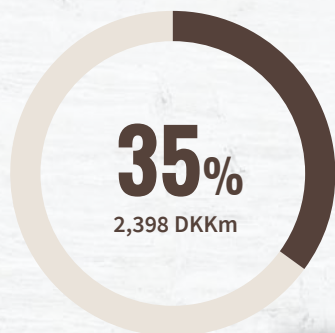
THE FOUR DIVISIONS

The Group's external reporting structure was revised as of 1 January 2019 and is now presented at divisional level rather than category level.



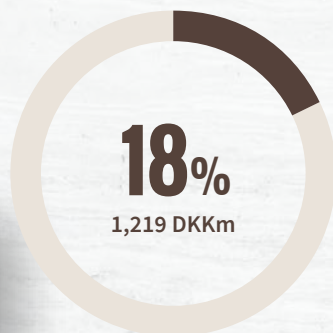
NORTH AMERICA ONLINE & RETAIL

SHARE OF GROUP
NET SALES



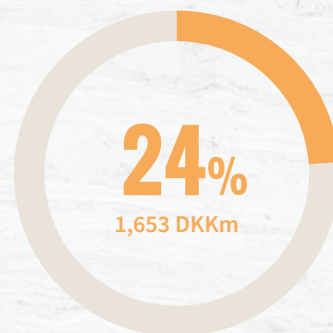
NORTH AMERICA BRANDED

SHARE OF GROUP
NET SALES



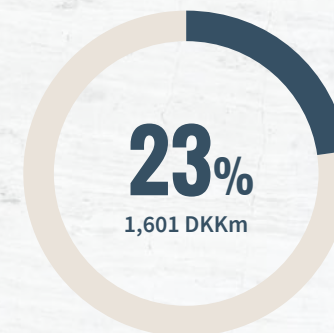
REGION MACHINE-MADE CIGARS

SHARE OF GROUP
NET SALES



REGION SMOKING TOBACCO & ACCESSORIES

SHARE OF GROUP
NET SALES



THE FOUR DIVISIONS

NORTH AMERICA ONLINE & RETAIL

North America Online & Retail includes direct to consumer sales of all product categories sold via the online, catalogue and retail channel in North America.

The largest product category in the division is handmade cigars with more than 80% of net sales.

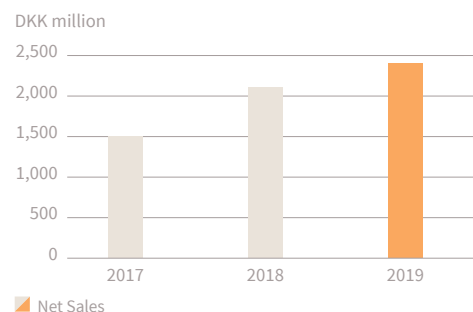
Volume development for handmade cigars in the division is driven by consumer sale which in return is driven by the total market development and our market share performance. The total market for handmade cigars is estimated to be declining by 1% per year.

During 2019, the North America Online & Retail Division completed the integration of Thompson Cigar and continued the retail expansion with roll-out of brick-and-mortar cigar superstores. Plans for two new locations in Florida were disclosed with planned opening during 2020.

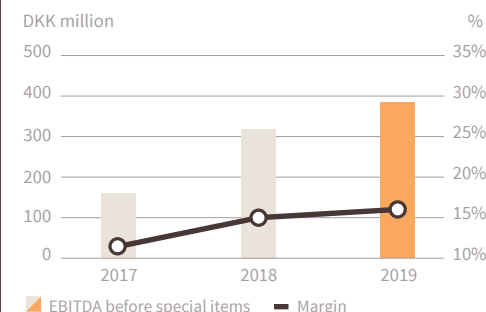
Net sales were DKK 2,398 million (DKK 2,111 million) with an organic growth of 0.5%. The product category handmade cigars delivered a -0.1% organic growth driven by a positive volume impact being offset by a negative price/mix impact. The negative price/mix impact was driven by a higher proportion of small sized cigars and increased promotional activity in the market.

Gross profit before special items was DKK 903 million (DKK 793 million) with a gross margin before special items of 37.7% (37.5%). EBITDA before special items was DKK 384 million (DKK 310 million) with an EBITDA-margin before special items of 16.0% (14.7%). The margin was driven by efficiency improvements and a 0.8% point impact from IFRS 16.

NET SALES



EBITDA BEFORE SPECIAL ITEMS



DIVISIONAL NET SALES BY PRODUCT CATEGORY, 2019

North America



MACHINE-MADE CIGARS

6%



SMOKING TOBACCO

3%



HANDMADE CIGARS

84%



ACCESSORIES & CMA

7%



DKK million	2019	2018
Net sales	2,398	2,111
Gross profit before special items	903	793
EBITDA before special items	384	310
Net sales growth	13.6%	40.7%
Organic net sales growth	0.5%	6.3%
Gross margin before special items	37.7%	37.5%
EBITDA margin before special items	16.0%	14.7%

THE FOUR DIVISIONS

NORTH AMERICA BRANDED

North America Branded includes sales of all product categories to wholesalers and distributors that supply retail in North America.

The largest product category in the North America Branded division is handmade cigars with almost half of net sales. The handmade cigar volume development in the division is primarily driven by the sell-in to the online distribution channel and the brick-and-mortar trade.

During 2019, weather conditions and lower online volumes impacted the market for handmade cigars in the US. The impact has been more profound than originally expected and continued throughout the year.

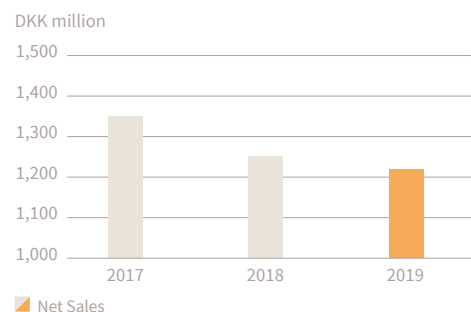
Net sales were DKK 1,219 million (DKK 1,247 million) with an organic growth of -6.3%. The product category handmade cigars delivered a 5.6% negative organic growth as a result of a substantial negative volume impact, only partly compensated by a positive price/mix impact.

Volumes were negatively impacted by an inventory rebalancing in parts of the online distribution channel, whereas the price/mix impact was driven by price increases and repositioning to the premium segment. Machine-made cigars was temporarily impacted negatively by the introduction of plain packaging in Canada. Smoking tobacco in the US experienced higher volume declines than expected.

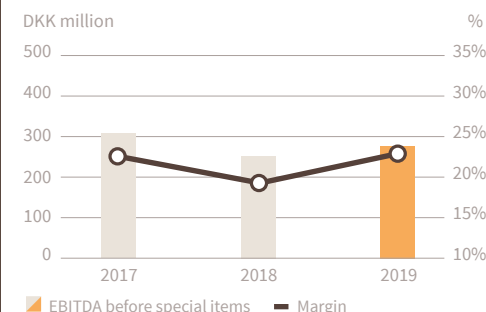
Gross profit before special items decreased to DKK 689 million (DKK 712 million) driven by the decrease in volumes. The gross margin before special items decreased to 56.6% (57.1%) driven by both lower volumes and mix changes.

EBITDA before special items increased to DKK 277 million (DKK 242 million) with an EBITDA margin before special items of 22.7% (19.4%). The improvement in the margin was driven by a 1.9% point positive impact from IFRS 16 and the positive impacts from Fuelling the Growth efficiency improvements.

NET SALES



EBITDA BEFORE SPECIAL ITEMS



DIVISIONAL NET SALES BY PRODUCT CATEGORY, 2019

North America



MACHINE-MADE CIGARS

27%



SMOKING TOBACCO

19%



HANDMADE CIGARS

42%



ACCESSORIES & CMA

11%



DKK million	2019	2018
Net sales	1,219	1,247
Gross profit before special items	689	712
EBITDA before special items	277	242
Net sales growth	-2.3%	-7.5%
Organic net sales growth	-6.3%	-1.2%
Gross margin before special items	56.6%	57.1%
EBITDA margin before special items	22.7%	19.4%

THE FOUR DIVISIONS

REGION MACHINE-MADE CIGARS

Region Machine-Made Cigars includes sales of all product categories to wholesalers and distributors that supply retail.

Machine-made cigars account for about 80% of divisional net sales and the majority of net sales in main markets like France, Belgium, the UK, Spain and the Netherlands.

During 2019, machine-made cigars in our top 5 European markets (France, Belgium, The Netherlands, the UK and Spain) displayed a 3% decline while the Group's combined market share in these markets was stable compared to the year before.

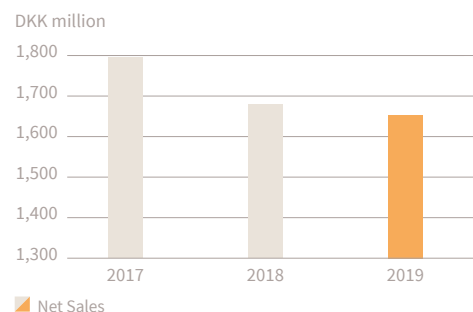
In France, a turn around was initiated with the launch of Gold in the growing value for money segment as a key driver while general portfolio simplification continued across markets.

The negative organic growth in net sales for the division improved versus 2018 as the key markets for machine-made cigars stabilised. The organic net sales growth for the division was negative by 2.0% with the product category machine-made cigars delivering negative organic growth of 2.5%. In France, machine-made cigars delivered positive organic growth in net sales while Belgium, the Netherlands and Spain delivered negative organic growth.

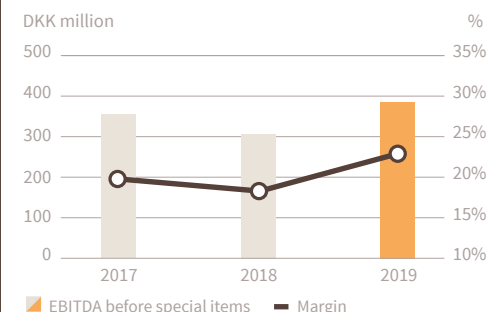
Net sales were DKK 1,653 million (DKK 1,682 million). Gross profit before special items was DKK 860 million

(DKK 832 million) and the gross margin was 52.0% (49.5%). The margin improvement was driven by an about DKK 25 million benefit from a one time impact related to excise tax. EBITDA before special items was DKK 385 million (DKK 304 million) with an EBITDA margin of 23.3% (18.0%). The EBITDA margin improvement was driven by the positive development in the gross margin, operating expenses and a 1.7% point positive impact from IFRS 16.

NET SALES



EBITDA BEFORE SPECIAL ITEMS



DIVISIONAL NET SALES BY PRODUCT CATEGORY, 2019
France, Belgium, the UK, Spain, the Netherlands and others



MACHINE-MADE CIGARS

79%



SMOKING TOBACCO

8%



HANDMADE CIGARS

2%



ACCESSORIES & CMA

11%



DKK million	2019	2018
Net sales	1,653	1,682
Gross profit before special items	860	832
EBITDA before special items	385	304
Net sales growth	-1.7%	-6.4%
Organic net sales growth	-2.0%	-6.4%
Gross margin before special items	52.0%	49.5%
EBITDA margin before special items	23.3%	18.0%

THE FOUR DIVISIONS

REGION SMOKING TOBACCO & ACCESSORIES

Region Smoking Tobacco & Accessories includes sales of all product categories to wholesalers and distributors that supply retail.

The main markets for the division are Australia, Germany, Denmark and Norway with machine-made cigars and smoking tobacco each accounting for about one third of the divisional net sales.

During 2019, Scandinavian Tobacco Group divested its sales companies in Slovenia and Croatia with annual net sales of about DKK 85 million and a range of pipe tobacco trademarks and designs were acquired from Dunhill Tobacco Company of London Limited to strengthen the Group's range in the premium pipe tobacco segment.

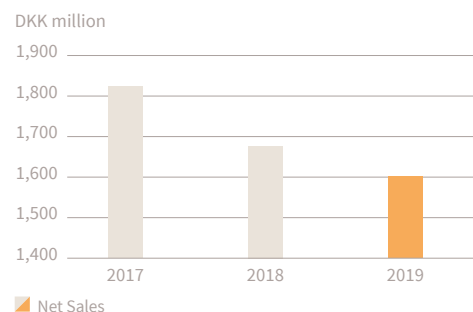
The organic net sales growth was negative despite a positive price/mix impact. The negative organic growth in net sales was primarily driven by machine-made cigars with smoking tobacco delivering positive growth. Machine-made cigar volumes were impacted by lower shipments to the Middle East and Russia.

Net sales were DKK 1,601 million (DKK 1,677 million) with an organic growth of -4.4%.

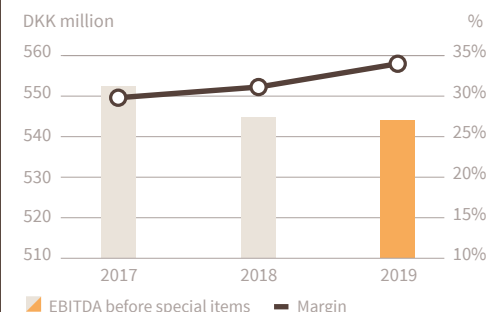
Gross profit before special items was DKK 861 million (DKK 882 million) with a gross margin before special items of 53.8% (52.6%).

The margin improvement was driven by a positive price/mix. EBITDA before special items was DKK 544 million (DKK 545 million) with an EBITDA-margin before special items of 34.0% (32.5%). The increase in the EBITDA margin is explained by the improved gross margin before special items, operating expenses and a 0.6% point positive impact of IFRS 16.

NET SALES



EBITDA BEFORE SPECIAL ITEMS



DIVISIONAL NET SALES BY PRODUCT CATEGORY, 2019

Australia, Germany, Denmark, Norway and others



DKK million	2019	2018
Net sales	1,601	1,677
Gross profit before special items	861	882
EBITDA before special items	544	545
Net sales growth	-4.5%	-7.7%
Organic net sales growth	-4.4%	1.9%
Gross margin before special items	53.8%	52.6%
EBITDA margin before special items	34.0%	32.5%



GROUP FINANCIAL REVIEW

FINANCIAL HIGHLIGHTS

NET SALES

Net sales increased by 2.3% to DKK 6,870 million (DKK 6,718 million) driven by positive exchange rate developments of 2.9%, the full-year consolidation of Thompson Cigars and a negative organic growth of 2.6%. Organic net sales were negatively impacted by volume developments across most divisions. Americas remained our largest market and grew its share of Group net sales to 54%. Europe and the rest of the world account for 38% and 8% respectively.

GROSS PROFIT

Gross profit before special items increased by 2.9% to DKK 3,314 million (DKK 3,219 million). The increase was driven by North America Online & Retail, Region Machine-Made Cigars and positive exchange rate developments. North America Branded and Region Smoking Tobacco affected gross profit negatively. Gross profit was positively impacted by an about DKK 25 million benefit from a one time impact related to excise tax. Gross margin before special items increased by 0.3% points to 48.2% (47.9%) driven by all divisions with the exception of North America Branded.

OPERATING EXPENSES (OPEX)

OPEX before special items decreased by 5.7% to DKK 1,807 million (DKK 1,915 million) due to improved cost efficiency across our operations. Organic OPEX decreased by 6.1% to DKK 1,757 million (DKK 1,871 million).

DKK million	2019	2018	Change in %
Net Sales			
Reported net sales	6,870	6,718	2.3
Acquisitions		137	
Effect from currency development	-191		
Organic net sales	6,679	6,855	-2.6
Gross Profit			
Gross profit before special items	3,314	3,219	2.9
Acquisitions		49	
Effect from currency development	-66		
Organic gross profit	3,248	3,268	-0.6
OPEX			
OPEX before special items	1,807	1,915	-5.7
Acquisitions		41	
Effect from currency development	-50		
IFRS 16		-85	
Organic OPEX	1,757	1,871	-6.1

EBITDA

EBITDA before special items increased by 16.0% to DKK 1,513 million (DKK 1,304 million) while organic EBITDA grew by 7.1% driven by the reduction in organic OPEX. The EBITDA margin before special items increased to 22.0% (19.4%) due to efficiency improvements across all divisions and a positive impact from IFRS 16 of 1.3% points.

DKK million	2019	2018	Change In %
EBITDA before special items	1,513	1,304	16.0
Acquisitions		8	
Effect from currency development	-16		
IFRS 16		85	
Organic EBITDA	1,497	1,397	7.1

SPECIAL ITEMS

Special items was DKK -133 million (DKK -266 million) and relate to costs for Fuelling the Growth of DKK 32 million, costs for the closure of a facility in the US of DKK 106 million (whereof DKK 101 million is non-cash impairment costs), transaction costs of DKK 20 million in relation to the acquisition of Royal Agio Cigars, integration and transaction costs of DKK 22 million related to Thompson Cigars and an income of DKK 47 million relating to the divestment of a licence agreement.

Costs related to Fuelling the Growth in 2019 were lower than originally expected. 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	2019	2018
Integration and transactions costs (Thompson Cigar)	22	33
Transactions costs (Royal Agio Cigars)	20	
Fuelling the Growth program	32	182
Divestment of licence agreement	-47	
Manufacturing footprint, factory close-down	5	
Impairment intangible assets	9	40
Impairment tangible assets	92	10
Total special items, net costs	133	266

GROUP FINANCIAL REVIEW

FINANCIAL HIGHLIGHTS

EBIT

EBIT increased by 32.5% to DKK 977 million (DKK 738 million) and was positively impacted by the increase in EBITDA before special items and lower special items compared to 2018.

TAX AND NET PROFIT

Income taxes were DKK 201 million (DKK 51 million). The effective tax rate was 21.2% (7.2%) – an increase of 14% points from last year's rate – due to normalisation of the effective tax rate compared to 2018 where the tax rate reduction in the Netherlands contributed positively.

Net profit increased by 12.3% to DKK 748 million (DKK 666 million). Basic earnings per share increased by 12.3% to DKK 7.5 (DKK 6.7).

