SCANDINAVIAN TOBACCO GROUP / **ANNUAL REPORT 2014**

2014

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BEST SMOKING
ENJOYMENT

Our Group is all about creating moments of great enjoyment for smokers. This promise is the foundation for our position as global market leader in the niches of nature's finest tobacco products. Our **vision** is to be a dynamic and innovative tobacco company with growing leadership in cigars and pipe tobacco and a significant position in fine cut. With great brands and talented and curious people we see our **mission** as giving smokers the best smoking enjoyment and thereby secure continuous growth in turnover and profit. We do that building on our five values: Trust, Teamplayer, Responsible, Innovative and Passionate.

TRUST. Builds better performance. TEAMPLAYER. Together we are better. RESPONSIBLE. We are accountable.
INNOVATIVE. We challenge conventional thinking. PASSIONATE. We love what we do.

WORLD'S LARGEST

MANUFACTURER OF CIGARS AND PIPE TOBACCO

Scandinavian Tobacco Group is the world's largest manufacturer of cigars and pipe tobacco. We are the leading online cigar and pipe tobacco retailer in the US. And we are market leader in fine-cut tobacco in the Nordics and the US.

NO. 1

POSITIONS

Global - Machine-made cigars
Global - Pipe tobacco
US - Handmade cigars (General Cigar)
US - Online retailing of handmade cigars (Cigars International)
US - Pipe tobacco (STG Lane)
US & Nordics - Fine-cut tobacco
Russia & Denmark - Little Cigars

75%

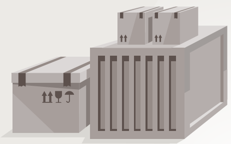
OF SALES IN MARKETS WITH #1 OR #2 POSITION

Our core markets are in the US and Europe where we have leading positions in the majority of our markets.

200+

LOCAL, REGIONAL AND GLOBAL BRANDS

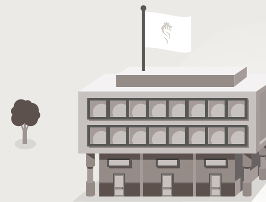
Our portfolio contains more than 200 leading brands, including Café Crème, La Paz, Macanudo, Partagas (US) and Cohiba (US) cigars. Our pipe tobacco brands include Captain Black, Erinmore, Borkum Riff and W.Ø. Larsen, while Bugler, Break, Bali Shag, Escort and Tiedemanns are among our leading fine-cut tobacco brands.



3 bn CIGARS

**AND 5,000 TONNES
PIPE TOBACCO AND FINE CUT**

We have matchless expertise in selecting and crafting tobacco, the most extensive tobacco library in our industry and a unique combination of strong local, regional and global brands. It is by leveraging this valuable equity that we continue to grow and build our undisputed leadership.



WORLDWIDE

PRESENCE

- ▼ 13 production sites in 8 countries
- ■ 18 sales offices in 15 countries
- ■ Sales to more than 100 countries

We have 18 sales offices covering North America, Europe, New Zealand and Australia, and we sell into more than 100 countries around the world.

8,400

EMPLOYEES

We employ 8,400 people in the Dominican Republic, Honduras, Nicaragua, Indonesia, Europe, New Zealand, Australia, Canada and the US.

OWNERSHIP

**51 % SKANDINAVISK HOLDING A/S
49 % SWEDISH MATCH AB**

Our Group is privately held and built upon the 2010-merger between Scandinavian Tobacco Group and the greater part of Swedish Match's cigar and pipe tobacco businesses. We are continuing to consolidate our industry through making selective acquisitions.

PASSION MAKES ALL THE DIFFERENCE

I was appointed CEO of Scandinavian Tobacco Group as of 1 March. On more than one occasion, people have asked me: why do you want to be head of a tobacco company?

To me, the answer is simple: because of the passion in and around it.

We're in the market for niche products which may not take up a lot of space in many people's lives, but to our consumers they mean a lot, whether they like to enjoy a good cigar, smoke a pipe or roll their own cigarettes. It is exactly the same kind of passion that you find with people who are passionate about wine, whisky, chocolate, coffee or any of life's other luxuries.

We share our passion. Our company is about 8,400 people, spread over four continents, who work hard to give our consumers the best smoking enjoyment possible. We believe in quality. And we believe that our consumers can taste the difference between great quality and that which is less great. And we believe that the story about tobacco is not about to end. The next exciting tobacco product is just waiting to be invented and we know that, with our knowledge, our unique tobacco library and focus on innovation, we are well-positioned to do it.

To some, the challenges of the tobacco industry seem unique. But, as many others, we are a company that operates in mature markets. Our challenges and solutions are basically the same. The total market volumes for cigars and pipe tobacco are falling in our core markets, but the value is relatively stable. And as the market leader within cigars and pipe tobacco, we still see many opportunities.

We constantly develop our products to take over a bigger part of the 98% of the tobacco market

We are going to build on this passion while still exhibiting the responsibility one should be able to expect from a market-leading tobacco company.

which today is made up by cigarettes. We find pockets of growth in our current business, we strive to become the retailer's partner of choice and we expand selectively in frontier markets. With a year-on-year growth of 3.2% since 2011 (CAGR), and with strategic acquisitions, we leverage our market leadership and consolidate our niche markets.

In record time, we have become the world's largest manufacturer of cigars and pipe tobacco through organic growth, acquisitions and the merger with a large part of Swedish Match's cigar and pipe tobacco business. The merger is now complete. Our next goal is moderate, but stable, growth, to increase earnings and at the same time reduce working capital.

In this way, we are similar to many other companies. So what makes us special? Why do our employees demonstrate an engagement level at par with the top 10% of the best-performing FMCG companies? It is their passion and the consumer involvement in our products.

We are going to build on this passion while still exhibiting the responsibility one should be able to expect from a market-leading tobacco company.

Our annual report is divided into two parts. First, you get an account of our financial performance, strategy and CSR work. Next, you are invited into our magazine "Nature's Finest" in which we put words to the world that fascinates us and our consumers.

Niels Frederiksen
CEO

FINANCIAL FACTS
OF THE GROUP

FINANCIAL PERFORMANCE

	REPORTED IN MDKK	GROWTH 2013-2014	ADJUSTED FOR CURRENCY	ADJ. FOR CURR., ONE-OFF ITEMS AND ACQUISITIONS
NET SALES	6,126	3.4%	3.8%	1.5%
EBITDA	1,177	0.2%	0.7%	1.7%

EBITDA MARGIN

19.2%

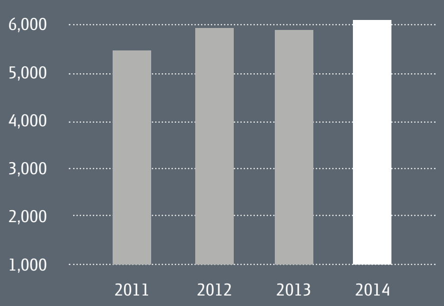
CASH FLOW FROM OPERATING ACTIVITIES

1,056 MDKK ↑ *42%*

4 YEARS PERFORMANCE

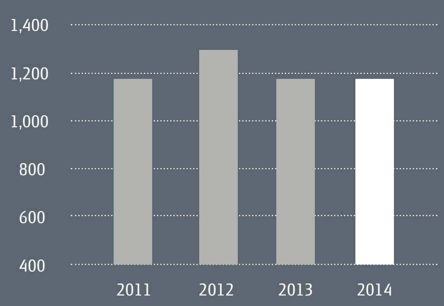
NET SALES

MDKK



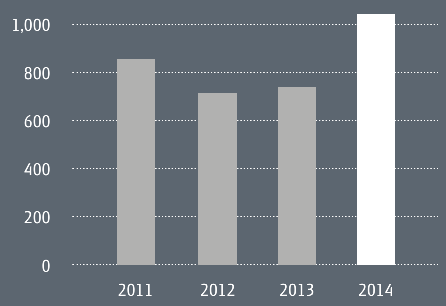
EBITDA

MDKK



CASH FLOW FROM OPERATING ACTIVITIES

MDKK



NET SALES FROM CATEGORIES

	Share 2014	Growth 2014*	CAGR 2012-2014*
Handmade	24.7%	9.6%	5.8%
Machine-made	42.4%	4.7%	0.9%
Pipe tobacco	9.3%	0.2%	2.3%
Fine-cut tobacco	9.2%	7.5%	7.0%
Other	14.4%	-6.4%	-2.7%
Total	**100.0%**	**3.8%**	**2.1%**