Earnings per share adjusted for special items decreased by 1.9% to DKK 8.5 (DKK 8.7) as a result of the increase in the effective tax rate.

BALANCE SHEET

Total assets were DKK 13,872 million (DKK 13,403 million). Net working capital decreased by 3.0% to DKK 2,640 million (DKK 2,721 million) due to reduction of inventories and trade receivables.

CASH FLOW

Cash flow from operating activities increased to DKK 1,300 million (DKK 784 million) driven by the development in operations and a positive change in working capital of DKK 101 million in 2019 versus a negative change in 2018 of DKK 101 million. Working capital was impacted by a positive impact from receivables in 2019, whereas 2018 was negatively impacted by the exit from the agreement of selling trade receivables. Further, a positive impact from inventories combined with a less negative impact from liabilities contributed to the positive impact from working capital in 2019.

Cash flow from investing activities was an outflow of DKK 50 million (outflow of DKK 511 million). CAPEX was DKK 122 million (DKK 125 million), and acquisitions and divestments net contributed with a positive impact of DKK 63 million (negative DKK 394 million).

CASH FLOW

DKK million	2019	2018
EBITDA before special items	1,513	1,304
Fin. items, tax and other adjustments	-314	-418
Cash flow from operations before NWC	1,199	886
Changes in working capital	101	-101
Cash flow from operations	1,300	785
Investments	-50	-511
Free cash flow	1,250	274

Free cash flow increased to DKK 1,250 million (DKK 274 million). Free cash flow before acquisitions was DKK 1,187 million (DKK 668 million).

FINANCING

Net interest-bearing debt (NIBD) decreased to DKK 2,330 million (DKK 2,585 million) driven by the positive cash flow from operations partly offset by dividend payments of DKK 600 million. NIBD/EBITDA before special items ended at 1.5x (2.0x).

DIVIDEND

For the financial year 2019, the Board of Directors proposes a dividend of DKK 6.10 per share corresponding to a total dividend of DKK 610 million and a pay-out ratio of 81.6% (90.2%).

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 have been realised faster than originally expected as more than 1/3 of total net savings has been realised in the 2019 results. The program is still expected to incur total costs (special items) of up to a level of DKK 250 million. DKK 32 million have been expensed in 2019, DKK 214 million in the period 2018-2019 and the remaining up to DKK 36 million are expected to be expensed in 2020-2021.



Across the four divisions, the financial performance for 2019 was strong with 7.1% organic EBITDA growth while generating a strong free cash flow before acquisitions of DKK 1,187 million.



Niels Frederiksen
President
and CEO

Nigel Northridge
Chairman of the Board
of Directors



FINANCIAL AMBITIONS AND 2020 GUIDANCE

FINANCIAL AMBITIONS

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

The Group continuously strives to increase our market share by focusing 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 is dependent on specific market and business developments and the ambitions are supplemented by a detailed annual guidance.

3-5%
ORGANIC
EBITDA GROWTH

2.5x
LEVERAGE TARGET

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 average annual 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 dividends and/or share buybacks 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 distribution, acquisitions or investments. Our capital distributions will always take into account potential acquisitions and other liquidity needs.



FINANCIAL AMBITIONS AND 2020 GUIDANCE

2020 GUIDANCE

This financial guidance excludes the financial impact from the acquisition of Royal Agio Cigars, which was acquired 2 January 2020. An updated guidance for Scandinavian Tobacco Group is expected to be disclosed, when the integration planning period has been finalized and the financial details of the acquisition have been disclosed.

EBITDA

We expect to generate organic EBITDA growth of at least 3%. We expect the progress as a result of higher gross margins as well as improved operational cost efficiency and savings driven by the Fuelling the Growth program.

FREE CASH FLOW

Based on the projected earnings growth, we expect the Group's free cash flow before acquisitions to exceed DKK 850 million.

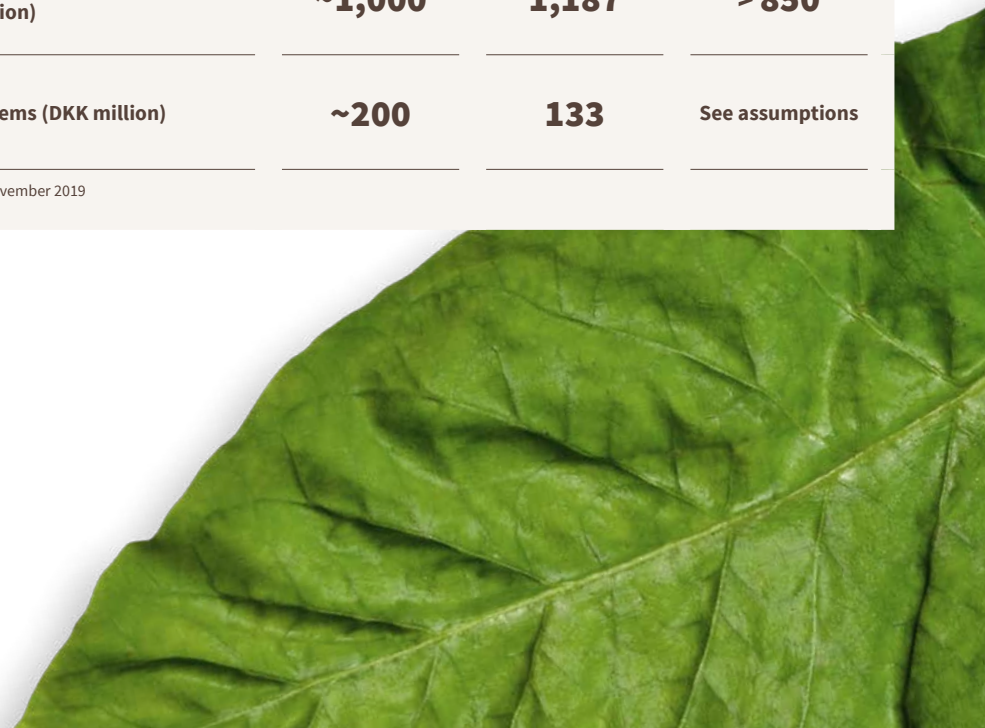
ASSUMPTIONS

- Organic growth in net sales is expected to be flat to slightly increasing assuming the handmade cigar market in North America normalises.
- Special items are expected to be approximately DKK 55 million related to Fuelling the Growth and closing of our facilities in Tucker, Georgia.
- Financial expenses, excluding currency losses or gains, are expected at DKK 75 - 85 million.
- The effective tax rate is expected to be in the range of 21 - 22%.
- Working capital is expected to deliver no contribution and capital expenditure is expected at DKK 275 million.
- 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% points and EBITDA by almost 2.0% points.
- 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.

	2019 GUIDANCE ¹	2019 REALISED	2020 GUIDANCE excl. Royal Agio
Organic EBITDA growth	>5%	7.1%	≥ 3%
Free cash flow before acquisitions (DKK million)	~1,000	1,187	> 850
Special items (DKK million)	~200	133	See assumptions

1. As of 14 November 2019





REGULATION

Tobacco products are subject to extensive regulation. The tobacco products themselves, as well as the labelling, packaging, marketing, display, sale and consumption of tobacco products are generally regulated.

In many markets operators in the manufacturing and sale of tobacco products have an obligation to file with the authorities information on their products and ingredients as well as available research related to the health aspects of these. Scandinavian Tobacco Group expects the development with increasing regulation to continue.

We monitor the regulatory developments, and via national and international trade associations we engage with stakeholders to support evidence-based and reasonable regulation, that takes into account the different characteristics of the various tobacco

product categories; it is not always a one-size-fits-all approach that leads to the best regulation. Regulation offers risks as well as opportunities for Scandinavian Tobacco Group as it adds complexity and costs, which means that scale and agility are important. We believe we have both.



REGULATORY DEVELOPMENTS IN THE US

In the US, the FDA has the regulatory responsibility for tobacco products, including cigars and pipe tobacco. The regulation of tobacco products, including cigars and pipe tobacco, which was first introduced in 2016, is complex, and it often requires essential additional FDA guidance and involves great uncertainty in terms of the specific requirements as well as timing.

The FDA has in recent years issued draft rules and guidance documents covering several topics and asked for comments on these, including flavoured tobacco products and reduction of nicotine in tobacco products to minimal/non-addictive levels. A final guidance issued early 2020 removes all flavoured e-cigarettes other than tobacco- and menthol-flavoured e-cigarettes from the US market, while flavoured cigars, which were included in the original document, were not affected.

However, flavoured cigars could still be regulated. Flavoured cigars sold in the US only make up a low single-digit percentage of Scandinavian Tobacco Group's net sales and profit.

In December 2019, an amendment to US federal regulation made it illegal for a retailer to sell any tobacco product to anyone under 21 (it used to be 18 years). Scandinavian Tobacco Group does not expect its sales to be noticeably affected due to its products' mature consumer profile.

A US Supreme Court decision in 2018 allowed states to require remote sellers to collect and remit sales tax. Thus, also online sales of tobacco products have gradually in 2018-2019 been subject to a requirement by US states that the seller collects the sales tax applicable in the state where the customer is residing. As a result of the Supreme Court decision on state sales tax, some states have enacted regulation to have out-of-state retailers collect and remit state excise tax on tobacco products.

REGULATORY DEVELOPMENTS IN EUROPE

In the EU the so-called Tobacco Products Directive sets the framework for most regulation of tobacco products. One element introduced with the most recent version of the directive was a regime for the tracking of each individual consumer package containing tobacco on its route from the manufacturer/importer to the last stop before the retailer. This "track-and-trace" regime is quite burdensome for manufacturers, whole-sellers and logistics providers, and requires substantial investments in the manufacturing plants.

The "track-and-trace" regime took effect in May 2019 for cigarettes and fine-cut tobacco and is scheduled to take effect for cigars and pipe tobacco in May 2024. Scandinavian Tobacco Group expects to leverage the extensive experience gathered in connection with the implementation in its fine-cut tobacco business.

The EU Tobacco Products Directive as well as the EU's Tobacco Excise Directive will undergo a statutory review in 2020 and onwards while the exact timing for completion of the reviews and the effective dates for the potential changes is uncertain. The Tobacco Excise Directive contains definitions of the various tobacco product categories for excise purposes and determines the structure and minimum levels of tobacco excise tax in the EU.

With due consideration of the minimum excise levels and definitions of the EU Tobacco Excise Directive, each EU member state sets its own tobacco excise rates. Increases in excise rates are common, and occasionally the changes impact consumer behavior in the shorter or longer term. In 2019 France implemented the second round of significant excise increases which affected cigars. The first such round happened in 2018 and the next planned excise increase will be in November 2020. After a significant impact on market dynamics in 2018, the increase in 2019 had less impact on consumer behaviour, and we believe we are well positioned to deal with the effects of future excise increases.





CORPORATE MATTERS

RISK MANAGEMENT

Our enterprise risk management is designed to identify and manage uncertainties and risks effecting the Group in the global market place. We seek to identify, prioritise, and manage key risks at all levels of the business to support the Group in better decision making, proper allocation of resources and better and faster utilisation of opportunities that arise.

GOVERNANCE

The responsibility for the governance of risks lies with our Board of Directors. The Audit Committee is appointed by the Board of Directors and on its behalf the Audit Committee monitors the effectiveness of our Group's risk management and evaluates the design annually. The Executive Board manages the operational part of our risk management and our Executive Management ensures proper and complete reporting to the Audit Committee.

Our annual risk assessment for 2019 has been reviewed and discussed with the Audit Committee and subsequently the Board of Directors. The main risk categories identified for 2019 are unchanged from last year and consist of regulatory changes, increasing excise taxes, total market developments and cyber risk. Closely followed by other risks like competitive development. The identified financial risks, including foreign exchange, interest rate, credit and liquidity risks can be found in note 4.2 on page 62-65.

**REGULATION**

The tobacco industry environment is one of continuously increased regulation.

**EXCISE TAXES**

A major component of the retail price of tobacco products is excise tax.

**TOTAL MARKET DEVELOPMENT**

The total tobacco market volumes are declining. Although cigar volumes have shown higher resilience than cigarettes in some of our markets, the markets for machine-made cigars and pipe tobacco are declining.

**CYBER RISK**

We operate in an environment of cyber security threats that are growing in number and sophistication.



CORPORATE MATTERS

RISK MANAGEMENT

**REGULATION**

The tobacco industry environment is one of continuously increased regulation. With regulatory initiatives governments and health officials aim to affect consumer behaviour, discourage use of tobacco products and control new product development. Regulatory initiatives include significant reporting obligations, bans on tobacco product displays, standardised packaging and bans on certain flavourings.

Mitigating actions

We engage with regulators and stakeholders to ensure proper insights and knowledge about our product categories and facilitate reasonable, transparent and balanced regulation. We have dedicated resources to monitoring regulatory initiatives and use significant resources preparing for and implementing new and updated regulations.

Evaluation

Compared to last year our evaluation of this risk shows a slight increase in impact, due to an expected increase in production costs to be compliant with new regulation like track and trace.

**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 and impact the consumer price of our products and negatively impact our sales. Increases and alignments of excise taxes implemented unexpectedly 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 actively participate in relevant industry associations and in collaboration with trade industry partners we engage in dialogue with regulators to limit the risk of market disruption based on excise alignment and change.

Evaluation

With several states in the US considering to implement excise taxes on online sale of tobacco, which was previously exempt from excise, the impact of this risk has increased compared to last year.

**TOTAL MARKET DEVELOPMENT**

The total tobacco market volumes are declining. Although cigar volumes have shown higher resilience than cigarettes in some of our markets, the market for machine-made cigars and pipe tobacco are declining. With presence in over 100 markets around the world, we have a high degree of geographic diversification. 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 spread 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.

Evaluation

Our evaluation of this risk is unchanged from last year. The total market volumes are declining, but with continuous action plans and monitoring we are able to react accordingly.

**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, if our business platforms were unavailable, it would keep us from fulfilling engagements and responsibilities towards customers and employees.

Mitigating actions

Our focus is on implementation of security policies, business continuity management, recovery plans and keeping our defences updated. We monitor and test our cyber resilience and IT enhancements – and we educate our employees in cyber security awareness.

Evaluation

Although we have implemented updates and changes and invested in this area during 2019, we perceive the risk to be at the same level as last year.

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.

In 2019, our Executive Board decided to further strengthen our focus on CSR through a new governance structure and strategy. Our new CSR organisation, approved in September 2019, is overseen by a senior-level Steering Committee, chaired by our Chief

Financial Officer, and is responsible for defining the overall framework and resource allocation for our CSR activities.

We are also currently developing a new CSR Strategy, which we expect to approve in the first half of 2020. This strategy will review and prioritise CSR focus areas for the Group, identify activities within those focus areas, and set the deliverables necessary to measure progress and success. As part of this strategy, we also expect for the first time to formally link the Group's CSR activities to relevant UN Sustainable Development Goals.

Our Code of Conduct is available online on st-group.com/codeofconduct2019.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 2019, which is available at: st-group.com/csreport2019.pdf

▼ **6.4%**

ENERGY CONSUMPTION

In 2019, energy consumption in Group production facilities decreased by 6.4% compared to 2018.

6,000 TREES PLANTED

REFORESTATION

In the Dominican Republic, we have for several years been active in a reforestation initiative. Our employees planted 6,000 trees in 2019.

▼ **13.1%**

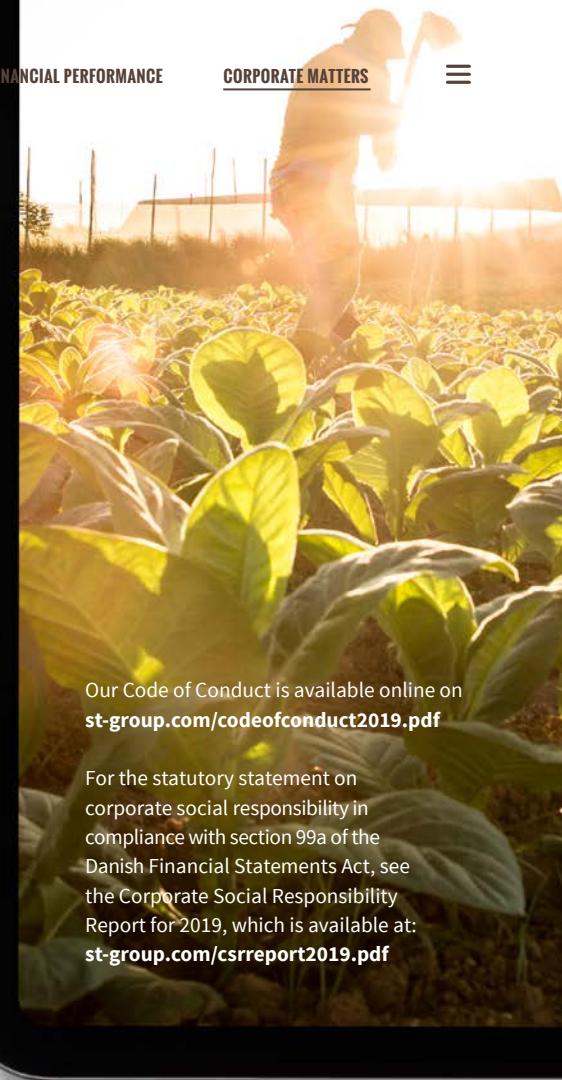
TOBACCO WASTE

The amount of tobacco waste generated in Group production in 2019 decreased by 13.1% compared to 2018. The amount of general waste (non-tobacco) also decreased by 8%.

▼ **19%**

WORK-RELATED ACCIDENTS

In 2019, the number of work-related accidents in our production facilities was 54, down from 67 in 2018, a decrease of 19%. The accident rate (number of accidents per 200,000 hours worked) decreased from 1.01 in 2018 to 0.91 in 2019.



CORPORATE MATTERS

CORPORATE GOVERNANCE

Scandinavian Tobacco Group A/S is incorporated in Denmark under Danish law. The company's shares have been publicly listed on Nasdaq Copenhagen since February 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 at www.st-group.com. In 2019 the Annual General Meeting was held on 10 April, and minutes of the meeting are also available on our website.

As a 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 www.corporategovernance.dk. Reports by companies on corporate governance must be presented in accordance with the 'comply or explain approach' which means that a company may choose 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.

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 Corporate Governance Recommendations.

The overall objective of the remuneration policy is to attract, motivate and retain qualified members of the Board of Directors and Executive Management. The policy aims at aligning the interests of shareholders, Board of Directors and Executive Management and rewards both short-term and long-term contributions and results. The current remuneration policy can be found at www.st-group.com. However, it is currently being reviewed in light of recent changes to the Danish Companies Act.

A detailed description of the main elements of the remuneration of the Board of Directors and the Executive Management and the remuneration paid in the financial year 2019 is included in the Remuneration Report available at www.st-group.com.

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 available at www.st-group.com.



The statutory report on 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 section on Diversity and Inclusion in the 2019 CSR Report at

st-group.com/en/our-company/governance/reports-and-documents

Scandinavian Tobacco Group complies with the Danish recommendations on corporate governance. A detailed overview can be found in Scandinavian Tobacco Group's 2019 Statutory Report on Corporate Governance.

THE REPORT IS AVAILABLE AT

st-group.com/en/our-company



CORPORATE MATTERS

BOARD OF DIRECTORS

NIGEL NORTHRIDGE

CHAIRMAN

★ 1956 ■ Irish

🗓 2019-2020

👤 2016 and was elected Vice-Chairman in 2016 and Chairman in 2017

**HENRIK BRANDT**

VICE-CHAIRMAN

★ 1955 ■ Danish

🗓 2019-2020

👤 2017 and was elected Vice-Chairman

**ANDERS C. OBEL**

★ 1960 ■ Danish

🗓 2019-2020

👤 2018

**EDUCATION**

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

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

BSc in Economics and Business Administration from Copenhagen Business School.

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

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

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

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

- 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

- 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

MANAGEMENT POSITIONS WITH OTHER ENTITIES**Non-Executive Chairman** of Belfast City Airport, **Director of Board** of London Irish Holdings Ltd**Chairman of the board:** Toms Gruppen A/S, Rockwool International A/S (Board committee: Remuneration Committee; Chairman), Fritz Hansen A/S, Intervare A/S (and its subsidiary nemlig.com A/S), Danish Bake Holding ApS (Ole & Steen). **Member of the board:** Ferd Holding as, Norway, Gerda & Victor B. Strands Foundation, Gerda & Victor B. Strand Holding A/S**Chairman of the board:** 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 (Board Committee: Audit Committee; Member, Nomination Committee; Member, Remuneration Committee; Chairman), Anders Christen Obel Aps, Haxholm v/Anders Christen Obel **Vice Chairman of the board:** Fritz Hansen A/S, Skandinavisk Holding A/S, **Member of the board:** Scandinavian Tobacco Group's Gavefond, Erhvervsinvest Management A/S, Minkpapir A/S, PAL-CUT A/S, C.W. Obels Fond, Danmark-Amerika Fondet, Fonden Det Obelske Jubilæumskollegium, Mullerupgaard- og Gl. Estrupfonden, Høvdingsgaard Fonden, Skjørringefonden, Woodmancott Fonden, Kilsmark A/S, Rexholm A/S. **CEO of:** C.W. Obel A/S**STG COMMITTEES**

Chairman of the Nomination and Remuneration Committees

Member of the Nomination and Remuneration Committees

-

CONSIDERED INDEPENDENT

Yes

Yes

Yes



CORPORATE MATTERS

BOARD OF DIRECTORS

CLAUS GREGERSEN



★ 1961 ■ Danish

🗓 2019-2020

👤 2019

EDUCATION

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

COMPETENCIES

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

SELECTED FORMER
EMPLOYMENT POSITIONS

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

MANAGEMENT POSITIONS
WITH OTHER ENTITIES

CEO of: Chr. Augustinus Fabrikker Aktieselskab, CAF Invest A/S. **Chairman of the board:** Vækstfonden (Board committee: Remuneration Committee; Chairman, Credit Committee; Chairman), Skandinavisk Holding A/S, Skodsborg Sundhedscenter A/S, Kurhotel Skodsborg A/S, Rungsted Sundpark A/S, Skodsborg Sundpark A/S. **Vice Chairman of the board:** Jeudan A/S (Board committee: Remuneration Committee; Member, Nomination Committee; Member). **Member of the board:** Gyldendal A/S, Fritz Hansen A/S, Tivoli A/S (Board committee: Audit Committee; Member), Axcel Future, Scandinavian Tobacco Group's Gavefond, Søren Gyldendal Fonden. **Member of the management:** Ejendomme af 1. januar 2012 ApS, CG61 ApS.

STG COMMITTEES

Member of the Nomination and Remuneration Committees

CONSIDERED INDEPENDENT

No

MARLENE FORSELL



★ 1976 ■ Swedish

🗓 2019-2020

👤 2019

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

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

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

Member of the board: Kambi Group plc (Board committee: Audit Committee; Chairman), Lime Technologies AB (Board committee: Audit Committee; Chairman), Nobia AB (Board committee: Audit Committee; Chairman)

Chairman of the Audit Committee

Yes

DIANNE NEAL BLIXT



★ 1959 ■ American

🗓 2019-2020

👤 2016

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

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

- 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

Member of the board: Ameriprise Financial Services, Inc. (Board committee: Compensation Committee; Chairman, Audit Committee; Member) Triad Business Bank (start-up being formed, banking authority approval anticipated in early 2020) (Board committee: Executive Committee; Member) **Director on the Board:** Non-profit entity Reynolda House Museum of American Art (Board committee: Finance Committee; Member) **Chairperson of the board:** National Sports Media Association (Board committee: Finance and Governance; Chair of the Board)

Member of the Audit Committee

Yes



CORPORATE MATTERS

BOARD OF DIRECTORS

LUC MISSORTEN

★ 1955 🇧🇪 Belgian

🗓️ 2019-2020

👤 2016



LINDY LARSEN

★ 1955 🇩🇰 Danish

🗓️ 2019-2023

👤 2016



HANNE MALLING

★ 1960 🇩🇰 Danish

🗓️ 2019-2023

👤 2010



MOGENS OLSEN

★ 1967 🇩🇰 Danish

🗓️ 2019-2023

👤 2017



EDUCATION

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 AB) 1995-2003

MANAGEMENT POSITIONS WITH OTHER ENTITIES

Chairman of the board: Ontex Group NV (Board committee: Audit and Risk Committee; Member, Remuneration Committee; Member) **Member of the board:** Barco NV (Board committee: Audit Committee; Chairman, Remuneration Committee; Member), Recitel NV/SA (Board committee: Audit Committee; Chairman, Remuneration Committee; Member), GIMV NV (Board committee: Audit Committee; Chairman), Mateco Sarl (Board committee: Remuneration Committee; Member)

STG COMMITTEES

Member of the Audit, Remuneration and Nomination Committees

CONSIDERED INDEPENDENT

Yes

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

Elected by the employees

-

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

-

No

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

Elected by the employees

-

-

-

No

Operator Primary.

Elected by the employees

-

-

-

No

CORPORATE MATTERS

BOARD OF DIRECTORS - ATTENDANCE 2019 MEETINGS

Board of Directors Meetings

Nigel Northridge	● ● ● ● ● ● ● ●
Henrik Brandt	● ● ● ● ● ● ● ●
Claus Gregersen	● ● ● ● ● ● ● ●
Dianne Neal Blixt	● ● ● ● ● ● ● ●
Anders Obel	● ● ● ● ● ● ● ●
Luc Missorten	● ● ● ● ● ● ● ●
Marlene Forsell	● ● ● ● ● ● ● ●
Søren Bjerre-Nielsen	● ● ● ● ● ● ● ●
Mogens Olsen	● ● ● ● ● ● ● ●
Hanne Malling	● ● ● ● ● ● ● ●
Lindy Larsen	● ● ● ● ● ● ● ●
Kurt Asmussen	● ● ● ● ● ● ● ●

Audit Committee Meetings

Marlene Forsell	● ● ● ● ● ● ● ●
Dianne Neal Blixt	● ● ● ● ● ● ● ●
Luc Missorten	● ● ● ● ● ● ● ●
Søren Bjerre-Nielsen	● ● ● ● ● ● ● ●

Nomination Committee Meetings

Nigel Northridge	● ● ● ● ● ● ● ●
Luc Missorten	● ● ● ● ● ● ● ●
Henrik Brandt	● ● ● ● ● ● ● ●
Claus Gregersen	● ● ● ● ● ● ● ●
Søren Bjerre-Nielsen	● ● ● ● ● ● ● ●

Remuneration Committee Meetings

Nigel Northridge	● ● ● ● ● ● ● ●
Luc Missorten	● ● ● ● ● ● ● ●
Henrik Brandt	● ● ● ● ● ● ● ●
Claus Gregersen	● ● ● ● ● ● ● ●
Søren Bjerre-Nielsen	● ● ● ● ● ● ● ●

- Attended
- Did not attend
- Not a board member at the time





CORPORATE MATTERS

EXECUTIVE MANAGEMENT

The Executive Management consists of the CEO and the CFO. The day-to-day operations of the Company are managed by the Executive Board.

**1 NIELS FREDERIKSEN**

PRESIDENT AND 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, the Danish Financial Supervisory Authority, Axel Muusfeldts Foundation and Axel Muusfeldts Fond Holding A/S.

3 JURJAN KLEPPRESIDENT AND SENIOR VICE PRESIDENT,
REGION MACHINE-MADE CIGARS 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 Region Machine-Made Cigars 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 in Ventura Foods LLC, Reckitt Benckiser and Proctor & Gamble.

5 RÉGIS BROERSMAPRESIDENT AND SENIOR VICE PRESIDENT, NORTH AMERICA
BRANDED DIVISION AND REGION SMOKING TOBACCO &
ACCESSORIES 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 and Senior Vice President of Region Smoking Tobacco & Accessories Division in 2019.

6 HANNE BERG

SENIOR VICE PRESIDENT AND CHRO

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.

7 SARAH SANTOSPRESIDENT AND SENIOR VICE PRESIDENT, NORTH AMERICA
ONLINE & RETAIL DIVISION

Sarah Santos (1978) joined Cigars International in 2003 and became part of Scandinavian Tobacco Group in 2008. In the years since she has held various leadership positions in Cigars International, becoming the Senior Vice President of the North American Online and Retail Division in 2018.



CORPORATE MATTERS

SHAREHOLDER INFORMATION

HIGHLIGHTS 2019

Scandinavian Tobacco Group A/S is listed on the Nasdaq Copenhagen Stock Exchange. In 2019, the share price increased by 1%. In the same period the Nasdaq OMX25 index increased by 25%. Including dividend payments, the total return for Scandinavian Tobacco Group shareholders was positive by 8% in the period ending 31 December 2019.

Share price development**SHAREHOLDERS**

Scandinavian Tobacco Group A/S had almost 6,000 shareholders by the end of 2019. The company owns 0.4% of the share capital. As of 1 February 2020 the following investors have reported holdings of more than 5% of Scandinavian Tobacco Group A/S's share capital and voting rights.

Chr. Augustinus Fabrikker Aktieselskab	>25%
C.W. Obel A/S	>10%
FMR LLC	>5%
Parvus Asset Management Europe 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 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 nominally DKK 1,000,000 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 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 acquisition. Reference is made to articles 5 and 6 of the articles of association.

DIVIDENDS

At the Annual General Meeting on 10 April 2019, the shareholders approved an ordinary dividend of DKK 6.00 per share to be paid out for the financial year 2018.

For the financial year 2019, the Board of Directors propose that the Annual General Meeting approves a dividend of DKK 6.10 per share is paid to the shareholders. This will be equivalent to a total payment of DKK

610 million and a pay-out ratio of 81.6%. The proposed dividend of DKK 6.10 per share corresponds to an increase of 1.7% versus last year's ordinary dividend.

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 at: 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 2020

2020
20
MAY
Interim Report Q1

2020
28
AUG
Interim Report Q2

2020
05
NOV
Interim Report Q3

ANNUAL GENERAL MEETING

2020
26
MAR

Scandinavian Tobacco Group's Annual General Meeting will be held 26 March at 16.30 at IDA Conference Center, Kalvebod Brygge 31-33, 1780 Copenhagen V

ST-GROUP.COM FOR 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 A/S.

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 investor.st-group.com.

For additional information, investors may contact:

Torben Sand
Head of Investor Relations
Tel: +45 50 84 72 22
investor@st-group.com



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



CORPORATE MATTERS

QUARTERLY FINANCIAL HIGHLIGHTS

DKK million	2019					2018				
	Q4	Q3	Q2	Q1	Full year	Q4	Q3	Q2	Q1	Full year
REPORTED DATA										
Net sales	1,743	1,846	1,818	1,464	6,870	1,765	1,887	1,780	1,285	6,718
Gross profit before special items	857	899	873	684	3,314	838	916	853	613	3,219
EBITDA before special items	430	446	398	239	1,513	362	398	346	199	1,304
Special items	29	-118	-20	-24	-133	-229	-23	-11	-3	-266
EBIT	350	229	280	119	977	63	292	258	125	738
Net financial item	-3	-16	-22	-4	-45	-14	-9	1	-15	-37
Profit before tax	351	217	262	119	949	51	288	264	114	717
Income taxes	-72	-45	-57	-26	-201	101	-67	-59	-26	-51
Net profit	279	172	205	93	748	152	221	205	88	666
OTHER FINANCIAL KEY DATA										
Organic EBITDA growth	10.6%	5.4%	5.5%	7.3%	7.1%	10.2%	-0.3%	3.1%	1.2%	3.5%
Organic net sales growth	-2.9%	-4.5%	-0.9%	-1.6%	-2.6%	-4.4%	1.7%	1.6%	3.5%	0.4%
Free cash flow before acquisitions	368	503	243	72	1,187	204	327	213	-76	668



CORPORATE MATTERS

QUARTERLY FINANCIAL HIGHLIGHTS

DKK million	2019					2018				
	Q4	Q3	Q2	Q1	Full year	Q4	Q3	Q2	Q1	Full year
NORTH AMERICA ONLINE & RETAIL										
Net sales	595	648	658	496	2,398	578	626	610	297	2,111
Gross profit before special items	217	246	259	182	903	221	238	222	112	793
EBITDA before special items	110	113	111	50	384	91	103	83	32	310
Net sales growth	2.9%	3.5%	7.8%	67.3%	13.6%	52.9%	54.9%	51.7%	-6.0%	40.7%
Organic net sales growth	-0.3%	-1.2%	1.6%	2.4%	0.5%	1.8%	5.5%	10.1%	8.8%	6.3%
Gross margin before special items	36.4%	37.9%	39.3%	36.6%	37.7%	38.2%	38.0%	36.4%	37.6%	37.5%
EBITDA margin before special items	18.5%	17.5%	16.8%	10.1%	16.0%	15.8%	16.4%	13.7%	10.9%	14.7%
NORTH AMERICA BRANDED										
Net sales	305	341	316	257	1,219	295	368	313	271	1,247
Gross profit before special items	172	191	179	147	689	164	210	188	151	712
EBITDA before special items	81	80	71	45	277	66	66	68	42	242
Net sales growth	3.5%	-7.4%	0.9%	-5.3%	-2.3%	-8.6%	1.2%	-11.6%	-11.8%	-7.5%
Organic net sales growth	0.3%	-11.4%	-4.2%	-9.2%	-6.3%	-8.5%	4.3%	-2.4%	1.3%	-1.2%
Gross margin before special items	56.4%	56.0%	56.6%	57.4%	56.6%	55.6%	57.0%	59.9%	55.7%	57.1%
EBITDA margin before special items	26.6%	23.3%	22.3%	17.7%	22.7%	22.4%	17.8%	21.8%	15.5%	19.4%



CORPORATE MATTERS

QUARTERLY FINANCIAL HIGHLIGHTS

DKK million	2019					2018				
	Q4	Q3	Q2	Q1	Full year	Q4	Q3	Q2	Q1	Full year
REGION MMC										
Net sales	436	436	433	348	1,653	442	446	437	357	1,682
Gross profit before special items	234	231	217	177	860	198	233	225	177	832
EBITDA before special items	113	109	100	64	385	62	105	87	51	304
Net sales growth	-1.3%	-2.3%	-0.9%	-2.6%	-1.7%	-7.6%	-8.8%	-5.2%	-3.5%	-6.4%
Organic net sales growth	-1.8%	-2.3%	-1.4%	-3.3%	-2.0%	-7.5%	-8.8%	-5.2%	-3.2%	-6.4%
Gross margin before special items	53.7%	53.1%	50.2%	50.9%	52.0%	44.7%	52.2%	51.5%	49.6%	49.5%
EBITDA margin before special items	25.8%	25.0%	23.0%	18.3%	23.3%	13.9%	23.5%	19.9%	14.2%	18.0%
REGION ST&A										
Net sales	407	421	410	363	1,601	450	447	419	360	1,677
Gross profit before special items	234	231	218	178	861	255	236	218	173	882
EBITDA before special items	145	156	142	101	544	163	147	136	98	545
Net sales growth	-9.7%	-5.8%	-2.1%	0.7%	-4.5%	-12.0%	-3.7%	-8.0%	-6.7%	-7.7%
Organic net sales growth	-9.6%	-5.6%	-1.6%	1.6%	-4.4%	-5.0%	6.3%	0.5%	7.4%	1.9%
Gross margin before special items	57.6%	54.8%	53.2%	49.1%	53.8%	56.7%	52.7%	52.0%	48.0%	52.6%
EBITDA margin before special items	35.6%	37.1%	34.6%	27.9%	34.0%	36.3%	32.9%	32.5%	27.1%	32.5%
GROUP COSTS										
EBITDA before special items	-19	-12	-25	-21	-77	-20	-23	-30	-24	-96