* Adj. for currencies

NET SALES FROM REGIONS

	Share 2014	Growth 2014*	CAGR 2011-2014*
North America (the US and Canada)	38.2%	3.7%	4.6%
Northern Europe	15.2%	6.6%	1.7%
Western Europe	23.6%	6.5%	-0.4%
Southern Europe	6.2%	1.2%	1.0%
Australia and New Zealand	6.3%	0.2%	11.4%
Rest of the world	10.5%	-1.2%	5.7%
Total	**100.0%**	**3.8%**	**3.2%**

* Adj. for currencies

GROUP FINANCIAL HIGHLIGHTS AND KEY RATIOS

DKK million	2014	2013	2012	2011	2010*
INCOME STATEMENT					
Net sales	6,126	5,925	5,978	5,472	1,355
Gross profit	2,947	2,915	2,992	2,780	576
EBITDA	1,177	1,175	1,301	1,174	-46
EBITA	1,075	1,046	1,176	1,035	-83
EBIT	908	775	931	825	-183
Net financial items (excl. share of profit of associated companies)	-68	-104	-101	-47	-5
Profit before tax	846	676	843	782	-188
Income taxes	-206	-103	-224	-204	41
Net profit	640	573	618	578	-147
STATEMENT OF COMPREHENSIVE INCOME					
Other comprehensive income	496	-253	-118	118	94
Total comprehensive income	1,136	320	501	696	-53
BALANCE SHEET					
Intangible assets	7,890	7,379	7,792	7,802	6,964
Property, plant and equipment	1,203	1,112	991	990	950
Other non-current assets	283	181	194	206	103
Inventories	3,099	2,927	2,781	2,660	2,413
Receivables	1,106	1,133	1,293	1,144	1,247
Total assets	14,162	13,196	13,736	13,753	12,106
Equity	9,087	8,333	8,425	8,274	7,578
Net interest-bearing debt (NIBD)	2,698	2,808	2,908	2,741	2,380
Investment in property, plant and equipment	192	271	138	124	93
CASH FLOW STATEMENT					
Cash flow from operating activities	1,056	745	716	860	90
Cash flow from investing activities	-471	-318	-388	-1,152	-95
Cash flow from financing activities	-468	-647	-596	815	38
Cash and cash equivalents end of period	581	464	684	952	429
KEY RATIOS					
Gross margin	48.1%	49.2%	50.0%	50.8%	42.5%
EBITDA margin	19.2%	19.8%	21.8%	21.5%	-3.4%
NIBD/EBITDA	2.3	2.4	2.2	2.3	n/a
NIBD/EBITA	2.5	2.7	2.5	2.6	n/a
EBIT margin	14.8%	13.1%	15.6%	15.1%	-13.5%
Tax percentage	24.3%	15.2%	26.6%	26.1%	21.7%
Return on assets	6.4%	5.9%	6.8%	6.0%	-6.0%
Equity ratio	64.2%	63.1%	61.3%	60.2%	62.6%
Return on equity	7.3%	6.8%	7.4%	7.3%	-7.8%

* Financial highlights for 2010 cover the period 1 October – 31 December 2010 and have not been restated as part of the transition to IFRS. For a definition of key ratios, please refer to note 5.7 on page 105.

FINANCIAL HIGHLIGHTS

In 2014, we delivered a net sales slightly above 2013 and a growth of 1.7% in EBITDA when adjusted for currency effects, one-off items and acquisitions. This was in line with our expectations. In addition we delivered cash flow from operating activities above expectations showing a growth of 42% compared to the year before.

INCOME STATEMENT

Our reported net sales for 2014 totalled DKK 6,126 million (DKK 5,925 million in 2013). In local currencies, net sales are up by 3.8% compared to 2013. Adjusted for acquisitions in 2014 and one-off stock reductions in 2013, net sales grew by 1.5%. This growth was driven by price increases in all categories and higher volumes of handmade cigars, machine-made cigars and fine-cut tobacco. This volume growth was partly offset by negative mix effects in the machine-made cigar category.

The Group's gross profit margin of 48.1% for 2014 was slightly lower than the previous year's margin of 49.2%. This is a result of increased sales in our online and catalogue retailer business and growth in those markets where our margin is below average for our Group.

Reported operating costs increased by 3.4% in 2014 to DKK 1,799 million (DKK 1,740 million). In local currencies, adjusted for one-offs and acquisitions, operating costs fell by 2.3%. This was mainly driven by various cost-reduction projects, partially offset by inflation. In 2014, operating costs were impacted by one-off costs regarding the restructuring/integration of acquisitions made during the year, costs arising from the completion of the 6-2-4 project that has changed our production footprint in machine-made cigars from six factories to four, and one-off income resulting from renegotiation of certain pension schemes.

Other income included a one-off gain from the divestment of the factory in Houthalen (Belgium) which was part of the completed 6-2-4 project.

Reported EBITDA amounted to DKK 1,177 million, slightly above 2013 (DKK 1,175 million). EBITDA increased by 1.7% in local currencies, adjusted for one-offs and acquisitions. This was mainly due to higher volumes of handmade cigars as well as lower operating costs.

In 2014, depreciation and amortisation totalled DKK 270 million, 32.5% below last year (DKK 400 million) caused by a reassessment of the useful lives of certain intangible and tangible assets. The reassessment was made to be in alignment with industry practice.

Net financial items totalled a cost of DKK 68 million, 34.6% below 2013, driven by lower interest payments to financial institutions and net exchange gains in 2014 instead of net exchange losses in 2013.

The effective tax rate for the year stood at 24.3%, compared to 15.2% in 2013. The tax percentage last year was impacted by the implementation of tax-rate changes in Denmark and Sweden, which had a positive effect on deferred tax.

Our net profit for the year totalled DKK 640 million, 11.7% above last year (DKK 573 million).

NORTH AMERICA

NET SALES IN MDKK

2,338

EMPLOYEES

654

KEY BRANDS

MACANUDO 1968

COHIBA

CAO

HOYO-MONTERREY de JOSE GENER

COLTS

Captain Black

PIPES AND CIGARS

CIGARS INTERNATIONAL

Cigar.com

SHARE OF GROUP NET SALES

38.2%

GROWTH

2013-14*

3.7%

CAGR 2011-14*

4.6%

* adj. for currencies

Other comprehensive income amounted to DKK 496 million (DKK -253 million). This was mainly due to positive exchange rate adjustments on our foreign investments during the year; these were partly offset by negative impact from cash flow hedges, primarily due to the lower interest rate.

BALANCE SHEET

Goodwill and trademarks had a combined value of DKK 7,557 million (DKK 7,008 million) in 2014, equal to 53.4% of our total assets (53.1%). The increased value since 2013 was mainly caused by the higher USD exchange rate which impacted the balances related to our US activities. Also, we got additional goodwill and new trademarks through the acquisitions of Verellen and Toraño during 2014. The increase was partly offset by the annual, ordinary amortisation on trademarks.

Our other intangible assets mainly comprise software and distribution rights.

Our tangible assets primarily relate to our production facilities around the world. During 2014, we invested DKK 192 million (DKK 271 million) in tangible assets such as property, plants and equipment, including the completion of a new fine-cut factory in Holstebro, Denmark, the completion of the 6-2-4 project and the continuing expansion and improvement of several production facilities.

Our DKK 110 million (DKK 98 million) investment in associated companies is related to our 20% ownership of Caribbean Cigar Holdings Group Co. S.A.

Total inventories amounted to DKK 3,099 million in 2014, a 5.9% increase from 2013 (DKK 2,927 million). This was caused by higher USD exchange rate, resulting in an increased value for those inventories recognised in USD, as well as the acquisitions made during 2014. The increased value is partly offset by a reduced level of finished goods.

Equity totalled DKK 9,087 million in 2014 (DKK 8,333 million), equivalent to 64.2% of the total balance sheet (63.1%). The movement in the year comprised total comprehensive income of DKK 1,136 million (DKK 320 million) minus a dividend paid of DKK 382 million (DKK 412 million).

Our net interest-bearing debt totalled DKK 2,698 million at 31 December 2014 (DKK 2,808 million). We repaid part of the external USD loan through ordinary annual instalments in 2014 and took out an additional EUR loan related to the acquisition of Verellen; combined with improved cash balances, this caused our interest-bearing debt to be little changed from 2013.

CASH FLOW

Cash flow from operating activities amounted to DKK 1,056 million in 2014 (DKK 745 million). This increase was generated by a positive impact from working capital driven by reduced levels of inished goods and trade receivables in local currencies.

EUROPE

NET SALES IN MDKK

2,752

EMPLOYEES

2,016

KEY BRANDS

Café Crème
Macanudo
La Paz
Mercator
Borkum Riff
Tiedemanns
Bali Shag
Escort
W.Ø.Larsen
Break

SHARE OF GROUP NET SALES

44.9%

GROWTH

2013-14*

5.8%

* adj. for currencies

CAGR 2011-14*

0.5%

DEVELOPMENT BY CATEGORY

Cigars account for around two thirds of our net sales. Pipe tobacco and fine cut account for around 9% each, while lighters, matches, tubes and contract manufacturing account for almost 15% (under the label 'Other'). Handmade cigars and fine-cut tobacco are our fastest-growing categories and the biggest contributors to our overall growth.

HANDMADE CIGARS

In 2014, our handmade cigar sales grew by 9.6% in local currencies and now account for 24.7% of our net sales. This sees us continue on our growth trajectory of recent years (CAGR 2012-14: 5.8%) and is driven by our US businesses, General Cigar and our online and catalogue retailer Cigars International.

Handmade cigars are predominantly sold in the US, where two thirds of global handmade cigar sales take place. Although the total market is flat, General Cigar continues to grow by winning market share; today, it leads its market with a share close to 30%.

The General Cigar portfolio is broad and covers all price points and consumer segments across the market, including luxury brands such as Cohiba in the US, the global Macanudo and CAO brands, premium brands, mainstream brands, value-for-money brands and boutique brands such as La Gloria Cubana and Foundry.

We are driving growth by increasing the pace of innovation across all consumer segments. In 2014, General Cigar launched 124 new cigars variants, which delivered around one seventh of General Cigar's net sales.

We added the brand portfolio of the Toraño Family Cigar Company to our range in September 2014. Toraño is a premium brand with Cuban heritage, and was a bolt-on acquisition to General Cigar.

Handmade cigar sales outside the US are still in their early days, and sales are slightly increasing compared to last year. Inspirado, which was launched in 2014 under the Macanudo brand, was developed especially to accommodate the tastes of European cigar smokers. Macanudo Inspirado was well-received by retailers and consumers.

In the US, online retail is the fastest-growing sales channel; it now accounts for around two thirds of all handmade cigar sales. Cigars International is the clear leader in catalogue and online retail, with a market share above 30% of this largest and fastest-growing market segment.

In 2014, Cigars International achieved double-digit net sales growth for the eighth consecutive year, making it the clear US leader in the direct-to-consumer premium cigar and pipe tobacco categories. This was achieved through strong customer acquisition and retention, by focusing on providing superior customer service and exceptional value to the consumer, a broad brand portfolio and an innovative culture that aims to meet each customer's individual desire for something new.

AUSTRALIA &
THE REST OF THE WORLD

NET SALES IN MDKK

1,036

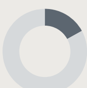
EMPLOYEES

5,699

KEY BRANDS

Café Crème, Erinmore, Captain Black, Borkum Riff, Colts, W.Ø. Larsen

SHARE OF GROUP NET SALES



16.9%

GROWTH

2013-14*

-0.7%

CAGR 2011-14*

7.9%

* adj. for currencies

We acquired online retailer Pipes and Cigars in 2013. This acquisition, which brought Cigars International a significant pipe tobacco customer base, has developed very satisfactorily. This customer base continues to grow, and net sales from pipe tobacco continue to grow at an even higher rate than cigars.

The handmade cigar category also includes Cigars International's three retail stores in Pennsylvania. These are all continuing to grow and perform according to plan, led by the CI Hamburg SuperStore, America's largest premium cigar store, which opened in late 2012.

MACHINE-MADE CIGARS

In 2014, our net sales of machine-made cigars grew by 4.7% in local currencies to account for 42.4% of total net sales. This level of growth was well ahead of recent years (CAGR 2012-14: 0.9%). Adjusted for the acquisition of Belgian cigar manufacturer Verellen and one-off stock reductions in 2013, net sales are 0.7% below last year.

Our machine-made cigars are predominantly sold in Europe, Canada and Australia where we hold market-leading positions as either number one or number two. Our key markets are France, the UK, Belgium, the Netherlands and Canada, and sales cover more than 100 countries. Overall, our shares of individual machine-made cigar markets have remained stable over the last year.

The total market for machine-made cigars is decreasing from a high base in Europe, while volumes continue to grow in the US. In our key European markets of France, the UK and Belgium, total volumes are declining by approximately 4-7% annually.

Consumers tend to be loyal to the brands and products in the premium segment. In the mainstream and value-for-money segments, however, consumers are becoming increasingly interested in aromatic variants and smaller cigars; they are often price-sensitive as well. We offset potentially negative effects of the price mix by developing products and brands for every price point and consumer segment. In particular, we are strengthening our portfolio in flavoured and value-for-money cigars.

Café Crème, the world's leading machine-made cigar, continues to account for close to one third of our net machine-made cigar sales. In 2014, it increased its share in several key markets where we have introduced the redesigned brand and product. We are also introducing new and improved Café Crème flavour variants to capture the growing segment for flavoured cigars within the mainstream segment.

We added Belgian cigar manufacturer Verellen to our business in September 2014. The company has strongholds in France and Belgium, which has the largest per capita consumption of cigars in Europe. Verellen has continuously grown its market share thanks to its unique packaging and strong position in the growing market for flavoured cigars.

The US market for machine-made cigars has shifted towards new packaging formats and has entered a period of fierce price competition. Being a new-

WE CONSOLIDATE OUR MARKETS

comer to the US machine-made cigar market, we are continuing to focus our efforts on the higher end of the machine-made cigar market.

Our little cigar sales are continuing to grow rapidly in the US, Europe and the Middle East. Wherever we introduce our little cigar brands, we capture growth-levels that are on a par with or higher than total market growth. In Europe, our value-for-money cross-category brand, Break, leads the majority of markets where it is available. We have introduced Talon as a value-for-money little cigar into the US and Canada, where it is driving our growth in the category. Captain Black is performing well in the Middle East and Ukraine.

PIPE TOBACCO

Pipe tobacco accounted for 9.3% of our total net sales in 2014. In local currencies, net sales were on a par with 2013.

Today, we are the worldwide category leader with a global market share of more than 50%. Our share of the total market has grown continuously, together with our net pipe tobacco sales which deliver 2.3% growth year on year (CAGR 2012-14).

Our key markets are in the majority of European countries, the US, Nigeria and Australia where we have leading positions.

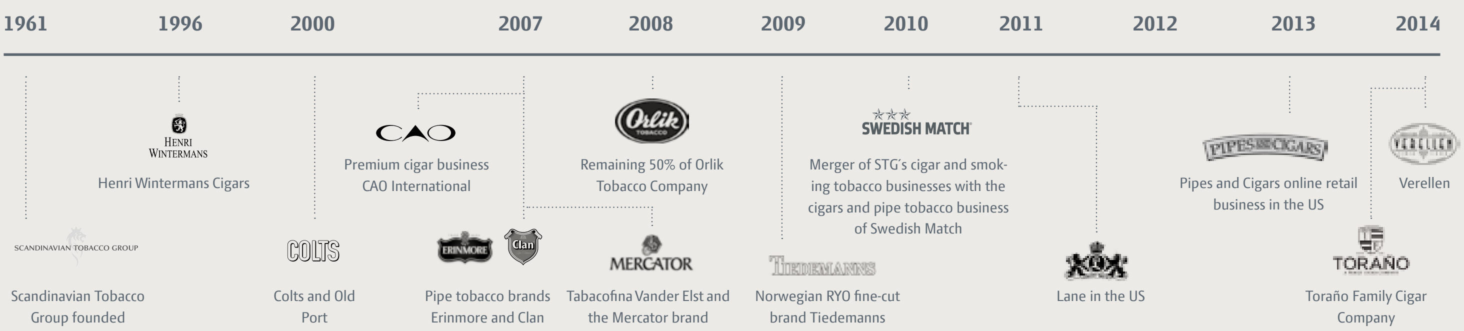
The pipe tobacco markets in the US, Australia and Europe are mature, and volumes are declining relatively fast in several key markets. In such mature markets, we both build on the strengths of our existing brands and continuously develop new, often high-end products that resonate with pipe smokers' passion for trying something new and special. In the US, the addition to Cigars International of the catalogue and online retailer Pipes and Cigars in 2013 has added a robust and growing new sales channel, well suited to handling the rich variety and complexity that results from being consumers' preferred partner of choice.