FINANCIAL STATEMENTS

SCANDINAVIAN TOBACCO GROUP A/S

CONSOLIDATED FINANCIAL STATEMENTS

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1 JANUARY - 31 DECEMBER

STATEMENT OF COMPREHENSIVE INCOME

DKK million	Note	2019	2018
CONSOLIDATED INCOME STATEMENT			
Net sales	2.1	6,870.3	6,717.5
Cost of goods sold	2.1	-3,556.4	-3,498.1
Gross profit	2.1	3,313.9	3,219.4
Other external costs		-1,069.7	-1,142.8
Staff costs	2.2	-737.1	-772.3
Other income		5.9	-
Earnings before interest, tax, depreciation, amortisation and special items (EBITDA before special items)		1,513.0	1,304.3
Depreciation and impairment	3.2, 3.3	-215.1	-116.7
Earnings before interest, tax, amortisation and special items (EBITA before special items)		1,297.9	1,187.6
Amortisation and impairment	3.1	-187.3	-184.1
Earnings before interest, tax and special items (EBIT before special items)		1,110.6	1,003.5
Special items incl. impairment, net costs	2.5	-133.4	-266.0
Earnings before interest and tax (EBIT)		977.2	737.5
Share of profit of associated companies, net of tax	4.3	16.7	16.7
Financial income	4.4	46.6	55.0
Financial costs	4.4	-91.9	-92.4
Profit before tax		948.6	716.8
Income taxes	2.6	-200.9	-51.3
Net profit for the year		747.7	665.5
Earnings per share			
Basic earnings per share (DKK)	4.5	7.5	6.7
Diluted earnings per share (DKK)	4.5	7.5	6.7

DKK million	Note	2019	2018
Net profit for the year		747.7	665.5
OTHER COMPREHENSIVE INCOME			
Items that will not be recycled subsequently to the Consolidated Income Statement:			
Actuarial gains and losses on pension obligations		-31.6	5.5
Tax of actuarial gains and losses on pension obligations		7.1	-1.9
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		4.9	11.6
Cash flow hedges, deferred gains/losses incurred during the year		-33.2	-7.6
Tax of cash flow hedges		6.2	-1.0
Foreign exchange adjustments on net investments in foreign operations		172.1	261.9
Other comprehensive income for the year, net of tax		125.5	268.5
Total comprehensive income for the year		873.2	934.0



CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

DKK million	Note	2019	2018
ASSETS			
Goodwill		4,629.8	4,561.8
Trademarks		2,840.2	2,922.6
IT software		45.7	75.9
Other intangible assets		281.1	308.8
Total intangible assets	3.1	7,796.8	7,869.1
Property, plant and equipment	3.2	1,098.2	1,219.5
Right-of-use assets	3.3	225.5	-
Investments in associated companies	4.3	155.9	143.7
Deferred income tax assets	2.6	136.3	120.2
Other financial fixed assets	4.3	1.7	22.3
Total non-current assets		9,414.4	9,374.8
Inventories	3.4	2,530.0	2,598.7
Trade receivables	3.5	800.6	854.1
Other receivables		93.6	76.7
Corporate tax	2.6	82.0	121.2
Prepayments	3.6	53.9	66.8
Cash and cash equivalents		897.5	310.8
Total current assets		4,457.6	4,028.3
Total assets		13,872.0	13,403.1

DKK million	Note	2019	2018
EQUITY AND LIABILITIES			
Share capital	4.5	100.0	100.0
Reserve for hedging		-15.1	7.0
Reserve for currency translation		914.4	742.3
Treasury shares		-35.0	-40.5
Retained earnings		8,138.4	8,009.4
Total equity		9,102.7	8,818.2
Bank loans	4.1	2,682.1	2,658.1
Deferred income tax liabilities	2.6	516.7	515.7
Pension obligations	3.8	281.7	240.8
Other provisions	3.7	18.5	33.7
Lease liabilities		159.8	-
Other liabilities		31.4	27.4
Total non-current liabilities		3,690.2	3,475.7
Trade payables		334.0	377.1
Corporate tax	2.6	121.5	132.4
Other provisions	3.7	38.4	104.1
Lease liabilities		67.0	-
Other liabilities		518.2	495.6
Total current liabilities		1,079.1	1,109.2
Total liabilities		4,769.3	4,584.9
Total equity and liabilities		13,872.0	13,403.1



1 JANUARY - 31 DECEMBER

CONSOLIDATED CASH FLOW STATEMENT

DKK million	Note	2019	2018
Net profit for the year		747.7	665.5
Depreciation, amortisation and impairment		503.1	351.2
Adjustments	5.2	291.2	206.7
Changes in working capital	4.6	100.9	-101.1
Special items, paid		-174.3	-103.1
Cash flow from operating activities before financial items		1,468.6	1,019.2
Financial income received		124.8	96.5
Financial costs paid		-127.0	-111.4
Cash flow from operating activities before tax		1,466.4	1,004.3
Tax payments	2.6	-166.8	-219.8
Cash flow from operating activities		1,299.6	784.5
Acquisitions	5.1	-5.9	-394.1
Divestments		68.5	-
Investment in intangible assets	3.1	-28.2	-15.3
Investment in property, plant and equipment	3.2	-93.5	-109.7
Sale of property, plant and equipment		1.2	1.1
Dividend from associated companies	4.3	8.0	7.4
Cash flow from investing activities		-49.9	-510.6
Free cash flow		1,249.7	273.9

DKK million	Note	2019	2018
Repayment of lease liabilities		-81.3	-
Other financing		6.8	-
Dividend payment		-598.0	-572.9
Cash flow from financing activities		-672.5	-572.9
Net cash flow for the year		577.2	-299.0
Cash and cash equivalents, net at 1 January		310.8	605.2
Exchange gains/losses on cash and cash equivalents		9.5	4.6
Net cash flow for the year		577.2	-299.0
Cash and cash equivalents, net at 31 December		897.5	310.8



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 2019	100.0	7.0	742.3	-40.5	8,009.4	8,818.2
COMPREHENSIVE INCOME FOR THE YEAR						
Net profit for the year	-	-	-	-	747.7	747.7
OTHER COMPREHENSIVE INCOME						
Cash flow hedge	-	-28.3	-	-	-	-28.3
Tax of cash flow hedges	-	6.2	-	-	-	6.2
Foreign exchange adjustments on net investments in foreign operations	-	-	172.1	-	-	172.1
Actuarial gains and losses on pension obligations	-	-	-	-	-31.6	-31.6
Tax of actuarial gains and losses on pension obligations	-	-	-	-	7.1	7.1
Total other comprehensive income	-	-22.1	172.1	-	-24.5	125.5
Total comprehensive income for the year	-	-22.1	172.1	-	723.2	873.2
TRANSACTIONS WITH SHAREHOLDERS						
Share-based payments	-	-	-	-	9.3	9.3
Settlement of vested PSUs	-	-	-	5.5	-5.5	-
Dividend paid to shareholders (note 4.5)	-	-	-	-	-600.0	-600.0
Dividend, treasury shares	-	-	-	-	2.0	2.0
Total transactions with shareholders	-	-	-	5.5	-594.2	-588.7
Equity at 31 December 2019	100.0	-15.1	914.4	-35.0	8,138.4	9,102.7

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

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, Executive 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 2.6)
- Intangible assets and property, plant and equipment including impairment (notes 3.1 and 3.2)
- Inventories (note 3.4)

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 2019, it has been assessed that the application of these new IFRS has not had a material impact on the Consolidated Financial Statements in 2019, and the Group does not anticipate any significant impact on future periods from the adoption of these new IFRS. The Group has adopted all new, amended and revised standards and interpretations.

IFRIC 23 'Uncertainty over income tax treatment' with effective date 1 January 2019 has been implemented. The Group has assessed the impact of the standard and determined that it will not have any significant impact on the Annual Report.

As of 1 January 2019 Scandinavian Tobacco Group has adopted IFRS 16 'Leases' with effect for financial years beginning on or after 1 January 2019. IFRS 16 replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

The Group has used the modified retrospective approach to implement the standard and the comparative figures have not been restated. The cumulative effect of applying the standard has been recognised as of 1 January 2019. At initial recognition, right-of-use assets are measured at an amount equal to the lease liability, which is measured at the present value of future lease payments. The Group will not apply IFRS 16 to short-term leases and low-value leases.

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. Based on the contract the right-of-use asset and the lease liability is recognised at commencement of the lease. The initial measurement of the right-of-use asset is at cost and comprises the initial value of the lease liability and lease payments made at or before the commencement date. The right-of-use assets are depreciated on a straight-line basis over the shorter period of the lease term or the useful life of the underlying asset. The carrying amounts are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by depreciation.

The lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date. Lease payments include fixed

payments and variable payments that depend on an index such as an inflation index as well as lease payments from an extension option that the Group considers reasonably certain to be exercised.

IMPACT OF IFRS 16 ON FINANCIALS

The implementation of IFRS 16 has impacted the Group's financial statements as the majority of contracts previously classified as off-balance operating leases under IAS 17 have now been capitalised as right-of-use assets and lease liabilities. 'EBITDA before special items' have increased, as previous operating lease expenses are now being reported as depreciation of the right-of-use assets and interest expenses for the financial liability. The impact on 'net profit' will be limited to a timing impact due to frontloading of interest expenses.

OPENING BALANCE SHEET IMPACT OF IFRS 16

DKK million	Opening IFRS 16 adjustment	31 Dec 2019
Right-of-use assets	246.2	225.5
Lease liabilities, non-current	165.7	159.8
Lease liabilities, current	80.5	67.0

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Operating lease commitments as at 31 December 2018	204.1
Weighted average incremental borrowing rate as at 1 January 2019	3%
Discounted operating lease commitments as at 1 January 2019	191.6
Less:	
Commitments relating to short-term leases	-1.3
Commitments relating to leases of low-value assets	-0.1
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	56.0
Lease liabilities as at 1 January 2019	246.2

1.1 (CONTINUED)

BASIS OF PREPARATION

IMPACT OF IFRS 16 ON FINANCIALS (CONTINUED)

'Net cash flow' is not impacted as the increase in 'cash flow from operating activities' is offset by the increase in cash outflow from 'cash flow from financing activities'.

The impact from IFRS 16 on the Group figures in 2019 and pro forma comparison figures for last year is stated below.

DKK million	2019 reported	IFRS 16 impact	2019 excluding IFRS 16	2018 reported
EBITDA before special items	1,513.0	-87.5	1,425.5	1,304.3
Depreciation	-215.1	84.3	-130.8	-116.7
EBIT before special items	1,110.6	-3.2	1,107.4	1,003.5
Free cash flow before acquisitions	1,187.1	-81.3	1,105.8	668.0
Total assets	13,872.0	-225.5	13,646.5	-
Net interest-bearing debt	2,329.5	-226.8	2,102.7	-
EBITDA margin before special items	22.0%		20.7%	19.4%

The impact from IFRS 16 on divisional figures in 2019 is stated below.

DKK million	North America Online & Retail	North America Branded	Region MMC	Region ST&A	Group costs / not allocated	Total
EBITDA before special items	384.0	276.8	385.1	544.1	-77.0	1,513.0
IFRS 16 impact	-19.5	-23.4	-28.6	-9.9	-6.1	-87.5
EBITDA before special items ex. IFRS 16	364.5	253.4	356.5	534.2	-83.1	1,425.5
EBITDA margin before special items	16.0%	22.7%	23.3%	34.0%	-	22.0%
EBITDA margin before special items ex. IFRS 16	15.2%	20.8%	21.6%	33.4%	-	20.7%

SPECIAL ITEMS

As of 1 January 2019 the Group recognises 'Special items' on a separate line item in the Income Statement. Previously 'Special items' were recognised as part of the line items in the Income Statement based on the nature of the items.

The change in presentation for 'Special items' is to improve the transparency and understanding of the Group's financial statements by separating the special items from the core performance.

Special items are by nature of a significant character and comprise restructuring costs from larger structural and M&A reorganisations, M&A transaction costs, impairment losses, gains or losses from sale of assets and other non-recurring items.

The impact on the restated full year 2018 is stated below.

DKK million	2018 New accounting policies	2018 Special items	2018 Previous accounting policies
Net sales	6,717.5	-	6,717.5
Cost of goods sold	-3,498.1	-18.5	-3,516.6
Gross profit before special items	3,219.4	-18.5	3,200.9
Other external costs	-1,142.8	-63.7	-1,206.5
Staff costs	-772.3	-133.4	-905.7
EBITDA before special items new¹	1,304.3	-	-
EBITDA previous²	-	-215.6	1,088.7
Depreciation and impairment	-116.7	-10.4	-127.1
Amortisation and impairment	-184.1	-40.0	-224.1
EBIT before special items new³	1,003.5	-	-
Special items, costs	-266.0	266.0	-
EBIT previous⁴	737.5	-	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	716.8	-	716.8
Income taxes	-51.3	-	-51.3
Net profit for the period	665.5	-	665.5

1. Earnings before interest, tax, depreciation, amortisation and special items.

2. Earnings before interest, tax, depreciation and amortisation.

3. Earnings before interest, tax and special items.

4. Earnings before interest and tax.



1.1 (CONTINUED)

BASIS OF PREPARATION

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

IASB has issued a number of new or amended and revised accounting standards and interpretations that have not yet come into effect. It has been assessed that the application of these new IFRS will not have a material impact on future reporting periods.

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 entity. Enterprises in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are classified as associated companies. At consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

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

On the acquisition of subsidiaries, the difference between cost and net asset value of the enterprise acquired is determined at the date of acquisition after the individual assets and liabilities have been adjusted to fair value (the 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 in which they incur. Any remaining positive differences are recognised as goodwill in intangible assets in the balance sheet. Goodwill is not amortised, but instead tested for impairment on an annual basis and when there is an indication of impairment.

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 repayment of lease liabilities, other financing, 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, judgements 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 judgements, estimates and assumptions concerning future events.

The judgements, 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.

Executive 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 2.6)
- Goodwill (note 3.1)
- Trademarks (note 3.1)
- Inventories (note 3.4)
- Pension obligations (note 3.8)
- 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)

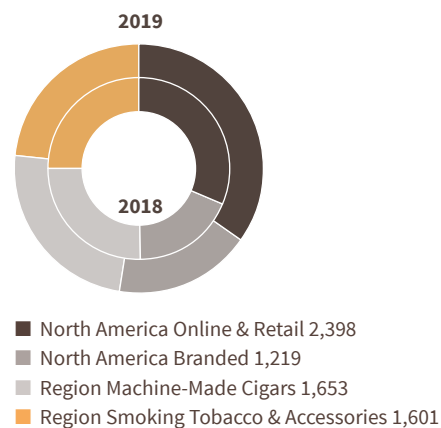
6,870

NET SALES (DKK million)

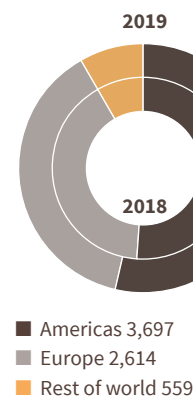
2019

DKK million	North America Online & Retail	North America Branded	Region MMC	Region ST&A	Group costs / not allocated	Total
Net sales	2,397.6	1,218.8	1,653.0	1,600.9	-	6,870.3
Cost of goods sold	-1,494.3	-529.5	-793.1	-739.5	-	-3,556.4
Gross profit before special items	903.3	689.3	859.9	861.4	-	3,313.9
Staff and other external costs	-519.3	-412.5	-474.8	-323.2	-77.0	-1,806.8
Other income	-	-	-	5.9	-	5.9
EBITDA before special items	384.0	276.8	385.1	544.1	-77.0	1,513.0
Depreciation and impairment	-	-	-	-	-215.1	-215.1
Amortisation and impairment	-	-	-	-	-187.3	-187.3
EBIT before special items	-	-	-	-	-479.4	1,110.6
Special items, costs and impairment	-	-	-	-	-133.4	-133.4
EBIT	-	-	-	-	-612.8	977.2
Share of profit of associated companies, net of tax	-	-	-	-	16.7	16.7
Financial income	-	-	-	-	46.6	46.6
Financial costs	-	-	-	-	-91.9	-91.9
Profit before tax	-	-	-	-	-641.4	948.6

NET SALES PER DIVISION (DKK million)



NET SALES PER REGION (DKK million)



2018 EX. IFRS 16

DKK million	North America Online & Retail	North America Branded	Region MMC	Region ST&A	Group costs / not allocated	Total
Net sales	2,111.4	1,247.1	1,682.1	1,676.9	-	6,717.5
Cost of goods sold	-1,318.9	-534.6	-849.7	-794.9	-	-3,498.1
Gross profit before special items	792.5	712.5	832.4	882.0	-	3,219.4
Staff and other external costs	-482.2	-470.9	-528.0	-337.9	-96.1	-1,915.1
EBITDA before special items	310.3	241.6	304.4	544.1	-96.1	1,304.3
Depreciation and impairment	-	-	-	-	-116.7	-116.7
Amortisation and impairment	-	-	-	-	-184.1	-184.1
EBIT before special items	-	-	-	-	-396.9	1,003.5
Special items, costs and impairment	-	-	-	-	-266.0	-266.0
EBIT	-	-	-	-	-662.9	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	-	-	-	-	-683.6	716.8

2.1 (CONTINUED)

GROSS PROFIT (NET SALES AND COST OF GOODS SOLD)

DKK million	2019	2018
Category split, net sales		
Handmade cigars	2,580.9	2,375.7
Machine-made cigars	2,284.1	2,366.7
Smoking tobacco	1,054.2	1,039.8
Accessories and Contract Manufacturing	951.1	935.3
Total net sales	6,870.3	6,717.5

Licence income and other sales of DKK 48.5 million (DKK 40.5 million) are included in the category 'Accessories and Contract Manufacturing'.