We are continuing to grow our business outside our key markets, particularly in the Middle East and West Africa. Today, these regions account for one quarter of our pipe tobacco volumes. Sales in the Global Travel Retail channel are also continuing their double-digit growth.

FINE CUT

The total market for fine-cut tobacco is the fastest growing of our categories in terms of volume and net sales year on year. In 2014, our fine-cut sales grew by 7.5% in local currencies, taking the category to a 9.2% share of our total net sales. Since 2012, fine cut has grown by 7% year on year (CAGR).

We are gaining market share and have clear market leadership in the US and the Nordics; here we are leaders in all countries except Norway, where we rank second. We have recently captured the clear number one position in Israel with a market share of more than 50%.



Our Group is built on organic growth and several mergers and acquisitions. While many smaller players find it burdensome to implement new regulations and deal with changing consumer habits, we have a proven ability to extract synergies and grow our business from selected acquisitions. By this, we also consolidate our markets. In 2014, we acquired the brand portfolio of Toraño Familiy Cigar Company and the Belgian cigar manufacturer Verellen.

The total markets for fine cut are declining in the US and growing in Europe. We are focused on consolidating our market leadership in the US and the Nordics and on entering those selected new markets in Europe where we can utilise our existing distribution channels. In Switzerland, Germany and several other countries, market trends are shifting towards fine cut. In these markets, we are delivering double-digit growth. In late 2013 we introduced fine cut into Germany, the world's largest market for fine cut, where we have established a market share above 1% and continue to grow.

OTHER

Our 'Other' category comprises several activities, including among others contract manufacturing and the distribution of lighters, matches, tubes, papers and filters. In 2014, 'Other' decreased by 6.4% in local currencies to account for 14.4% of our total net sales.

This decline, which follows some years of stability, is due to the termination of a contract manufacturing agreement and a continued decrease in the total lighter and match markets.

MANAGEMENT CHANGES

On 30 January 2015, we announced the appointment of Niels Frederiksen as new CEO of Scandinavian Tobacco Group. He succeeded Anders Colding Friis on 1 March 2015.

Niels Frederiksen has been with the company since 1999 and has played an instrumental role in building the Group. Among other achievements, he was strongly involved in creating the Route 2016 strategy and was instrumental to the merger and integration with Swedish Match. Before his appointment as CEO, Niels Frederiksen was Executive Vice President for supply chain and member of the Executive Management Board.

On 16 September 2014, Rob Zwarts handed over the responsibility for our supply chain for machine-made cigars to Niels Frederiksen, who at the time was responsible for our smoking tobacco supply chain. Rob Zwarts is now responsible for our implementation of new requirements following the revised EU Tobacco Product Directive, which will take effect by 20 May 2016.

Marlene Forsell, CFO of Swedish Match, replaced Joakim Tilly as a member of our Supervisory Board on 2 June 2014.

Fredrik Lagercrantz, Senior Vice President of Business Control at Swedish Match, replaced Fredrik Peyron as a member of our Supervisory Board on 1 January 2015.

FINANCIAL OUTLOOK 2015

We will continue to support and drive our future growth in 2015 via a number of sales, marketing and product development initiatives. These initiatives will enable us to derive continued advantage from our leading scale operations and our specialist focus on the cigar, pipe tobacco and fine-cut niches of the global market place. Declines in total market volumes will to the extent possible be offset by increasing prices and market share gains.

Based on our planned growth activities and continued optimisation in our supply chain, we expect to deliver improved earnings across categories.

2015 will also be impacted by activities related to the preparations for the implementation of the revised EU Tobacco Product Directive and planned costs of a temporary nature have been earmarked to the purpose. We continue to focus on improvements of our net working capital in order to ensure a cash flow from operating activities at the same level as in 2014. Capex spending for 2015 is expected to be in line with 2014 excluding acquisitions.

OUR STRATEGY AIMS
TO GROW OUR BUSINESS

We are a diversified business with significant scale and leading market positions in niches of the tobacco market. We continue to leverage this securing strong cash flow and growth in net sales and earnings. From 2011-14, we have year on year delivered a growth in net sales of 3.2% (CAGR) in local currencies.

GROUP STRATEGY

We aim to grow our business.

In 2010, we became the global leader in the cigar and pipe tobacco niches through our merger with the bulk of Swedish Match's cigar and pipe tobacco business. In addition, we hold leading positions in the US, Israeli and Nordic fine-cut markets.

Today, we are a strongly diversified business. Our key geographic markets are spread across three continents and we sell into more than 100 countries worldwide. We have leading positions in the majority of our key markets - in total we generate 75% of our net sales from countries where we rank either first or second in the market place. We have leading positions in several niches of the wider tobacco category; typically, these niches have a high element of smoking enjoyment such as cigars and pipe tobacco. Our portfolio is made up of a diverse range of strong and leading brands. Furthermore, we have a diversified customer base with only a limited number of multi-country trade customers and market research shows that we enjoy a strong customer reputation.

Our strategy aims to leverage our winning positions and significant scale to grow our leadership, securing strong cash flow and continuous growth in net sales and earnings. Today, our net sales are continuing to deliver stable growth, historically of 3.2% (CAGR 2011-14), and a strong cash flow.

Looking ahead, our Group strategy builds on:

- innovating and adapting to remain smokers' preferred choice,
- being retailers' best partner offering the strongest brands,
- continuing to win in direct-to-consumer,
- building the best production footprint for our Group's future,
- looking along the value chain to reduce capital tied up in inventory and
- developing a winning organisation.

GROWTH

At the time of the merger in 2010, our strongholds were in the regions and categories that were declining the fastest. Today, we are growing year on year in five of our six regions and in all our categories of handmade and machine-made cigars, pipe tobacco and fine cut.

We continually work on providing the best smoking experience and defending our leading position as number one. This means launching new products based on market research and consumer-led innovation whenever we have an opportunity to take advantage of market disruptions or built on our brands' strengths. We constantly revitalise and develop our portfolio to serve smokers across all price points, adapting to changes in consumers' taste preferences and continually offering the best smoking experience, always marketed under strong brands.

Furthermore, we are implementing plans to extend our market leadership by selectively expanding our geographical footprint in the Middle East, Africa and Russia, and by being retailers' partner of choice.

In online retailing, our Cigars International business is consolidating its leadership in the US by winning share in a fast-growing market place.

Disruption, caused by the continuous evolution of tobacco product regulation, is an inevitable part of our business. We strive to be proactive in ensuring our preparedness to capture the competitive advantages available to those who are ready ahead of time – just as we have done in the past when markets have shifted to 'dark markets'. Also, we have a unique ability to act as a platform for mergers and bolt-on acquisitions involving smaller players who find it too burdensome to comply with upcoming regulatory change in the EU and the US.

OUR STRATEGY
IN SHORT

GROWTH

Mass Market Cigars, Pipe Tobacco and Fine Cut

Innovate and adapt to remain smokers' Number One Choice

Be retailers' partner of choice and offer the strongest smoking brands

Selectively expand in 'frontier' markets such as the Middle East, Africa and Russia

Handmade Cigars

Excel in cigars and continue the revitalisation of the General Cigar portfolio

Keep winning in the direct-to-consumer channel through Cigars International

Mergers and Acquisitions

Drive consolidation in all categories by leading the way in M&A

EFFICIENCY & QUALITY

Build the best production footprint in our industry worldwide

Leverage our Group production scale

Reduce complexity and implement LEAN initiatives

Explore the entire value chain to reduce the capital tied up in inventory

PEOPLE

Build 'One Company Culture' based on shared values

Improve leadership and performance management

Strengthen skill-building capabilities

Ensure and maintain high levels of employee engagement

EFFICIENCY AND QUALITY

We are continuously optimising our factory footprint. In 2014, we completed the 6-2-4 project that reduced the number of manufacturing sites from six to four factories following the merger with Swedish Match. Today, our production footprint is truly global. We concentrate our labour-intensive activities in emerging markets and we carry out the more automated steps of the production processes in mature markets close to the customer.

We continue to ensure an optimised production footprint and implement LEAN and other plant efficiency initiatives. We also have in place an SKU rationalisation programme, which will enable us to reduce complexity and gain efficiencies before the implementation of the EU Tobacco Product Directive.

Finally, we constantly seek to enhance our net working capital by investigating every point of the value chain to reduce the amount of tied up capital.

PEOPLE

The talent and curiosity of our employees are assets that give us competitive edge and enable us to deliver on our strategy. Employee engagement continues to be above average compared to external Fast Moving Consumer Goods (FMCG) benchmarks. It is on a level with high-performing companies worldwide according to our employee engagement survey conducted in 2014.

We nurture talent and curiosity to take advantage of the diversity and many different skill-sets and perspectives of our employees.

To ensure the quality and consistency of leadership across the Group, we invest in a systematic approach to leadership, people reviews and succession planning. The purpose of our leadership initiatives is to maximise the potential of each individual leader and our leaders as a team.

HANDMADE CIGARS

We are the US market leader in handmade cigars through General Cigar and our online and catalogue retailer, Cigars International. The US market, which accounts for two out of three handmade cigars sold globally, was largely unchanged in 2014 compared to the previous year. Our low market shares in Europe mean that the region offers us growth opportunities.

Consumer preferences are quick to change in the US market for handmade and premium cigars.

General Cigar defends its leading position by continuously revitalising its portfolio by constantly focusing on strengthening its retailer relationships.

In the direct-to-consumer channel, Cigars International benefits from the trend towards online purchasing and delivers a strong customer acquisition and retention performance based on strengths such as superior customer service, exceptional value, a broad brand portfolio and an innovative culture that aims to meet each customer's individual requirements.

FACTS ABOUT HANDMADE CIGARS:

No. 1 market position in the US
24.7% of our net sales
Key brands (* US only)
Luxury: Cohiba* and Partagas*
Premium: Macanudo, CAO, Punch* and Hoyo de Monterrey*
Boutique: La Gloria Cubana* and Foundry
Value-for-money: Don Tomas and Sancho Panza*

MACHINE-MADE CIGARS

We are leaders of the declining European machine-made cigar market. In the US, volumes are growing in a market that is about the size of the European market, leading to the overall slight growth of the total market.

Over the years, we have repositioned and redesigned our leading brands, and we have broadened our portfolio with new flavours, smaller sizes, tips and filters to meet consumer demand and cover every price point in the market.

We continue to aim for innovative new types of machine-made cigars with taste profiles that appeal to smokers from other tobacco categories. In the US machine-made cigar market we focus our efforts on the higher end of the machine-made cigar market.

Little cigars are a growing force in the niche market that meets consumer demand for an inexpensive cigar. We have launched new regional brands in this growing value-for-money segment. In the EU, regulation demands the use of natural wrappers for little cigars, strengthening opportunities for us to grow in the category.

PIPE TOBACCO

We lead the global pipe tobacco market with a market share above 50%. Our key markets are in Europe and North America, but we are also seeing growth in West Africa. Overall, however, total market volumes are continuing their long-term decline.

Pipe smokers in general like to experiment with blends, but tend to remain loyal to their favourite brands. Down-trading does not apply to pipe tobacco to the same extent as in other categories. On the contrary, there is an increasing demand for luxury pipe tobacco in selected niche markets. This consumer demand is met by W.Ø. Larsen – the brand has luxury equity, and we continuously reinvigorate it with innovative blends and limited editions.

We have also reintroduced strong brands such as Captain Black and Erinmore in markets where they have strong brand recognition but were declining before we took them over.

Our tobacco specialists continue to refine pipe tobacco blends and concepts that achieve global leadership in different segments of the category. At the same time, we are reducing complexity throughout our supply chain.

FINE-CUT TOBACCO

We are a leading player in the US, Israeli and Nordic fine-cut markets. Total market volumes are growing in Europe but declining in the US. In total, fine-cut volumes are growing by about 2% year on year.

Consumers in the fine-cut market are very price driven, especially within the make-your-own (MYO) segment. Expanded tobacco is growing fastest, but the All Natural segment is also on the rise.

Having expertise in the Nordic, Israeli and US fine-cut markets, we have a proven track record with market shares ranging from 39% to 78% in our key strongholds. We are growing our business through consolidating our market leadership in the Nordics, Israel and the US and entering new markets in Europe. We have also introduced new and repositioned brands into the value-for-money segment.

With the late-2014 opening of a new factory for expanded tobacco in Holstebro, Denmark, we have further improved our competitiveness in the fine-cut market through a lower cost base and greater stability of supply.

FACTS ABOUT MACHINE-MADE CIGARS:
No. 1 market position in Europe
42.4% of our net sales
Key brands
Premium: La Paz, Henri Wintermans and Petit
Mainstream: Café Crème, Captain Black and Mercator
Value-for-money: Talon, Break and Moments

FACTS ABOUT PIPE TOBACCO:
No. 1 market position globally
9.3% of our net sales
Key brands
Premium: W.Ø. Larsen and Erinmore
Mainstream: Captain Black, Borkum Riff and Clan
Value-for-money: Smoker's Pride

FACTS ABOUT FINE-CUT TOBACCO:
No. 1 market position in the Nordics and the US
9.2% of our net sales
Key brands
Premium: Tiedemanns and Bali Shag
Mainstream: Escort and Bugler
Value-for-money: Break

SUSTAINABILITY GOES TO THE HEART OF OUR BUSINESS

We act responsibly towards each individual human being, to society and the environment, because it is the right course of action and it sustains our business. In 2014, we recycled 51% of our tobacco waste.

The following pages 23-26 are our statutory report on CSR for the financial year 2014 cf. Section 99a of the Danish Financial Statements Act ("Lovpligtig redegørelse for samfundsansvar, jf. årsregnskabslovens §99a") including additional information about policies, progress made during 2014 and expected activities for 2015.

CORPORATE SOCIAL RESPONSIBILITY

Acting responsibly is one of our corporate values and is fundamental to the way we do business. To us, this means acting responsibly towards each individual human being, to society and the environment.

We share the belief that everybody should enjoy safe and healthy working conditions and that every human being should be protected from exploitation and child labour. Everybody should have an equal right to be promoted regardless of gender, age or nationality. We believe that reducing our environmental footprint is the right course of action. And we acknowledge that for us acting responsibly also means being permanently aware of the health aspects of smoking.

We share these beliefs because they sustain our business. We have therefore embedded them in the way we act.

In our factories, we focus on manufacturing cigars, pipe tobacco and fine-cut tobacco in a manner that is safe for our employees and protects the environment. We set high and ambitious standards for our work and make progress every year. We do not employ children in our Group and we participate in the fight against child labour in countries where tobacco is grown.

When hiring and promoting employees, we base our decisions on merit and do not take gender, age or nationality into consideration. Having said that, we do, however, make an extra effort to promote women into managerial positions, based on our belief that diversity leads to improved innovation, team performance and problem solving.

In our factories, we reduce tobacco waste and consumption of water because it both makes sense from a business perspective and reduces our environmental footprint.

In the market place, we have procedures in place to ensure that we comply with national laws and never direct our sales efforts towards children or young adults. Our marketing principles guide us on how to design the products that we manufacture and on how we approach consumers across the globe. Our principles also lead us to remind those who smoke our products about the risks related to smoking, so enabling them to make decisions based on an understanding of the balance between risk and pleasure.

We acknowledge that tobacco products are different from other consumer products and that the health risks associated with them require stricter regulation. This is particularly the case when it comes to preventing children and young adults from taking up smoking.

Tobacco products continue to be subject to increasing regulation in terms of manufacturing, promotion, presentation, sale and consumption. We support the proportionate and fact-based regulation of our products and market place. We ensure compliance with local laws and regulations. And when marketing our products, we apply self-imposed principles that in many cases are stricter than local regulations.

When it comes to new regulation, we do what we can to ensure a balanced approach to our product categories. We work hard to be a trusted partner in the legislative process, with valuable input and views specific to our products.

HEALTH AND SAFETY

We believe that employees should enjoy safe and healthy working conditions.