	2019	2018
Geographical split, net sales		
Americas	3,697.0	3,443.2
Europe	2,614.6	2,726.5
Rest of world	558.7	547.8
Total net sales	6,870.3	6,717.5

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 185.6 million (DKK 190.1 million), and net sales from external customers outside Denmark amount to DKK 6,684.7 million (DKK 6,527.4 million). Individual, material countries (>10% of total net sales) are the US DKK 3,430.8 million (DKK 3,151.3 million).

Individual, material countries (>10% of total non-current assets) are the US DKK 4,289.6 million (DKK 4,281.7 million) and the Netherlands DKK 2,037.1 million (DKK 2,112.0 million).

DKK million	2019	2018
Non-current assets¹		
Americas	4,384.0	4,335.9
Europe	4,869.4	4,875.1
Rest of world	23.0	21.3
Total non-current assets	9,276.4	9,232.3

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

Total non-current assets in Denmark amount to DKK 1,901.2 million (DKK 1,858.1 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 consideration 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 the basis of wholesale, retail, online & catalogue and business to business.

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 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.

Cost of Goods Sold

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

Segments

As a part of the Group's transformational program, Fuelling the Growth that realigned commercial resources in four new divisions, the reportable segments have as of 2019 been changed from five to four. This is to align to the new internal reporting structure, which is provided to the Executive Board. The Executive Board is considered to be the chief operating decision maker.

The Group has as of 2019 combined pipe tobacco and fine-cut tobacco into one category, 'smoking tobacco'.

Comparison figures for segments and categories have been restated.

The four new segments are:

North America Online & Retail includes direct to consumer sales of all product categories sold via the online, catalogue and retail channel in North America. The division holds the overall Group responsibility for sales and marketing activities of all products and sales within the division.

North America Branded includes sales of all product categories to wholesalers and distributors that supply retail in North America. The division holds the overall Group responsibility for product development, sales and marketing activities of all products and sales within the division.

Region Machine-Made Cigars includes sales of all product categories to wholesalers and distributors that supply retail. Machine-made cigars make up the majority of divisional net sales and also dominate sales in the main markets in the division, which are France, Belgium, the UK, Spain and the Netherlands. The division holds the overall Group responsibility for product development, sales and marketing activities of machine-made cigars outside North America.

Region Smoking Tobacco & Accessories includes sales of all product categories to wholesalers and distributors that supply retail. Main markets are Australia, Germany, Denmark and Norway. The division holds the overall Group responsibility for product development, sales and marketing activities of smoking tobacco (pipe tobacco and fine-cut tobacco) and accessories outside North America.

Operating expenses that are not directly inherent in the divisions are to some extent allocated to the divisions based on allocation keys defined by activities or other relevant components. Certain costs relating to Group functions are managed on Group level. These items are not included in the reportable divisions and therefore reported as 'Group costs'.

Depreciation, amortisation, impairment costs, special items, share of profit of associated companies, net of tax and financial items are not allocated to 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.

2.2 STAFF COSTS

DKK million	2019	2018
Wages and salaries	1,127.2	1,169.5
Pensions - defined contribution plans	52.9	50.9
Pensions - defined benefit plans	15.8	18.1
Social security costs	146.2	161.8
Total staff costs for the year	1,342.1	1,400.3

Change in employee costs included in inventories	-1.6	-13.0
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Total staff costs expensed to the income statement	1,340.5	1,387.3
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DKK million	2019	2018
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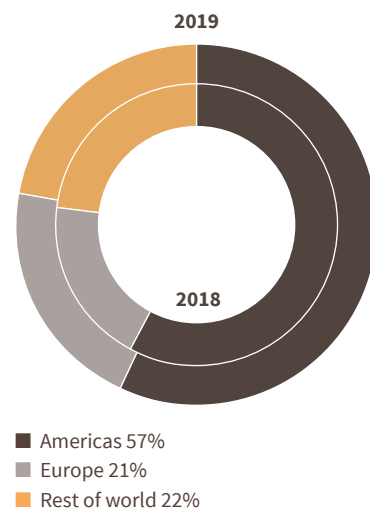
Included in the income statement:

Cost of goods sold	603.4	615.0
Staff costs	737.1	772.3

Total included in the income statement	1,340.5	1,387.3
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Average number of employees in the Group	7,258	8,172
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EMPLOYEES PER REGION (%)



REMUNERATION OF THE BOARD OF DIRECTORS AND EXECUTIVE BOARD

Total fees to the Board of Directors and Executive Board amounted to DKK 53.4 million (DKK 68.4 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 program (LTIP) according to which the participants receive an annual grant of performance share units (PSUs). The CEO receives an annual grant of PSUs with a value at target performance corresponding to 40% of the annual base salary, whereas the CFO receives a grant of PSUs with a value at target performance corresponding to 30% of the annual base

salary. In a maximum performance scenario the value at the time of grant is 80% and 60%, of the base salary at the time of grant of the PSUs, respectively. 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. In a maximum performance scenario the value at the time of grant is 30-60%, of the base salary at the time of grant of the PSUs. The value of the PSUs follows the trading value of Scandinavian Tobacco Group A/S' 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 program please refer to note 2.3.

Members of the Executive Board are subject to a short-term incentive program (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 (FtG EBITDA impact).

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 6-12 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 the below mentioned buy-out payment. 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 buy-out payment on each 1 January of 2021 and 2024, provided that the CEO continues to be employed in the same position in the company. If the CEO terminates his position, or is terminated for breach of contract, he is no longer entitled to the payments. If the employment is terminated by the company for a reason other than breach of contract by the CEO, or if the CEO terminates the employment due to breach by the company, the CEO will be entitled to a proportionate share of any unpaid payments.

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

For the year 2019, the total cost of remuneration for the Executive Board amounts to DKK 46.9 million (DKK 62.1 million).

2.2 (CONTINUED) STAFF COSTS

§ ACCOUNTING POLICIES

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

EXECUTIVE BOARD 2019

DKK million	Salary and benefits	Bonus	Pension	Extraordinary remuneration /stay-on and loyalty bonus	Share-based incentive programme	Total
Niels Frederiksen	7.3	1.3	-	2.0	2.5	13.1
Marianne Rørslev Bock	4.1	1.2	-	-	0.4	5.7
Total Executive Management	11.4	2.5	-	2.0	2.9	18.8
Other key management	16.3	5.1	0.8	2.9	3.0	28.1
Total Executive Board	27.7	7.6	0.8	4.9	5.9	46.9

EXECUTIVE BOARD 2018

DKK million	Salary and benefits	Bonus	Pension	Extraordinary remuneration /stay-on and loyalty bonus	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

* Marianne Rørslev Bock joined the Group as CFO and member of the Executive Management on 18 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.

*** 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.

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 2019, members of the Board of Directors and the board committees received fixed annual fees in the aggregate amount of DKK 6.2 million (DKK 6.1 million). Furthermore, DKK 0.3 million (DKK 0.2 million) was paid during 2019 related to social security taxes and similar taxes imposed by non-Danish authorities in relation to the remuneration.

BOARD OF DIRECTORS

DKK thousand	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	Apr 2019	111	110	221
Marlene Forsell	Board member	Apr 2019		290	218	508
Dianne Neal Blixt	Board member	Feb 2016		400	150	550
Luc Missorten	Board member	Feb 2016		400	225	625
Anders Obel	Board member	Apr 2018		400	-	400
Claus Gregersen	Board member	Apr 2019		290	72	362
Kurt Asmussen	Employee represen.	Oct 2010	Apr 2019	110	-	110
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 2019				5,101	1,075	6,176
Total 2018				5,106	1,000	6,106

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 2019 the company paid DKK 287 thousand compared to DKK 194 thousand in 2018.

2.3 SHARE-BASED PAYMENTS

VALUE OF THE PROGRAMS AND IMPACT ON THE INCOME STATEMENT

	LTIP 2016	LTIP 2017	LTIP 2018	LTIP 2019
Total PSUs granted	126,537	108,747	99,796	147,843
Fair value of PSUs expected to vest at grant date, DKK million	11.6	5.5	9.2	10.8
Fair value of PSUs expected to vest at 31 December 2019, DKK million	-	6.3	10.2	11.6
Recognised in the income statement in 2019, DKK million*	-	1.9	3.2	4.2
Not yet recognised in respect of PSUs expected to vest, DKK million	-	-	3.2	7.4

* DKK 9.3 million (DKK 8.9 million) was recognised in Staff costs.

LTIP 2016 (number of PSUs)	Executive Board				Total
	Niels Frederiksen	Sisse Fjelsted Rasmussen	Other Key Management	Senior Management	
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
Outstanding at 1 January 2019	30,004	13,358	57,440	24,295	125,097
Vested	-15,002	-6,679	-28,720	-12,147	-62,548
Cancelled	-15,002	-6,679	-28,720	-12,147	-62,548
Outstanding at 31 December 2019	-	-	-	-	-

LTIP 2017 (number of PSUs)	Executive Board				Total
	Niels Frederiksen	Sisse Fjelsted Rasmussen	Other Key Management	Senior Management	
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
Outstanding at 1 January 2019	25,319	10,888	43,683	19,164	99,054
Granted	1,941	835	3,349	1,468	7,593
Outstanding at 31 December 2019	27,260	11,723	47,032	20,632	106,647

LTIP 2018 (number of PSUs)	Executive Board				Total
	Niels Frederiksen	Marianne Rørslev Bock	Sisse Fjelsted Rasmussen	Other Key Management	
Outstanding at 1 January 2018	-	-	-	-	-
Granted	25,828	2,692	-	41,804	92,841
Cancelled	-	-	-	-2,126	-2,126
Outstanding at 31 December 2018	25,828	2,692	-	41,804	90,715
Outstanding at 1 January 2019	25,828	2,692	-	41,804	90,715
Granted	1,980	206	-	3,206	6,955
Outstanding at 31 December 2019	27,808	2,898	-	45,010	97,670

2.3 (CONTINUED)

SHARE-BASED PAYMENTS

LTIP 2019 (number of PSUs)	Executive Board				Total
	Niels Frederiksen	Marianne Rørslev Bock	Other Key Management	Senior Management	
Outstanding at 1 January 2019	-	-	-	-	-
Granted	35,829	14,855	60,767	36,392	147,843
Outstanding at 31 December 2019	35,829	14,855	60,767	36,392	147,843

90% of the outstanding PSUs at 31 December 2019 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 at the share price at grant date.

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 a long-term incentive programme (LTIP) for members of the Executive Management and 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 of 3 years and the achievement of certain performance indicators in the financial years 2019-2021 for the LTIP 2019 (organic EBITDA growth and cash conversion), 2018-2020 for the LTIP 2018 (organic EBITDA growth and cash conversion), 2017-2019 for the LTIP 2017 (organic EBITDA growth and inventory reduction), and the financial years 2016-2018 for the LTIP 2016 (organic EBITDA growth and inventory reduction).

In April 2019, PSUs granted under the LTIP 2016 vested and the participants received shares in Scandinavian Tobacco Group A/S at no cost. The shares received corresponded to 50% of the grant, based on the actual achieved performance. The remaining granted PSUs were cancelled and the program has lapsed.

Under the LTIP program, new PSUs were granted to program participants in 2019. This was the fourth ordinary 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 program, please refer to note 2.2.

APPLIED ASSUMPTIONS AT THE TIME OF GRANT

	LTIP 2019	LTIP 2018	LTIP 2017	LTIP 2016
Share price (DKK)	78.65 / 78.80 80.40	107.70 / 86.75	124.50 / 110.20 110.70	103.50 / 108.97

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	5.5
Marlene Forsell	3,250	-	-	3,250	0.3
Luc Missorten	2,000	-	-	2,000	0.2
Dianne Neal Blixt	1,700	-	-	1,700	0.1
Anders Obel	20,270	-	-	20,270	1.6
Claus Gregersen	-	-	-	-	-
Lindy Larsen	242	-	-	242	-
Hanne Malling	250	-	-	250	-
Mogens Olsen	1,950	-	-	1,950	0.2
Board of Directors in total	101,774	-	-	101,774	8.3
Niels Frederiksen	60,000	15,002	-	75,002	6.1
Marianne Rørslev Bock	-	-	-	-	-
Vincent Crepy	4,400	-	-	4,400	0.4
Craig Reynolds	1,582	6,673	-	8,255	0.7
Hanne Berg	1,286	-	-	1,286	0.1
Jurjan Klep	2,500	1,324	-	3,824	0.3
Régis Broersma	2,620	1,669	-	4,289	0.3
Executive Board in total	72,388	24,668	-	97,056	7.9
Total Board of Directors and Executive Board	174,162	24,668	-	198,830	16.2

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 2018.

2) Calculation of market value is based on the quoted share price of DKK 81.25 at the end of the year.



2.5 SPECIAL ITEMS

§ ACCOUNTING POLICIES

Special items are used in connection with the presentation of profit or loss for the year to distinguish consolidated EBITDA and EBIT from special items, which by their nature are not related to the Group's core performance.

Special items are by nature of a significant character and comprise restructuring costs from larger structural and M&A reorganisations, M&A transaction costs, impairment losses, gains or losses from sale of assets and other non-recurring items.

DKK million	2019	2018
Integration and transactions costs (Thompson Cigar)	22.3	33.4
Transactions costs (Royal Agio Cigars)	20.2	-
Fuelling the Growth program	31.7	182.2
Divestment of licence agreement	-46.6	-
Manufacturing footprint, factory closure	5.1	-
Impairment intangible assets	8.8	40.0
Impairment tangible assets	91.9	10.4
Total special items incl. impairment, net costs	133.4	266.0

2.6 INCOME AND DEFERRED INCOME TAXES

21.2

EFFECTIVE TAX RATE (%)

200.9

INCOME STATEMENT TAX EXPENSE (DKK million)

DKK million	2019	2018
Tax expense		
Current income tax	-198.4	-136.8
Deferred income tax	10.8	82.6
Total	-187.6	-54.2
Tax is allocated as follows:		
Tax in the income statement	-200.9	-51.3
Tax on other comprehensive income related to:		
Hedging instruments	6.2	-1.0
Actuarial gains and losses on pension obligations	7.1	-1.9
Total	-187.6	-54.2
Income tax receivable/payable (net) - in the balance sheet:		
Corporate tax receivables	82.0	121.2
Corporate tax payables	121.5	132.4
Total (net)	39.5	11.2

2.6 (CONTINUED)

INCOME AND DEFERRED
INCOME TAXES

DKK million	2019	2018
Income tax receivable/payable (net):		
Balance at 1 January	11.2	93.6
Currency adjustments	-1.2	0.6
Prior-year tax adjustment	3.9	-1.2
Tax paid on account in current year	-183.9	-222.9
Received regarding previous years	62.1	52.1
Paid regarding previous years	-45.0	-49.0
Disposal of entities	-2.1	-
Current income tax	194.5	138.0
Balance at 31 December	39.5	11.2
Deferred tax (net) – in the balance sheet		
Deferred income tax assets	136.3	120.2
Deferred income tax liabilities	516.7	515.7
Deferred income tax liabilities (net)	380.4	395.5
Deferred tax (net)		
Balance 1 January	395.5	475.5
Currency adjustments	-4.3	2.6
Change in deferred tax charge	-10.8	-82.6
Balance at 31 December	380.4	395.5
Breakdown of deferred income tax liabilities (net):		
Intangible assets	558.2	529.9
Property, plant and equipment	27.7	52.8
Inventories	-40.0	-41.9
Receivables	-1.9	-1.2
Pensions	-59.3	-47.0
Other liabilities	-19.3	-34.4
Tax losses to be carried forward	-33.4	-18.0
Other	-51.6	-44.7
Total (net)	380.4	395.5

DKK million	2019	2018
Breakdown of tax in the income statement:		
Tax calculated at 22.0% of profit before tax	-208.7	-157.7
Tax according to income statement	-200.9	-51.3
Variance	7.8	106.4
Tax effect of:		
Non-deductible costs	-9.5	-8.6
Income from associated companies	3.7	3.7
Non-taxable income	0.4	2.9
Prior-year adjustments	3.6	0.9
Other tax percentages	-7.4	17.9
Effect of enacted changes of tax rates*	-10.4	57.8
Other	27.4	31.8
Total	7.8	106.4

* Effect of enacted change of tax rates in 2018 was related to gradual reduction of the Dutch corporate income tax rate from 25.0% in 2018 to 20.5% in 2021. This was once again changed during 2019 and the Dutch corporate income tax rate will therefore stay at 25% in 2019-2020 and be reduced to 21.7% in 2021.

At 31 December 2019 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.

Uncertain tax positions are considered separately and the most likely amount is the basis for the calculated provision. The judgements, methods and assumptions are unchanged from the previous year.

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.

**2.6 (CONTINUED)****INCOME AND DEFERRED
INCOME TAXES****ACCOUNTING
POLICIES****Income taxes**

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

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

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

28.2

ADDITIONS (DKK million)

2019

DKK million	Goodwill	Trademarks	IT software	Other intangible assets	Total
Accumulated cost at 1 January	4,562.7	4,182.9	362.0	476.5	9,584.1
Exchange rate adjustment	68.0	31.7	2.3	5.1	107.1
Addition	-	10.4	17.7	0.1	28.2
Disposal	-	-	-0.8	-	-0.8
Disposal of entities	-	-	-0.3	-	-0.3
Accumulated cost at 31 December	4,630.7	4,225.0	380.9	481.7	9,718.3
Accumulated amortisation and impairment at 1 January	0.9	1,260.3	286.1	167.7	1,715.0
Exchange rate adjustment	-	8.2	1.3	1.6	11.1
Amortisation	-	111.0	39.7	31.3	182.0
Impairment	-	5.3	8.8	-	14.1
Disposals	-	-	-0.5	-	-0.5
Disposal of entities	-	-	-0.2	-	-0.2
Accumulated amortisation and impairment at 31 December	0.9	1,384.8	335.2	200.6	1,921.5
Carrying amount at 31 December	4,629.8	2,840.2	45.7	281.1	7,796.8

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 on the result of operations.

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

§ 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 5–25 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.

3.1 (CONTINUED)

INTANGIBLE ASSETS

GOODWILL

The carrying amount of goodwill at 31 December 2019 amounted to DKK 4,629.8 million (DKK 4,561.8 million).

As announced on 7 May 2019 (company announcement no. 6/2019), the organisational/management structure in Scandinavian Tobacco Group was changed when launching the transformational program "Fuelling the Growth" in October 2018 (with effect from 1 January 2019). To align financial reporting with the new organisational structure and to ensure consistency with internal management reporting, the Group's external reporting structure has been revised to present figures at divisional level rather than category level. Please refer to note 2.1 for a description of the four new divisions.

As a consequence of the reorganised management- and reporting structure, the composition of the Group's cash-generating units has changed and the units are now split according to the new segment reporting. In accordance with IAS36, goodwill has been reallocated to the four new divisions by using a relative value approach.

As per 31 December 2019 the carrying amount of goodwill has been allocated to the identified cash-generating units according to the reportable segments as follows:

DKK million	North America Online & Retail	North America Branded	Region MMC	Region ST&A	Total
	2,422.1	894.2	19.7	1,293.8	4,629.8

Comparison figures for 2018 are not available due to the reallocation of goodwill in 2019.

Goodwill is 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 (discounted value of future cashflows). 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.

When goodwill was tested for impairment in 2019 (and 2018), 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 or lowering the terminal growth by 1 percentage point, the value in use still exceeded the carrying value per segment.

EBITDA growth in the budget period, terminal growth and discount rate constitute the key assumptions in calculating the value in use. The applied key assumptions, both overall as well as for each individual cash generating unit are described in the following.

APPLIED KEY ASSUMPTIONS – Goodwill impairment test	North America Online & Retail	North America Branded	Region MMC	Region ST&A
EBITDA Growth	An average growth rate of 2.5% in the five-year budget period has been applied for EBITDA for the overall Group (accumulated for the four cash generating units). The growth projection is expected to be reached through volume growth in North America (both Online & Retail and Branded), market share gains in Region MMC, price increases in all divisions, a positive impact from the integration of Thompson, cost prices and OPEX development in line with current inflation level adjusted for savings coming from Fuelling the Growth.			
Terminal growth (based on adjusted historical development taking into account expected future development)	1.0%	1.0%	-1.0%	-2.5%
Discount rate after-tax (%)	7.7%	7.7%	5.6%	5.6%
Discount rate pre-tax (%)	9.4%	9.4%	6.9%	7.6%

KEY ACCOUNTING ESTIMATES

Goodwill impairment test

In the annual impairment test of goodwill, an estimate is made to determine how the enterprise 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 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 either direct allocation or by using relevant allocation keys. The estimates of the anticipated future net cash flow are based on budgets, business plans as well as Management's projections for the coming years. Contribution expectations are based upon projections made on the development in volume, average sales and cost prices as well as operating cost development for each market in each of the defined cash generating units.

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.

The carrying amount of trademarks at 31 December 2019 amounted to DKK 2,840.2 million (DKK 2,922.6 million).

DKK million	Carrying amount	
	2019	2018
Trademarks indefinite lives	1,709.1	1,686.4
Other trademarks (definite useful lives)	1,131.1	1,236.2
Total	2,840.2	2,922.6



3.1 (CONTINUED)

INTANGIBLE ASSETS

Trademarks with the highest carrying amount are listed below.

DKK million	Indefinite trademarks allocated to segment*	Remaining amortisation period	Carrying amount	
			2019	2018
Captain Black, Bugler and Kite	1,2,3,4	Indefinite / 11 years	749.2	754.3
Café Crème/Signature	1,2,3,4	Indefinite	482.4	482.4
Tiedemanns	3,4	16 years	171.5	181.8
Mercator	3	8 years	229.2	259.2
La Paz	3,4	Indefinite	215.2	215.2
Other trademarks	1,2,3,4	Indefinite / 1-16 years	992.7	1,029.7
Total			2,840.2	2,922.6

* 1) North America Online & Retail, 2) North America Branded, 3) Region MMC, 4) Region ST&A

As per December 2019 the carrying amount of trademarks with indefinite useful lives was allocated to the reportable segments as follows:

DKK million	North America Online & Retail	North America Branded	Region MMC	Region ST&A	Total
	123.7	464.5	672.6	448.3	1,709.1

Comparison figures for 2018 are not available as reportable segments were changed 1 January 2019.

Trademarks with indefinite useful lives are tested for impairment annually and whenever there is an indication of impairment.

When carrying out the impairment test for trademarks with indefinite useful lives, each trademark is seen as a separate asset capable of generating cash flow. The

carrying value of each trademark is compared to the values in use (discounted value of future cash flows). If the carrying value is higher, the difference is charged to the income statement.

The value in use for each trademark is calculated by using a valuation model based on discounted expected

future cash flows (Multi-period Excess Earnings-Method ("MEEM") in an adapted form, covering a 5-year budget period) based on Management's projections.

When trademarks with indefinite useful lives were tested for impairment in 2019 (and 2018), the value in use exceeded the carrying value for each of the individual trademarks and no basis for impairment was found.

When performing sensitivity analysis by increasing the discount rate by 1 percentage point or lowering the terminal growth by 1 percentage point, the value in use still exceeded the carrying value for each individual trademark.

EBITDA growth in the budget period, terminal growth and discount rate constitute the key assumptions in calculating the value in use.

Management has used a discount rate (WACC after tax) between 6.3% and 16.3% (pre-tax WACC between 7.7% and 19.8%). The weighted average discount rate after tax is 7.6% (pre-tax 9.2%). 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.

KEY ACCOUNTING ESTIMATES

Impairment test – trademarks with indefinite useful lives

In the annual impairment test of trademarks with indefinite useful lives, an estimate is made to determine how the trademarks will be able to generate sufficient positive net cash flow in the future to support the value of the trademark in question. 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 trademark.

OTHER TRADEMARKS (DEFINITE USEFUL LIVES)

Acquired trademarks that have been deemed to have definite useful lives are in general amortised over a period of 5–25 years. Trademarks are tested for impairment when circumstances indicate that the value of a trademark is impaired.

In 2019 an impairment of DKK 5.3 million was recognised in the income statement. Management did not identify any other indications of impairment.

In 2018 an impairment of DKK 40.0 million regarding the pipe tobacco trademark Erinmore was recognised in the income statement. The impairment was 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 was calculated at DKK 45 million using an average discount rate (WACC after tax) of 9.2%. In 2018, Management did not identify any other indications of impairment.

IT SOFTWARE

Software comprises expenses for acquired software and expenses related to internally developed software. In 2019 an impairment of DKK 8.8 million was recognised in the income statement as part of 'Special Items'. Management did not identify any other indications of impairment.

OTHER INTANGIBLE ASSETS

Other intangible assets mainly comprise acquired name rights, customer relations and distribution rights. During 2019, Management did not identify any indications of impairment (same in 2018).

3.2 PROPERTY, PLANT AND EQUIPMENT

93.5

ADDITIONS (DKK million)

2019 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	864.2	730.3	233.6	72.9	51.6	1,952.6
Exchange rate adjustment	6.8	8.0	5.3	1.4	0.3	21.8
Additions	1.5	2.7	8.5	6.4	74.4	93.5
Disposals	-0.7	-0.1	-7.4	-7.9	-	-16.1
Disposal of entities	-2.7	-	-2.3	-	-	-5.0
Transfers	4.3	31.6	20.6	2.4	-58.9	-
Accumulated cost at 31 December	873.4	772.5	258.3	75.2	67.4	2,046.8
Accumulated depreciation and impairment at 1 January	262.9	272.2	155.1	33.3	9.6	733.1
Exchange rate adjustment	2.8	4.9	3.7	0.7	-	12.1
Depreciation	35.3	61.3	27.5	5.1	-	129.2
Depreciation on disposals	-0.7	-0.1	-6.5	-7.8	-	-15.1
Disposal of entities	-2.3	-	-1.9	-	-	-4.2
Impairment	37.1	53.0	2.7	-	0.7	93.5
Transfers/Reclassifications	-0.7	-	-0.2	0.9	-	-
Accumulated depreciation and impairment at 31 December	334.4	391.3	180.4	32.2	10.3	948.6
Carrying amount at 31 December	539.0	381.2	77.9	43.0	57.1	1,098.2

IMPAIRMENT

In 2019 impairment costs of DKK 92 million regarding the decision to close the Group's US production facility in Tucker, Georgia were recognised in the income statement as part of 'Special Items'. The impairment relates to the factory buildings and machinery that will not be used after the closing.

§ 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

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

direct and indirect expenses for labour, materials, components and sub-suppliers.

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

RIGHT-OF-USE ASSETS

THE GROUP AS A LESSEE

The Group has entered into lease contracts for land, offices, warehouses, motor vehicles and other equipment utilised across the entire Group. Leases of land have lease terms up to 20 years, offices and warehouses generally have lease terms between three and ten years, while motor vehicles and other equipment generally have lease terms between three

and five years. Lease contracts that include extension and termination options are recognised based on the outcome of the lease term that is considered reasonably certain at the commencement date.

Information on the corresponding lease liabilities is included in note 4.2 financial instruments and risks.

DKK million	Land, buildings, offices and warehouses	Motor vehicles	Other equipment	Total
Additions at 1 January 2019	189.3	54.2	2.7	246.2
Additions	85.5	14.1	0.4	100.0
Disposals	-32.5	-3.9	0.0	-36.4
Depreciation	-54.7	-28.2	-1.4	-84.3
Carrying amount at 31 December 2019	187.6	36.2	1.7	225.5

The following amounts are recognised in the income statement:

DKK million	2019
Depreciation expense of right-of-use assets	84.3
Interest expense on lease liabilities	6.1
Expense relating to short-term leases	1.2
Expense relating to leases of low-value assets	0.1
Variable lease payments	0.2
Total amount recognised in the income statement	91.9

The Group had total cash outflows for leases of DKK 89.0 million in 2019.

The Group has entered into lease contracts at a value of DKK 40.0 million that have not yet commenced. The Group has extension options at a total value of DKK 24 million that are not included in the recognised leases, as it is not considered reasonable certain that the Group will exercise the options.

§ ACCOUNTING POLICIES

At inception of a contract, the Group assess whether the contract is, or contains, a lease. Based on the contract the right-of-use asset and the lease liability is recognised at commencement of the lease. The initial measurement of the right-of-use asset is at cost and comprises the initial value of the lease liability and lease payments made at or before the commencement date. The right-of-use assets are depreciated on a straight-line basis over the shorter period of the lease term or the useful life of the underlying asset.

The lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date. Lease payments include fixed payments and variable payments that depend on an index such as an inflation index as well as lease payments from an extension option that the Group considers reasonably certain to be exercised.

Extension and termination options exist for a number of leases, particular for offices and warehouses. In determining lease terms, all facts and circumstances offering economic incentives for exercising extension options or not exercising termination options are taken into account. Lease terms can be subject to changes following the occurrence of significant events or circumstances.

The Group applies the recognition exemption to short-term leases and low-value leases.

Impairment of right-of-use assets

The carrying amounts 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 right-of-use asset is written down to its lower recoverable amount.



3.4 INVENTORIES

DKK million	2019	2018
Inventories at 31 December, net of allowances for obsolescence, comprise the following items:		
Raw materials and consumables	1,107.1	1,150.6
Work in progress	255.7	295.5
Finished goods, goods for resale and excise stamps	1,167.2	1,152.6
Total inventories (net)	2,530.0	2,598.7
Movements in the Group provision for obsolete stock are as follows:		
Provision for obsolete stock 1 January	-76.4	-110.3
Additions for the year	-39.9	-22.8
Reversal for the year	7.4	14.5
Write-downs during the year	30.9	42.8
Disposal of entities	1.9	-
Effect of exchange rate adjustments	-1.0	-0.6
Total provision at 31 December	-77.1	-76.4

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 2,953.0 million (DKK 2,883.1 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 labour, maintenance and depreciation of the machinery, factory buildings, equipment and right-of-use assets used in the manufacturing process as well as costs of factory administration and management.

📊 KEY ACCOUNTING ESTIMATES

Inventories are measured 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) comprise the cost of 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.



3.5 TRADE RECEIVABLES

DKK million	2019	2018
Trade receivables (net) at 31 December comprise the following:		
Trade receivables (gross)	817.3	869.0
Provision for bad debt	-16.7	-14.9
Trade receivables (net)	800.6	854.1

Movements in the Group provision for bad debt are as follows:

Provision for bad debt at 1 January	-14.9	-43.1
Additions for the year	-7.1	-4.6
Reversal for the year	2.6	7.6
Confirmed losses	1.7	25.0
Disposal of entities	1.2	-
Effect of exchange rate adjustments	-0.2	0.2
Total provision at 31 December	-16.7	-14.9

Impairment of trade receivables can be specified as follows:

	Receivable, DKK million	Loss rate, %	Provision, DKK million
Current	597.4	0.1%	-0.8
Overdue < 30 days	148.4	1.0%	-1.5
Overdue 31 - 60 days	34.8	1.3%	-0.5
Overdue 61 - 90 days	8.4	15.1%	-1.3
Overdue 91 - 180 days	10.3	17.6%	-1.8
Overdue > 180 days	18.0	60.0%	-10.8
Total	817.3		-16.7

§ 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.

3.6 PREPAYMENTS

§ ACCOUNTING POLICIES

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

3.7 OTHER PROVISIONS

DKK million	2019	2018
Balance at 1 January	137.8	61.1
Exchange rate adjustment	0.1	0.1
Discounting cost	0.3	0.9
Addition during the period	4.3	107.3
Utilised during the period	-76.9	-26.1
Reversed provision unused	-8.7	-5.5
Carrying amount at 31 December	56.9	137.8
Non-current	18.5	33.7
Current	38.4	104.1
Total	56.9	137.8

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.

3.8

PENSION OBLIGATIONS

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

DKK million	2019	2018
Present value of funded obligations	256.1	234.0
Fair value of plan assets	-129.8	-131.1
Deficit (+) / surplus (-)	126.3	102.9
Present value of unfunded obligations	155.4	137.9
Net asset (-) / liability (+) in the balance sheet	281.7	240.8

Amounts in the balance sheet

Liabilities	281.7	240.8
Assets	-	-
Net asset (-) / liability (+) in the balance sheet	281.7	240.8

DKK million	2019	2018
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Movement during the period in the net asset (-)/ liability (+)

Balance at 1 January	240.8	237.8
Recognised in the income statement	25.8	27.1
Actuarial loss recognised in other comprehensive income, financial assumptions	31.8	-6.8
Actuarial gain recognised in other comprehensive income, demographic assumptions	-0.2	1.3
Benefit payments to employees	-14.3	-13.5
Employer contributions	-7.7	-5.4
Currency effect	5.6	0.3
Balance at 31 December	281.7	240.8

Actuarial assumptions

Actuarial assumptions used for valuation (expressed as weighted averages and in %)	2019	2018
Discount rate	2.3	3.3
Future salary increases	4.0	4.0

Significant actuarial assumptions regarding the determination of the pension obligation are the discount rate and future salary increase. The sensitivity

analysis below has been determined based on likely changes in the discount rate and future salary increase occurring at the end of the period.

DKK million	2019		2018	
	1%-point increase	1%-point decrease	1%-point increase	1%-point decrease
Discount rate	-41.9	40.5	-37.3	44.3
Future salary increase	44.1	-31.6	41.5	-29.6

DKK million	2019	2018
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CHANGE IN THE DEFINED BENEFIT OBLIGATIONS AND PLAN ASSETS

Defined benefit obligations – movement

Balance at 1 January	371.9	362.6
Current service costs	19.6	18.0
Interest cost	11.6	10.9
Recognised past service costs	0.7	-
Actuarial losses (+)/gains (-)	31.6	-4.0
Benefits paid	-25.0	-16.3
Curtailements	-4.9	-
Settlements	0.4	0.1
Currency effect	5.6	0.6
Balance at 31 December	411.5	371.9

Plan assets – movement in fair value

Balance at 1 January	131.1	124.8
Interest income	1.6	1.8
Actuarial losses (-)/gains (+)	0.0	1.5
Employer contributions	11.0	8.7
Benefits paid	-13.9	-6.1
Currency effect	0.0	0.4
Balance at 31 December	129.8	131.1

The actual return on plan assets in 2019 was a gain of DKK 1.6 million (DKK 3.3 million).

3.8 (CONTINUED)

PENSION OBLIGATIONS

Categories of plan assets:	2019		2018		2019	2018
	Quoted	Unquoted	Quoted	Unquoted	Total	Total
DKK million						
Categories of plan assets						
Bonds	30.6	98.1	29.2	100.9	128.7	130.1
Other	1.1	-	1.0	-	1.1	1.0
Total	31.7	98.1	30.2	100.9	129.8	131.1

The weighted average duration of the defined benefit obligation is 11.7 years (11.8 years).

DKK million	2019	2018
Post-employment benefit plans recognised in income statement		
Current service costs	19.6	18.0
Interest on net obligation	10.0	9.0
Recognised past service costs	0.7	-
Curtailments	-4.9	-
Settlements	0.4	0.1
Net income (-)/expense (+) reported in the income statement	25.8	27.1

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

Staff costs	15.8	18.1
Financial costs	10.0	9.0
Net income (-)/expense (+) reported in the income statement	25.8	27.1

Amounts recognised in other comprehensive income

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

Net actuarial losses (+)/ gains (-)	31.6	-5.5
Cumulative net actuarial losses (+)/ gains (-)	185.4	151.8

EXPECTED CONTRIBUTION NEXT YEAR

Expected contributions to post-employment benefit plans for the year ending 31 December 2019 amount to DKK 17.3 million (DKK 14.6 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 amount to DKK 52.9 million (DKK 50.9 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 were employed 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 13/2003). The defined benefit plans for the Dominican Republic are enacted by law and cover all employees with at least three months of employment. 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.

(Continues on next pages)



3.8 (CONTINUED)

PENSION OBLIGATIONS

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.