To support our drive for ever-safer working conditions, we have implemented an extensive environment, health and safety (EHS) programme, which applies to all our manufacturing sites. The programme is sponsored by our supply chain management, headed by a central EHS manager and supported by site-based local managers.

Our goal is that all the Group's factories score above 80% by 2016; this is an ambitious target meaning "good" - 70-79% is satisfactory and above 85% is outstanding.

SELECTED ACTIVITIES AND RESULTS IN 2014:
In 2014, we conducted 12 factory audits and implemented action plans. We reached the average level of 79.25% (up by 5.25 percentage points from the previous year) with six factories (2 more than last year) performing at 80% or above.

The number of work-related accidents in our factories was 89 – down by 23% since 2011. Our lost time incidence rate remains at 1.18 per 200,000 working hours, below the private industry benchmark of 1.8.

NEXT STEPS:
- Implementing action plans to ensure continuous improvements to individual sites as well as to the Group as a whole.
- Continuing to audit and ensure improvements.

ENVIRONMENT

We believe that reducing our environmental footprint is the right course of action.

Using less energy, generating less waste and saving water in our production facilities are therefore all everyday goals that are supported by our environment, health and safety (EHS) programme. We avoid and reduce emissions by seeking energy-efficient solutions and re-using tobacco waste. Because water is a scarce resource, we are conscientious in the way we use and handle it.

SELECTED ACTIVITIES AND RESULTS IN 2014:
In 2014, we reduced energy consumption from manufacturing by 10%. We continue to increase the amount of tobacco waste that we re-cycle, up by 10 percentage points in 2014 to 51%.

NEXT STEPS:
- Continuing to reduce energy consumption, waste generation and CO_2 emissions in production.

RESPONSIBLE MARKETING

We believe that every smoker should be reminded of the risks related to smoking, enabling them to balance risk and pleasure. Furthermore, smoking is for adults only.

We support these fundamental beliefs with our global marketing principles and through effective procedures which ensure our compliance with local laws and regulations in the individual markets where we sell our products. Our marketing principles set the standards for how we design the products that we manufacture and how we approach consumers across the globe. Whichever is stricter in a given country, the law or our marketing principles, governs our behaviour.

As a result of our marketing principles, we include health warnings on tobacco products even in countries where local regulations do not require a health warning.

SELECTED ACTIVITIES AND RESULTS IN 2014:
Our marketing principles were revised and improved in 2013. In 2014, the marketing staff throughout our Group received full training in the new standards which were shared throughout the Group and with our distributors in all of our many export markets.

NEXT STEPS:
- The global marketing principles continue to be fundamental to our day-to-day work with the design of our products and of our activities in the markets.

COMBAT OF CHILD LABOUR

We respect the rights of children. We believe that children should be protected from exploitation and never exposed or subjected to child labour, which means work that affects their health or personal development, including their right to go to school and to receive education.

Our approach is three-pronged. First, we do not employ children in our own facilities. Second, in our dealings with suppliers we work to engage them in combatting child labour. Third, we continue to collaborate with multiple stakeholders through the ECLT (Eliminating Child Labour in Tobacco Growing) Foundation. Together with national and local governments and NGOs, ECLT works to create global, regional and local awareness of the issue and runs educational and other programmes to improve the livelihood of families and alleviate poverty in societies that rely on child labour.

SELECTED ACTIVITIES AND RESULTS IN 2014:
In 2014, we continued our engagement in ECLT and signed its Pledge of Commitment which aims to align and reinforce the ECLT members' policies and practices in combatting child labour in tobacco growing. The planned introduction of a new set-up for audits in our supply chain has been delayed, but will continue in 2015.

NEXT STEPS:
- Review our child labour policy in light of the ECLT pledge.
- Establish updated systems and processes for identifying, preventing, mitigating and accounting for any child labour in supply chain.

DIVERSITY AND INCLUSION

We believe that workforce diversity is a source of strength that leads to increased innovation, team performance and problem solving.

We have therefore adopted a Diversity & Inclusion Policy and targets that we hereby disclose in accordance with Section 99b of the Danish Financial Statements Act. The policy and targets guide us on securing an inclusive culture and embracing diversity. A key area is to ensure equal opportunities for men and women, which in most cases means increasing the number of women in managerial positions. Our ambition is that 25% of shareholder-elected members of our Supervisory Board will be women by 2017 and that one third of our managers on senior executive level will be women by 2020.

SELECTED ACTIVITIES AND RESULTS IN 2014:
We continue to set the diversity agenda within the organisation and include gender-related factors in our people review, succession planning and appraisal processes. In 2014, we rolled out succession planning to the next level of managers. It now includes our top 145 managers, of whom 18% are women. Following the appointment of Marlene Forsell to our Supervisory Board, the percentage of shareholder elected women rose from 0 to 12.5% in 2014.

NEXT STEPS:
- Continuing to map women with leadership potential and to bring more women into our leadership pipeline across the organisation.

REGULATORY DEVELOPMENT

We are conscious that our products not only bring pleasure, but also have associated health risks. We therefore acknowledge that tobacco products should be regulated, and we support balanced, evidence-based regulation of our products. We do our very best to ensure that we comply with the tobacco regulation in place, no matter where our products are sold.

Regulations published during 2014 in key regions for our Group will have a considerable impact on the way we design our products and their packaging, on our production processes and on our administrative procedures and systems.

The EU Tobacco Products Directive, published in May 2014, will be transformed into national law in the 28 member states during 2016. Like other players in the industry, we are adopting the new requirements across many products, including more and larger health warnings and a ban on any reference to taste and smell on the packaging. Over time, more comprehensive ingredients reporting and a technically challenging tracking system for all tobacco products will also be implemented.

In the US, the Food and Drug Administration (FDA), which already regulates cigarettes, fine cut and smokeless tobacco, presented a proposal in 2014 to additionally regulate cigars, pipe tobacco and other products. The proposed rules would in particular demand reviews of existing and new cigar and pipe tobacco products and require all ingredients to be reported. It is uncertain to what degree our products would be covered by the final version of these new regulations. Precisely what will be required and when the new regulations will take effect are also currently unclear.

A few European countries are contemplating the introduction of laws banning the use of any colours and branding on tobacco packages, only allowing the product name to be printed in standard letters. This is similar to regulations introduced a few years ago in Australia. It is currently unclear to what extent such measures would cover our Group's products.

In our opinion, the special nature of our products and the mature profile of the typical cigar and pipe smoker warrant a different treatment of cigars and pipe tobacco to that of other tobacco products. Furthermore, new tobacco regulation should take into account the fact that most such changes require a considerable implementation time for cigars and pipe tobacco, which are characterised by a very large number of niche products in a wide range of different packaging, often sold in moderate volumes across many markets over a long time. To ensure full compliance, we need certainty about the content and implications of any regulation as well as sufficient time for implementation.

This substantially new regulatory landscape means we are required to make a number of changes, but new rules also give us an opportunity to rethink how things are done and to look at our large and complex portfolio from a new angle to ensure a smooth and efficient transition. We believe we are one of the best-positioned companies in our industry to handle current and future regulatory challenges, due to our strong market position, our dedicated resources and the skills and experience of people throughout Scandinavian Tobacco Group.

WE NEVER WORK TO INCREASE THE NUMBER OF SMOKERS

Smoking is for adults only, and the health risk must be taken seriously by everybody. Every smoker should balance the pleasure of smoking against the risk involved, and then make a personal choice whether to smoke or not.

We do not work to increase the number of smokers or to grow the total market for tobacco. We grow our business by growing our market share and by encouraging smokers to choose our products and categories over those of competitors. Learn about our view on smoking on www.st-group.com/en/about/our-view-on.

EXECUTIVE MANAGEMENT

Craig Reynolds
(1955) President,
Cigars International

Craig has been with Cigars International since 2009. He was Executive Vice President from 2009 to 2010 and became President of Cigars International in 2011.

Dan Carr
(1963) President,
General Cigar

Dan has held various management positions with the Group since 1996 when he joined General Cigar. From 2004 to 2007 he was Senior Vice President of Sales and Marketing in Swedish Match's US division. In 2007 he returned to General Cigar as Senior Vice President for Sales and Marketing. Since 2010 he has been President of General Cigar.

Dan is chairman of the Cigar Association of America, a board member of the Tobacco Merchants Association and a member of the Executive Advisory Council of the University of Richmond Robins School of Business.

Robertus Adrianus Zwarts
(1955)
Executive Vice President

Rob joined Swedish Match in 1993. From 1993 to 2000, he held positions as Vice President Operations and President of the Swedish Match Cigar Division. He joined Scandinavian Tobacco Group in 2002 as President of Henri Wintermans Cigars B.V. and was Executive Vice President of Supply Chain from 2008 to 2014.

Rob is also a member of the Advisory Board of NDF Special Lighting.

Niels Frederiksen
(1964)
Group CEO

Niels became CEO of Scandinavian Tobacco Group in March 2015.

Niels has held various positions in the Group since 1999, including Senior Vice President and Executive Vice President for Group functions. Since 2013, he has been responsible for the smoking tobacco supply chain and the handmade cigar business outside the US, working alongside General Cigar. In 2014, Niels added the supply chain for machine-made cigars to his responsibilities.

Sisse Fjelsted Rasmussen
(1967)
Group CFO

Sisse has been with Scandinavian Tobacco Group since 2008. She is responsible for Group Finance, Group IT and Group Communications.

She is also a board member of PostNord and a member of the Tax Policy Committee of the Confederation of Danish Industry.

Christian Hother Sørensen
(1964)
Executive Vice President

Christian joined Scandinavian Tobacco Group in 2003 and has been a member of the Management Board since 2006. From 2003 to 2008 he held positions as Sales and Marketing Director, Senior Vice President for Exports and President of House of Prince. He has been Executive Vice President for Sales and Marketing since 2008.

Christian is also Deputy Chairman of the board of Toms Gruppen A/S and a member of the International Market Policy Committee of the Confederation of Danish Industry.

Lindy Larsen	**Charlotte Lückstadt Nielsen**	**Hanne Malling**	**Kurt Asmussen**	**Fredrik Lagercrantz**	**Marlene Forsell**
Elected by the employees	**Elected by the employees**	**Elected by the employees**	**Elected by the employees**		

SUPERVISORY BOARD

Conny Karlsson **Deputy Chairman**	**Jørgen Tandrup** **Chairman**	**Anders Obel**	**Henning Kruse Petersen**	**Tommy Pedersen**	**Lars Dahlgren**

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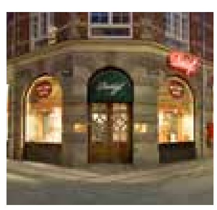

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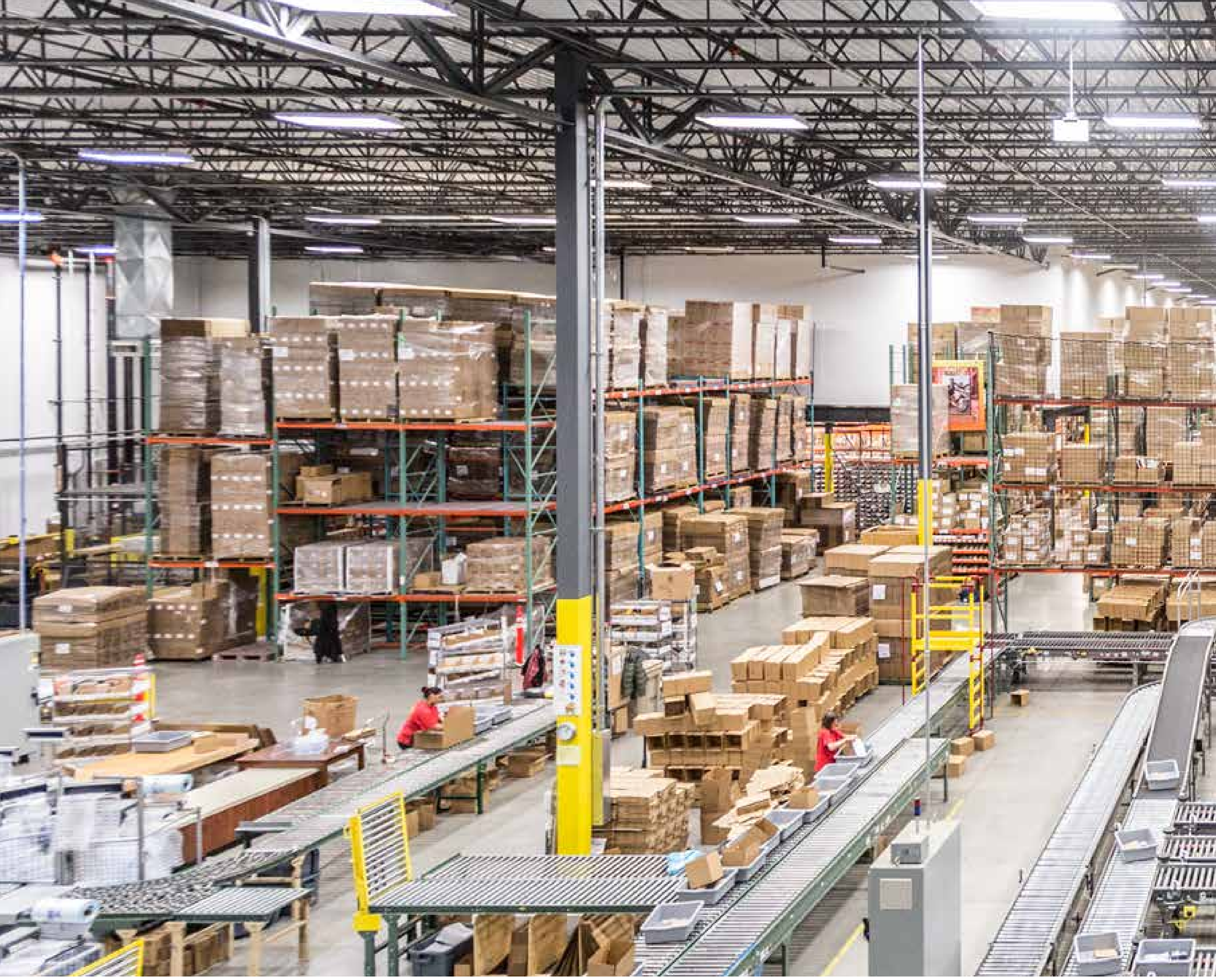

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THIS IS WHO WE ARE

We're busy with ensuring sound financial performance. We want a healthy company with a bright future. But we are about more than that. We create smoking enjoyment for smokers who are as involved with our products as we are.

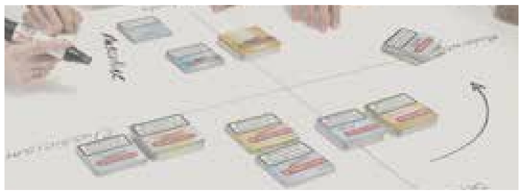
We come to work each day because our products awaken our passion. In this magazine, we tell the story of the things that we love the most.

Nature's Finest

- MAGAZINE PUBLISHED WITH ANNUAL REPORT 2014 -

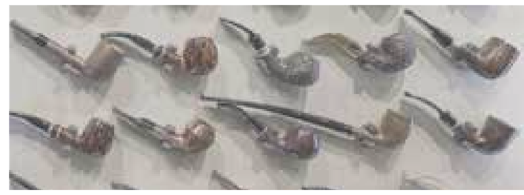
p. 42 **Passionate People**

- NEWLY APPOINTED CEO OUTLINES OUR GROUP'S DNA



p. 50 **The Inside Story**

- LEARN HOW WORLD LEADING CIGAR WAS RE-DESIGNED



p. 59 **More Than Looks**

- PIPE SMOKERS SHAPE THEIR EXPERIENCES

IGNITED / ENJOYMENT / WORLDWIDE

/ SPRING **2015**

PUBLISHED BY SCANDINAVIAN TOBACCO GROUP A/S

THE PASSION IS HARD TO MISS

Connecting with our consumers makes us smile. We put on large-scale events and partner in existing events and what we see makes us proud. We see consumers who are passionate about our products. To them, our cigars are to be savoured, enjoyed, discussed, felt and tasted. Looking at the pictures, you will see that their passion is hard to miss.

Phoenix Open and Super Bowl 2015. We participated in a fundraising event showcasing Cohiba Nicaragua and Comador.

Cigars International puts on the biggest cigar herf in the United States: CigarFest in the Pocono Mountains of Pennsylvania.

P.G.C. Hajenius is our shop in the heart of Amsterdam. In 2014, customers and business partners celebrated the shop's 100th jubilee with us.