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

DKK million	2019	2018
Financial institutions are recognised in the balance sheet as follows:		
Non-current liabilities	2,682.1	2,658.1
Total	2,682.1	2,658.1

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

Currency	Fixed/floating	Term/ revolving credit facility	Maturity date	Carrying amount		Fair value* Level 2	
				2019	2018	2019	2018
EUR	Floating	Term	30/09/2021	560.2	560.1	571.4	574.6
EUR	Floating	Term	30/09/2022	1,120.5	1,120.1	1,154.2	1,157.9
USD	Floating	Term	30/09/2021	333.8	326.0	339.1	334.0
USD	Floating	Term	30/09/2022	667.6	651.9	684.1	673.4
EUR	Floating	RCF	30/09/2022	-	-	-	-
Total				2,682.1	2,658.1	2,748.8	2,739.9

* 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 2019	0-1 Year	2-5 Years	After 5 years	Total*	Fair value level 2**	Carrying amount
LIQUIDITY						
Recognised at amortised cost						
Financial institutions	41.9	2,741.1	-	2,783.0	2,748.8	2,682.1
Trade payables	334.0	-	-	334.0	-	334.0
Lease liabilities	68.7	131.4	48.4	248.5	-	226.8
Other liabilities	500.3	7.6	-	507.9	-	507.9
Total	944.9	2,880.1	48.4	3,873.4	-	3,750.8
Recognised at fair value						
Interest rate swaps	11.2	21.9	-	33.1	34.2	34.2
Currency swaps	7.5	-	-	7.5	7.5	7.5
Total	18.7	21.9	-	40.6	-	41.7
Total financial liabilities	963.6	2,902.0	48.4	3,914.0	-	3,792.5
Recognised at amortised cost						
Cash and cash equivalents	897.5	-	-	897.5	-	897.5
Trade receivables	800.6	-	-	800.6	-	800.6
Other receivables	90.0	-	-	90.0	-	90.0
Total	1,788.1	-	-	1,788.1	-	1,788.1
Recognised at fair value						
Interest rate swaps	3.1	3.1	-	6.2	2.5	2.5
Currency swaps	2.8	-	-	2.8	2.8	2.8
Total	5.9	3.1	-	9.0	-	5.3
Total financial assets	1,794.0	3.1	-	1,797.1	-	1,793.4

* 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 2018	0-1 Year	2-5 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.

FINANCIAL RISKS

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.

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 the 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 1.3 million (DKK 1.0 million) and impact other comprehensive income positively/negatively by DKK 0.1 million (DKK 1.5 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.



4.2 (CONTINUED)

FINANCIAL RISKS AND INSTRUMENTS

The types of interest rate risk are: Cash flow risk, where future cash flows are uncertain due to future interest rate movements. Fair value risk, where the value of the underlying asset or liability 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 is hedged up to 100%.

Hedging instruments: Hedging of the interest exposure is mitigated via financial derivatives where there is a direct economic relation to the underlying risk – Interest rate fluctuations. The Group therefore engages 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 the Group exchanges future payment 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, the Group effectually exchanges its floating denominated interest payments to a fixed rate and thus mitigate the uncertainty regarding interest rate movements effect on loan payments. The Group uses IR swap to fix the future interest rates via matching the floating interest on the loan in exchange for a fixed rate for the remainder 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 cases, a mismatch in terms, 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 4.7 million (DKK 2.5 million) and is related to the Group's EUR interest rate swaps. 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 0.0 million (DKK 46.0 million) and DKK 51.9 million (DKK 34.4 million), respectively and a positive impact on the financial items of DKK 73.8 million (DKK 8.0 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 2019 included trade receivables with a net book value of DKK 800.6 million (DKK 854.1 million), representing a gross receivable balance of DKK 817.3 million (DKK 869.0 million) and a provision for expected credit losses of DKK 16.7 million (DKK 14.9 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 2019 which have not been written down totalled DKK 203.2 million (DKK 150.4 million). Please refer to note 3.5.

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 2019 (DKK 0.0 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 2019 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, quoted swap and forward rates on the balance sheet date. There are no financial instruments in level 3 (none).

4.2 (CONTINUED)

FINANCIAL RISKS
AND INSTRUMENTS

HEDGING TRANSACTIONS

The net fair value as at 31 December 2019 of outstanding derivative contracts was negative by DKK 31.7 million (positive by DKK 1.3 million), all related to interest rate swaps. Income statement was impacted by DKK 4.7 million (DKK 2.5 million) related to the ineffectiveness of interest rate swaps. Balances in the cash flow hedge reserve on equity for which hedge accounting is no longer applied amounted to DKK 16.8 million (DKK 3.6 million) as per 31 December 2019. The balances will be amortised in the income statement during the lifetime of the corresponding interest rate swap. The yearly amortisation is included in the reported amount of ineffectiveness.

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 2019 of outstanding currency swaps was negative by DKK 4.7 million (positive by DKK 2.2 million). As at the balance sheet date, the Group has outstanding currency swaps with a notional amount of DKK 1,538.8 million (DKK 1,182.8 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.

4.3

FINANCIAL
FIXED ASSETS

8.0

DIVIDEND (DKK million)

2019

DKK million	Investments in associated companies
Cost at 1 January	92.6
Accumulated cost at 31 December	92.6
Accumulated revaluation and impairment at 1 January	51.1
Dividends	-8.0
Currency translation	3.5
Profit after tax	16.7
Accumulated revaluation and impairment at 31 December	63.3
Carrying amount at 31 December	155.9

2018

DKK million	Investments in associated companies
Cost at 1 January	92.6
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

Other financial fixed assets amount to DKK 1.7 million (DKK 22.3 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	2019	2018
Profit & loss		
Revenue	392.3	413.2
Profit for the year	83.7	87.5
Total comprehensive income	83.7	87.5
Financial position		
Non-current assets	45.2	41.9
Current assets	575.9	509.7
Non-current liabilities	1.5	1.6
Current liabilities	85.4	71.0
% 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	106.8	95.8
Goodwill concerning Caribbean Cigar Holdings Group	55.1	53.8
Elimination of internal profit	-6.0	-5.9
Carrying amount at 31 December	155.9	143.7

§ 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	2019	2018
FINANCIAL INCOME		
Interest on deposits in financial institutions etc.	5.3	3.9
Exchange gains	39.5	44.4
Other financial income	1.8	6.7
Total	46.6	55.0
FINANCIAL COSTS		
Interest to financial institutions etc.	59.6	59.9
Interest part of pension cost	10.0	9.0
Exchange losses	1.6	13.5
Lease interest costs	6.1	-
Other financing costs	14.6	10.0
Total	91.9	92.4

Interest on debt to financial institutions etc. includes realisation of previously deferred losses from interest rate swaps of DKK 4.9 million (DKK 11.6 million).

Other financing costs include discounting effect of provisions of DKK 0.3 million (DKK 0.9 million) and ineffectiveness of interest rate swaps of DKK 4.7 million (DKK 2.5 million).

§ ACCOUNTING POLICIES

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

4.5 SHARE CAPITAL, TREASURY SHARES, DIVIDEND AND EARNINGS PER SHARE

610

PROPOSED DIVIDEND (DKK million)

Development in share capital:

DKK million	
2015-2018	-
At the beginning of the year	100.0
2019	-
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 2019	0.4	367	40.5	0.4
Addition	-	-	-	-
Settlement of vested PSU's	-0.1	-51	-5.5	-0.1
Treasury shares at 31 December 2019	0.3	316	35.0	0.3

The market value of treasury shares at 31 December 2019 was DKK 25.7 million (DKK 28.8 million).

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

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.

	Dividend DKK million	Per share DKK
Net cash distribution to shareholders (dividend):		
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
2019 (proposed dividend in 2018 Annual Report)	600.0	6.0

Retained earnings end of 2019 include proposed dividend of DKK 610 million (DKK 6.1 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 programs. Please refer to note 5.8 for a description of the calculation of basic and diluted earnings per share.

DKK million	2019	2018
Net profit for the year	747.7	665.5
Average number of shares outstanding (in 1,000 shares)	100,000	100,000
Average number of treasury shares (in 1,000 shares)	-331	-367
Average number of shares - basic (in 1,000 shares)	99,669	99,633
Dilutive effect of outstanding PSUs (in 1,000 shares)	271	170
Average number of shares outstanding, including dilutive effect of PSUs (in 1,000 shares)	99,940	99,803
Basic earnings per share (DKK)	7.5	6.7
Diluted earnings per share (DKK)	7.5	6.7



4.6 CHANGES IN WORKING CAPITAL (CASH FLOW STATEMENT)

DKK million	2019	2018
Change in receivables	35.7	-76.7
Change in inventories	87.5	53.5
Change in liabilities	-22.3	-77.9
Total	100.9	-101.1

\$ 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	2019	2018
Interest-bearing liabilities, net	2,945.3	2,654.6
Pensions	281.7	240.8
Cash equivalents	-897.5	-310.8
Total	2,329.5	2,584.6

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 2019 the ratio was 1.5 (2.0).

4.8 CHANGES IN FINANCING LIABILITIES

DKK million	2019	2018
Balance at 1 January	2,658.1	2,606.3
Lease liabilities	305.4	-
Instalment and repayment	-81.3	-
Other financing	6.8	-
Exchange rate adjustment	26.6	51.8
Carrying amount at 31 December	2,915.6	2,658.1

SECTION 5

5.1 BUSINESS COMBINATIONS

With effect from 2 January 2020, the Group acquired 100% of the shares in Agio Beheer B.V. (Royal Agio) a leading European cigar company. The total consideration transferred of EUR 220 million was paid in cash. The disclosure for the business combination is considered provisional as the figures are based on the unaudited closing balance of Royal Agio. The provisional figures can be changed up until 1 January 2021.

Royal Agio

Royal Agio is a leading European cigar company with a strong cigar portfolio including key brands such as Mehari's, Panter and Balmoral. The company is based in Duizel, the Netherlands and has approximately 3,200 full-time employees. Royal Agio's unaudited annual net sales for 2019 were EUR 137 million (DKK 1 billion) with a net profit of EUR 8 million (DKK 58 million).

Royal Agio will provide the Group access to a strong product portfolio and important market positions in key European machine-made cigar markets. The acquisition will secure leading positions in France, Belgium and the Netherlands and significantly improve the position in key cigar markets such as Spain and Italy.

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 the Group's accounting policies and financial reporting requirements. The provisional calculated goodwill relates to synergies from integrating Royal Agio into the existing divisions 'Region Machine

Made Cigars' and 'Region Smoking Tobacco and Accessories' including optimisations within sales, marketing, procurement, workforce and manufacturing expertise.

Transaction costs

Total transaction costs related to the acquisition amount to DKK 27 million, of which DKK 22 million was recognised in 2019 Financial Statements and DKK 5 million will be recognised in the 2020 Financial Statements. Transaction costs for 2019 are recognised by DKK 20 million in 'Special items' and by DKK 2 million in the 'balance sheet' that subsequently will be amortised during the financing period.

Impact on Consolidated Income Statement

The Financial Statements do not include net sales or net profit from the acquisition. On a proforma basis, if the acquisition had been effective from 1 January 2019 the business of Royal Agio would in 2019 have contributed DKK 1 billion to net sales and DKK 58 million on net profit.

2018

Thompson and Co. of Tampa

With effect from 2 April 2018, the Group acquired, in an asset deal, the business of Thompson and Co. of Tampa, a leading US Online Cigar Retailer. The total consideration transferred was paid in cash. Thompson is a leading online retail cigar business in the US, a market where approximately two thirds of all handmade cigars are sold online. As 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 the Group 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 strength-

ens the Group's position in the online retail cigar channel in the US.

Fair value of acquired net assets and recognised goodwill

Net assets have been adjusted to comply with the Group's accounting policies and financial reporting requirements. The 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 include 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 consists of Thompson's net sales offset by the Group'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 the Group's sales to Thompson in Q1 2018) and DKK 7 million on net profit.

Transaction costs

Total transaction costs related to the acquisition amount 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 'Special items'.

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% of the Group's net sales and total assets. Given the insignificance of the acquisition, no information according to IFRS 3

Business Combination was 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	2019	2018
Intangible assets	450.5	142.3
Property, plant and equipment	251.0	6.2
Right-of-use assets	13.0	-
Inventories	504.2	125.9
Trade receivables	121.3	9.6
Other receivables	3.3	1.5
Prepayments	4.3	1.6
Total assets	1,347.6	287.1

Deferred tax liabilities	114.7	-
Trade payables	51.8	47.1
Lease liabilities	13.0	-
Other liabilities	136.0	21.2
Total liabilities	315.5	68.3

Acquired net assets	1,032.1	218.8
Goodwill from acquisition	527.0	162.8
Acquisition (cash flow)	1,559.1	381.6
Cash and cash equivalents in acquired business	83.8	-
Consideration transferred	1,642.9	381.6

The recognised goodwill is not tax deductible.

5.1 (CONTINUED) BUSINESS COMBINATIONS

§ 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 measured at acquisition date fair value.

Acquisition-related costs are expensed as incurred and included in "Special items".

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 the Group 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	2019	2018
Financial items	45.3	37.4
Share of profit of associated companies, net of tax	-16.7	-16.7
Income taxes	200.9	51.3
Gains/losses from sale of fixed assets	-46.6	-
Special items, paid	174.3	103.1
Other provisions movement	-80.9	76.7
Bad debt allowance and provision for obsolete stock movements	2.5	-62.1
Other adjustments	12.4	17.0
Total	291.2	206.7

5.3 CONTINGENT LIABILITIES

DKK million	2019	2018
-------------	------	------

Lease expenditures charged to the income statement during the year	-	120.8
--	---	-------

Future minimum lease payment under operating lease contracts and rent commitments amounts to:

Within 1 year	-	97.4
Between 1 and 5 years	-	115.8
After 5 years	-	17.2
Total	-	230.4

LEASES

As of 1 January 2019 the Group implemented IFRS 16 'Leases'. Consequently all leases are reported in accordance with IFRS 16. For disclosures on leases please refer to note 3.3 Right-of-use assets and note 4.2 Financial risks and instruments.

GUARANTEE OBLIGATIONS

The Group has (via 3rd parties) issued guarantees totalling DKK 498.0 million (DKK 512.4 million), which are 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 investments in associated companies are 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	2019	2018
-------------	------	------

Caribbean Cigar Holdings Group Co. S.A (associated company)

Purchase of products by Scandinavian Tobacco Group	-83.8	-90.8
--	-------	-------

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



5.4 (CONTINUED)

RELATED-PARTY TRANSACTIONS

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 2019 or 2018.

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

OWNERSHIP AND CONSOLIDATED FINANCIAL STATEMENTS

For information concerning major shareholders, please refer to Shareholder information in the Management Report, page 29. No major shareholders have controlling influence on the Group.

5.5

EVENTS AFTER THE REPORTING PERIOD

On 2 January 2020 the Group completed the acquisition of Agio Beheer B.V. (Royal Agio). Please refer to note 5.1 for more information on the acquisition.

The Group has not experienced any significant events after 31 December 2019 which have an impact on the annual report.

5.6

FEE TO STATUTORY AUDITOR

DKK million	2019	2018
Statutory audit	6.8	6.1
Audit-related services	0.3	1.2
Tax advisory services	0.6	0.5
Other services	4.2	0.3
Total fee to statutory auditors	11.9	8.1

Fees for other services in addition to the statutory audit of the financial statements, which were provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab to the Group amounted to DKK 3.9 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	Sales and marketing	Administration	Finance
PARENT COMPANY						
Scandinavian Tobacco Group A/S	Denmark	-		☑	☑	☑
SUBSIDIARIES BY REGION						
EUROPE						
Bogaert Cigars N.V.	Belgium	100%			☑	
Scandinavian Tobacco Group Belux N.V.	Belgium	100%		☑		
Scandinavian Tobacco Group Lummen N.V.	Belgium	100%	☑			
Scandinavian Tobacco Group Belgium Services N.V.	Belgium	100%			☑	
Scandinavian Tobacco Group Assens A/S	Denmark	100%	☑	☑	☑	
Scandinavian Tobacco Group Denmark A/S	Denmark	100%		☑		
Scandinavian Tobacco Group Nykøbing ApS	Denmark	100%			☑	
STG Finans ApS	Denmark	100%				☑
STG Latin Holding ApS	Denmark	100%			☑	
Peter Stokkebye Tobaksfabrik A/S	Denmark	100%		☑		
Scandinavian Tobacco Group France S.A.S	France	100%		☑		
Scandinavian Tobacco Group Deutschland GmbH	Germany	100%		☑		
Scandinavian Tobacco Group Italy S.R.L.	Italy	100%		☑		
Scandinavian Tobacco Group Norway AS	Norway	100%		☑		
STG Portugal S.A.	Portugal	100%		☑		
Scandinavian Tobacco Group Spain S.A.U.	Spain	100%		☑		
Intermatch Sweden AB	Sweden	100%			☑	
STG Sweden AB	Sweden	100%		☑		
P.G.C. Hajenius B.V.	The Netherlands	100%		☑		

Company	Country	Ownership	Activity			
			Production	Sales and marketing	Administration	Finance
Scandinavian Tobacco Group Eersel B.V.	The Netherlands	100%	☑	☑	☑	
Scandinavian Tobacco Group Nederland B.V.	The Netherlands	100%		☑		
Scandinavian Tobacco Group Tobacco Service B.V.	The Netherlands	100%		☑		
ST Cigar Group Holding B.V.	The Netherlands	100%			☑	
STG Finance B.V.	The Netherlands	100%				☑
Scandinavian Tobacco Group Bethlehem Sales B.V.	The Netherlands	100%		☑	☑	
Scandinavian Tobacco Group United Kingdom Limited	United Kingdom	100%		☑		
Peterson Pipe Tobacco - DAC	Ireland	100%			☑	
ASIA						
Scandinavian Tobacco Group Hong Kong Limited	Hong Kong	100%		☑		
PT Scandinavian Tobacco Group Indonesia	Indonesia	100%	☑			
AUSTRALIA AND NEW ZEALAND						
Scandinavian Tobacco Group Australia Pty Ltd	Australia	100%		☑		
Scandinavian Tobacco Group New Zealand Ltd	New Zealand	100%		☑		
AFRICA						
Scandinavian Tobacco Nigeria Ltd.	Nigeria	100%			☑	
AMERICA						
Scandinavian Tobacco Group Canada Holding Inc.	Canada	100%			☑	
Scandinavian Tobacco Group Canada Inc.	Canada	100%		☑		
General Cigar Dominicana S.A.S.	The Dominican Republic	100%	☑			
Honduras American Tabaco SA de CV	Honduras	100%	☑			



5.7 (CONTINUED)

ENTITIES IN SCANDINAVIAN TOBACCO GROUP

Company	Country	Ownership	Activity			
			Production	Sales and marketing	Administration	Finance
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 Acquisition 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%			☛	
LVPenn Sales, 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

$$\text{GROSS MARGIN BEFORE SPECIAL ITEMS} = \frac{\text{Gross profit before special items}}{\text{Net sales}}$$

$$\text{EBIT MARGIN} = \frac{\text{EBIT}}{\text{Net sales}}$$

$$\text{CASH CONVERSION} = \frac{\text{CFFO before interest and tax, excluding payment of special items – Maintenance CAPEX}}{\text{Adjusted operating profit (EBITA before special items)}}$$

$$\text{NET INTEREST-BEARING DEBT} = \frac{\text{Interest-bearing liabilities and pensions less cash equivalents and interest-bearing receivables}}{\text{Interest-bearing liabilities and pensions less cash equivalents and interest-bearing receivables}}$$

$$\text{BASIC EARNINGS PER SHARE} = \frac{\text{Net profit}}{\text{Average number of shares outstanding}}$$

$$\text{DIVIDEND PER SHARE} = \frac{\text{Proposed and interim dividend}}{\text{Average number of shares outstanding}}$$

$$\text{EBITDA MARGIN BEFORE SPECIAL ITEMS} = \frac{\text{EBITDA before special items}}{\text{Net sales}}$$

$$\text{TAX PERCENTAGE} = \frac{\text{Tax}}{\text{Profit before tax}}$$

$$\text{EQUITY RATIO} = \frac{\text{Equity}}{\text{Total assets}}$$

$$\text{ROIC} = \frac{\text{EBIT}}{\text{12 months average invested capital*}}$$

$$\text{ROIC EX. GOODWILL} = \frac{\text{EBIT}}{\text{12 months average invested capital* ex. goodwill}}$$

$$\text{DILUTED EARNINGS PER SHARE} = \frac{\text{Net profit}}{\text{Average number of shares outstanding + dilutive effect of the outstanding performance stock units (PSUs)}}$$

$$\text{PAY-OUT RATIO} = \frac{\text{Proposed and interim dividend}}{\text{Net profit}}$$

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, right-of-use assets, inventories, receivables (excluding receivables recognised at fair value) and prepayments less trade creditors, provisions and other liabilities (excluding other liabilities recognised at fair value).



FINANCIAL STATEMENTS

THE PARENT COMPANY



FINANCIAL STATEMENTS OF THE PARENT COMPANY

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1 JANUARY - 31 DECEMBER
INCOME STATEMENT
- PARENT COMPANY

DKK million	Note	2019	2018
Other income		283.5	280.7
Other external costs		-140.7	-171.7
Staff costs	2	-124.1	-141.3
Earnings before interest, tax, depreciation and amortisation (EBITDA)		18.7	-32.3
Depreciation	3	-5.6	0.0
Earnings before interest, tax and amortisation (EBITA)		13.1	-32.3
Amortisation	3	-15.1	-14.0
Earnings before interest and tax (EBIT)		-2.0	-46.3
Result of investments in affiliated companies, net of tax	4	405.4	410.9
Financial income	5	123.6	119.9
Financial costs	6	-116.4	-101.4
Profit before tax		410.6	383.1
Income taxes	7	-5.5	5.1
Net profit for the year		405.1	388.2

DKK million	Note	2019	2018
DISTRIBUTION OF PROFIT			
Proposed distribution of profit:			
Proposed dividend		610.0	600.0
Retained earnings		-204.9	-211.8
Total		405.1	388.2

BALANCE SHEET AT 31 DECEMBER - PARENT COMPANY

DKK million	Note	2019	2018
ASSETS			
Other intangible assets		28.7	36.0
Intangible assets	8	28.7	36.0
Equipment, tools and fixtures	9	0.7	-
Leasehold improvements	9	2.6	-
Right-of-use assets	10	36.6	-
Property, plant and equipment		39.9	-
Investments in affiliated companies	11	11,305.3	10,974.8
Other financial fixed assets		1.7	22.3
Financial fixed assets		11,307.0	10,997.1
Fixed assets		11,375.6	11,033.1
Receivables from affiliated companies		1,989.2	2,249.3
Other receivables		4.7	11.6
Income tax receivable		59.8	67.5
Prepayments	12	18.3	16.2
Total receivables		2,072.0	2,344.6
Cash and cash equivalents		841.7	223.9
Current Assets		2,913.7	2,568.5
Assets		14,289.3	13,601.6

DKK million	Note	2019	2018
EQUITY, PROVISIONS AND LIABILITIES			
Share capital		100.0	100.0
Retained earnings		5,835.5	5,935.8
Treasury shares		-35.0	-40.5
Proposed dividend		610.0	600.0
Equity		6,510.5	6,595.3
Deferred income tax liabilities	7	14.2	11.4
Other provisions	13	3.4	15.0
Provisions		17.6	26.4
Bank loans		2,682.1	2,658.1
Lease liabilities	14	29.7	-
Other liabilities		31.4	26.5
Long-term liabilities		2,743.2	2,684.6
Liabilities to affiliated companies		4,896.3	4,188.4
Trade creditors		35.2	45.7
Lease liabilities	14	4.5	-
Other provisions	13	10.7	9.3
Other liabilities		71.3	51.9
Current liabilities		5,018.0	4,295.3
Liabilities		7,761.2	6,979.9
Equity, provisions and liabilities		14,289.3	13,601.6
Contingent liabilities	15		
Financial instruments	16		
Related-party transactions	17		
Fee to statutory auditor	18		
Ownership	19		

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 2019	100.0	5,935.8	-40.5	600.0	6,595.3
Cash flow hedges	-	-28.3	-	-	-28.3
Tax of cash flow hedges	-	6.2	-	-	6.2
Share-based payments	-	9.3	-	-	9.3
Settlement of vested PSUs	-	-5.5	5.5	-	-
Equity movement in subsidiaries	-	-24.5	-	-	-24.5
Foreign exchange adjustments of net investments in foreign subsidiaries	-	145.4	-	-	145.4
Dividend paid to shareholders	-	-	-	-600.0	-600.0
Dividend, treasury shares	-	2.0	-	-	2.0
Profit / loss for the year	-	-204.9	-	610.0	405.1
Equity at 31 December 2019	100.0	5,835.5	-35.0	610.0	6,510.5

The share capital consists of 100,000,000 shares of a nominal value of DKK 1. No shares carry any special rights. No changes have been made to the share capital in the past five years.

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

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 follows the requirements in the Danish Financial Statements 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 3.8.

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 sharebased payments means that the year's cost for share-based payments is 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	2019	2018
Salaries	115.8	133.4
Pensions	8.0	7.6
Social security costs	0.3	0.3
Total	124.1	141.3
Average number of employees	97	95

Remuneration of the board of directors and executive board*

Total fees to the Board of Directors and Executive Board amounted to DKK 53.4 million (DKK 68.4 million).

2019

DKK million	Salary	Bonus	Pension	Extraordinary remuneration /stay-on and loyalty bonus	Share-based incentive programme	Total
Executive Board						
Niels Frederiksen	7.3	1.3	-	2.0	2.5	13.1
Marianne Rørslev Bock	4.1	1.2	-	-	0.4	5.7
Total Executive Management	11.4	2.5	-	2.0	2.9	18.8
Other key management	16.3	5.1	0.8	2.9	3.0	28.1
Total Executive Board	27.7	7.6	0.8	4.9	5.9	46.9

* Executive Board comprises the Executive Management (registered members) and other key management (not registered members).

NOTE 2 (CONTINUED)

STAFF COSTS

2018

DKK million	Salary and benefits	Bonus	Pension	Extraordinary remuneration /stay-on and loyalty bonus	Share-based incentive programme	Total
Executive Board						
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 18 October 2018.

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

*** 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 are 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.

DKK thousand	Position	Joined the Board	Left the Board	Board	Committees	Total
Board of Directors						
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	Apr 2019	111	110	221
Marlene Forsell	Board member	Apr 2019		290	218	508
Dianne Neal Blixt	Board member	Feb 2016		400	150	550
Luc Missorten	Board member	Feb 2016		400	225	625
Anders Obel	Board member	Apr 2018		400	-	400
Claus Gregersen	Board member	Apr 2019		290	72	362
Kurt Asmussen	Employee represen.	Oct 2010	Apr 2019	110	-	110
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 2019				5,101	1,075	6,176
Total 2018				5,106	1,000	6,106

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 2019 the company paid DKK 287 thousand compared to DKK 194 thousand in 2018.

NOTE 3

DEPRECIATION AND AMORTISATION

DKK million	2019	2018
Depreciation		
Right-of-use assets	5.6	-
Total	5.6	-
Amortisation		
Other intangible assets	15.1	14.0
Total	15.1	14.0

NOTE 4

RESULT OF INVESTMENTS IN AFFILIATED COMPANIES, NET OF TAX

DKK million	2019	2018
Result of investments in affiliated companies, net of tax	405.4	410.9
Total	405.4	410.9

NOTE 5

FINANCIAL INCOME

DKK million	2019	2018
Interest on deposits in financial institutions, etc.	4.1	2.5
Interest on balances with affiliated companies	83.3	85.1
Exchange gains, net	36.2	32.3
Total	123.6	119.9

NOTE 6

FINANCIAL COSTS

DKK million	2019	2018
Interest on debt to financial institutions, etc.	59.5	59.2
Interest on balances with affiliated companies	41.0	31.0
Other financing costs	7.6	0.6
Lease interest costs	0.1	-
Exchange losses, net	8.2	10.6
Total	116.4	101.4

NOTE 7 INCOME TAXES

DKK million	2019	2018
Current income tax	-3.6	-8.4
Deferred income tax	9.0	3.2
Adjustment regarding prior years, current income tax	6.3	0.4
Adjustment regarding prior years, deferred income tax	-6.2	-0.3
Total	5.5	-5.1

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	2019	2018
BREAKDOWN OF DEFERRED INCOME TAX:		
Intangible assets	5.1	7.6
Property, plant and equipment	-0.5	-0.4
Receivables	13.4	7.5
Other liabilities	-3.8	-3.3
Total	14.2	11.4
BREAKDOWN OF INCOME TAXES:		
Tax calculated at 22% of profit before tax	86.5	84.3
TAX EFFECT OF:		
Adjustment regarding prior years	0.1	0.1
Non-deductable costs	4.2	1.0
Result of investments in affiliated companies	-85.3	-90.5
Total	5.5	-5.1
Deferred income tax 1 January	11.4	8.5
Deferred income tax in income statement	2.8	2.9
Deferred income tax at 31 December	14.2	11.4

NOTE 8 INTANGIBLE ASSETS

2019

DKK million	Other intangible assets
Accumulated cost at 1 January	118.3
Addition	8.0
Disposal	-0.2
Accumulated cost at 31 December	126.1
Accumulated amortisation at 1 January	82.3
Amortisation	15.1
Accumulated amortisation at 31 December	97.4
Carrying amount at 31 December	28.7

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

2019

DKK million	Equipment, tools and fixtures	Leasehold improvements	Total
Accumulated cost at 1 January	0.2	6.7	6.9
Additions	0.7	2.6	3.3
Disposals	-0.2	-6.7	-6.9
Accumulated cost at 31 December	0.7	2.6	3.3
Accumulated depreciation at 1 January	0.2	6.7	6.9
Depreciation	0.0	0.0	0.0
Depreciation on disposals	-0.2	-6.7	-6.9
Accumulated depreciation at 31 December	0.0	0.0	0.0
Carrying amount at 31 December	0.7	2.6	3.3

NOTE 10 RIGHT-OF-USE ASSETS

DKK million	Land, buildings, offices and warehouses	Cars	Total
Additions at 1 January 2019	6.9	3.0	9.9
Additions	33.9	2.3	36.2
Disposals	-3.2	-0.7	-3.9
Depreciation	-4.0	-1.6	-5.6
Carrying amount at 31 December 2019	33.6	3.0	36.6

The following amounts are recognised in the income statement:

DKK million	2019
Depreciation expense of right-of-use assets	5.6
Interest expense on lease liabilities	0.1
Total amount recognised in the income statement	5.7

The Parent Company had total cash outflows for leases of DKK 6.1 million in 2019.

NOTE 11 INVESTMENTS IN AFFILIATED COMPANIES

DKK million	2019	2018
Accumulated cost at 1 January	14,082.1	13,011.6
Addition	2.5	1,070.5
Disposal	-0.7	-
Accumulated cost at 31 December	14,083.9	14,082.1
Accumulated revaluation and impairment at 1 January	-3,107.3	-2,701.7
Dividends	-155.7	-1,017.7
Currency translation	145.4	197.6
Equity adjustments	-24.5	3.6
Profit after tax	405.4	410.9
Disposal	-41.9	-
Accumulated revaluation and impairment at 31 December	-2,778.6	-3,107.3
Carrying amount at 31 December	11,305.3	10,974.8

Goodwill of DKK 2,621.3 million (DKK 2,816.7 million) is included in the carrying amount at 31 December 2019.

NOTE 11 (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 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 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 12

PREPAYMENTS

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

NOTE 13

OTHER
PROVISIONS

2019

DKK million	Other provisions
Balancing at 1 January 2019	24.3
Reversal during the year	-2.3
Additions during the year	2.5
Utilised during the year	-10.4
Balance at 31 December 2019	14.1
Expected due:	
Within 1 year	10.7
Between 1 and 5 years	0.9
After 5 years	2.5
Total	14.1

NOTE 14

LEASE
LIABILITIES

2019

DKK million	Lease liabilities
Expected due:	
Within 1 year	4.5
Between 1 and 5 years	14.2
After 5 years	15.5
Total	34.2

NOTE 15 CONTINGENT LIABILITIES

Guarantee obligations

The company has guarantee obligations totalling DKK 498 million at 31 December 2019 (DKK 508 million).

Lease obligations

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

DKK million	2019	2018
Within 1 year	-	25.0
Between 1 and 5 years	-	1.0
After 5 years	-	-
Total	-	26.0

As of 1 January 2019 the company implemented IFRS 16 'Leases' as the basis for recognition and measurement. Consequently all leases are recognised in accordance with IFRS 16. For disclosures on leases please refer to note 10 Right-of-use assets and note 14 Lease liabilities.

NOTE 16 FINANCIAL INSTRUMENTS

Reference is made to Group note 4.2.

NOTE 17 RELATED-PARTY TRANSACTIONS

Related parties comprise companies controlled by the Augustinus Foundation and key management. Key management is 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	2019	2018
Affiliated companies		
Services provided by Scandinavian Tobacco Group A/S	289.5	286.0
Services provided to Scandinavian Tobacco Group A/S	-6.0	-5.3
Financial income	83.3	85.1
Financial cost	-41.0	-31.0

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 11. There have not been and there are no loans to key management personnel in 2019 or 2018.

NOTE 18 FEE TO STATUTORY AUDITOR

DKK million	2019	2018
Statutory audit	1.7	1.0
Audit-related services	0.1	0.7
Tax advisory services	0.1	0.1
Other services	3.9	0.0
Total	5.8	1.8

NOTE 19 OWNERSHIP

As of 1 February 2020 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%
Parvus Asset Management Europe	> 5%

MANAGEMENT'S STATEMENT

The Executive Management and the 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 2019.

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 disclosure 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 2019 of the Group and the Parent Company and of the results of the Group and Parent Company's operations and consolidated cash flows for the financial year 1 January – 31 December 2019.

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.

Gentofte, 27 February 2020

EXECUTIVE MANAGEMENT



Niels Frederiksen

CEO



Marianne Rørslev Bock

CFO

BOARD OF DIRECTORS



Nigel Northridge

Chairman



Henrik Brandt

Vice chairman



Marlene Forsell



Dianne Neal Blixt



Luc Missorten



Anders Obel



Claus Gregersen



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 2019 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2019 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 2019 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2019 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 2019 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 Parent Company Financial Statements of Scandinavian Tobacco Group A/S for the financial year 1 January to 31 December 2019 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 3 years, including the financial year 2019.



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 2019. 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

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 a re-allocation of the value of the goodwill to the new operating segments based on the relative fair values of the new operating segments North America Online & Retail, North America Branded, Region Machine-Made Cigars and Region Smoking Tobacco & Accessories as of 1 January 2019.

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.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Our audit procedures included assessing the Group's impairment model and the re-allocation of the value of the goodwill to the new operating segments.

We obtained the impairment test and re-allocation of goodwill prepared by Management and evaluated the reasonableness of estimates and judgements made by Management in preparing these. Furthermore, we assessed the definition of the cash generating units and the allocation of goodwill, net assets and cash flows.

We obtained the impairment test and assessment of indicators for impairment for certain trademarks prepared by Management and evaluated the reasonableness of estimates and judgements made by Management in preparing these.

We challenged Management analysis around the key assumptions for the cash flow forecasts. We also evaluated the appropriateness of the key assumptions regarding discount rates, short-term and long-term growth rates and performed sensitivities across the reporting segments and the cash generating units.

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.

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 consolidated 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 Consolidated 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.

Hellerup, 27 February 2020

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31



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STATE AUTHORISED PUBLIC
ACCOUNTANT
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