2014 Voodoo Music & Arts Experience in New Orleans, Louisiana – featuring CAO cigars.

DID YOU KNOW

Scandinavian Tobacco Group is all about creating moments of great enjoyment for smokers. This promise has made us the world's largest manufacturer of cigars and pipe tobacco.

United Friends of a charity golf tournament sponsored by Macanudo.

Inter-tabac 2014 – the world's largest trade fair for tobacco products. The night before the event, we hosted a Macanudo Inspirado dinner in Dortmund for all our global business partners.

Cohiba sponsored The Luxury Lounge at the world renowned Sundance Film Festival in Park City, Utah.

THE SHAPE
of a Smoking Experience

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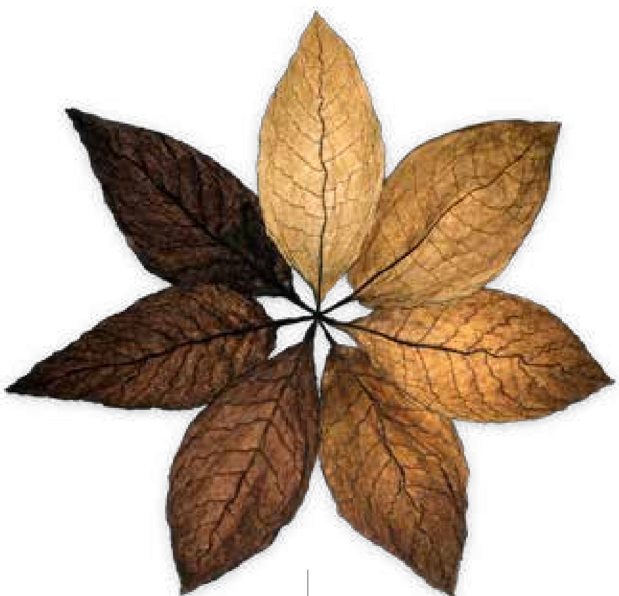

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THE COLOUR
Tells the Story

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CIGAR FORMATS
and Their Taste Characteristics

WE ARE
PASSIONATE PEOPLE

Good craftsmanship and high levels of consumer involvement bring out the passion for Niels Frederiksen. He is newly appointed CEO of Scandinavian Tobacco Group. We asked him to outline the Group's DNA.

He was appointed only a few weeks ago. Niels Frederiksen is new CEO of Scandinavian Tobacco Group, but he has worked for the Group for 15 years and was one of the architects of the company's strategy, instrumental in the merger and integration with Swedish Match, and most recently Vice President for the company's supply chain. Now, he's settling into the corner office.

"I'm bringing my humidor and I would like to bring more of our products into my office. My office doesn't have to be a showroom, but we have so many beautiful products that I am proud of. When you see, smell and touch them, it brings out the passion. Only then does one understand that no two products are the same. Each product brings with it years of history, from a seed is sown, to a cigar is rolled, or to pipe and fine-cut tobacco are cut and blended."

Niels Frederiksen also brings his old desk to his new office. It's big enough, but still smaller than most CEO desks. It's light-coloured wood and was designed by an architect. "I just like it. It is good craftsmanship."

THE INVOLVEMENT IS OVERWHELMING

There are very few Scandinavian Tobacco Group locations that Niels has not visited. When he travels, he meets people that live and breathe tobacco.

"We're in the market for niche products. They don't take up a lot of space in many people's lives, but they play an enormous part in the lives of our consumers. Their involvement in cigars and pipe tobacco is overwhelming. I seek this passion out when I travel. When I find a cigar bar, I go there. I rarely tell people where I work, unless I'm asked. Instead, I listen to what people tell me."

"Club Macanudo in New York is always part of my itinerary. It is our very own cigar bar and it is full of regulars and people passing through the city. Last time I was there, I spoke with a man who'd moved to New York without knowing one single person there. Today, most of his recent friendships evolve around the club. The same phenomenon is seen at our Cigars International Super-Store in Pennsylvania and at our Danish tobacco shop in Copenhagen not far from where I live. The same passion is found at the annual CigarFest hosted by Cigars International in the Pocono Mountains of Pennsylvania. The passion found there can't be described. One needs to see for oneself."

WE SHARE OUR PASSION

"It's great to see that our consumers' passion for our products is mirrored in the people who produce the tobacco. From seed to cigar, the focus of our partners and employees is in on the details."

Careful attention is paid to circumstance: How are the tobacco plants developing? Is the tobacco drying the way we want it to? Is it fermenting in an optimal way? Which blend is the most exquisite?

Is the tobacco rolled to create the perfect draw? In other parts of the company, people are ensuring consistent taste despite the differences in each tobacco harvest. Two to three years of work with the different tobaccos and a wealth of details all come together in a moment of enjoyment for the smoker.

"Our job is to create moments of great enjoyment for smokers. We are well-positioned for the job. We operate in several special categories and have always bought tobacco from all over the world – including places in which the batches are small but incredibly interesting. Recently, we created a cigar with tobacco from the Amazon Jungle and more is on its way. Our work in special categories gives us access to more tobacco and an increased understanding of tobacco, the possibilities and the differences. General Cigar sells the Amazon tobacco cigar in the US market. The success has been overwhelming."

IT'S OUR DNA

"We believe in brands and invest a lot of effort in developing some of the world's strongest brands within their categories. But above everything else, we believe in quality. It may sound pretentious, but we believe that our consumers can taste the difference between premium quality and quality that is 'less great'. We also believe that the next exciting tobacco product is just waiting to be invented. We want to be the ones to invent it on the basis of our broad knowledge and insight into special categories. The key to new taste experiences is to be found in the tobacco. This belief and knowledge do not make us unique, but it's our company trademark and part of our DNA."

Cigar and pipe tobacco volumes are declining, but not much. And the decline is mostly felt in the European key markets in which Scandinavian Tobacco Group used to be the strongest.

"Yes, volumes are declining, but their value is relatively stable. We are not the only ones to see this trend. Our situation is comparable to that of beer, newspapers and even milk in Northern Europe. The total markets for these products are also dropping."

"Some people prefer working in a growth industry, but in my opinion, it is more important to work with something that you're passionate about. Our employees are extremely engaged and our consumers are very dedicated to our products. This sparks something in me. Our line of work would only be frustrating if we couldn't see opportunities to do better and to expand. We see these opportunities. Six years ago, we were a medium-size, primarily Northern European, company. Today, we are a global market leader in cigars and pipe tobacco. Our presence is divided equally between North America and Europe and our sales in the rest of the world are growing. We are growing in new categories and segments. It is not easy, but it is challenging and fun."

"We share our current challenge with many other companies. We need to ensure continued moderate growth, increase earnings and reduce the working capital. In some areas, we are just like most other companies. But there is one area in which we are different. Our aim is not to create more smokers. We don't work to increase the total tobacco market. This is something that we are very firm about. But our opportunities are still great. We are big within the niche products cigars, pipe tobacco and fine cut. In the long term, our big potential lies in developing products that can get a share of the 98% of the tobacco market which is dominated by cigarettes today. Exploiting this potential lies in understanding the preferences of our future smokers and employing our knowledge of tobacco in new ways. Medium-term, our job is to find pockets of growth in our current markets, to conquer new markets and to consolidate through acquisitions. A prerequisite for this is an efficient supply chain. And to keep on being an attractive place to work."

The most recent employee engagement survey from 2014 shows that the engagement of Scandinavian Tobacco Group's employees is high and in several areas it is at par with the best-performing FMCG companies in the world.

"Our company is about people. It is about understanding and challenging the moments that our consumers demand and that our products can give them. We will achieve our target. I think that we all want to do better each day and that we can all contribute. Every day, we are on our way to an even better place."

TOP 10 BRANDS

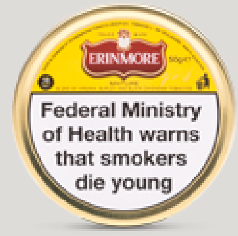
Borkum Riff is the world's most widely distributed pipe tobacco brand and comes in an exceptional number of variants ranging from sweet melon to dark whisky. The range includes additive-free variants and a limited-edition variant every spring.

Bali Shag is a premium brand in the fine-cut category and designed as a roll-your-own product. To maintain its high quality, the stems of the tobacco leaves are removed by hand and carefully shredded.

W.Ø. Larsen is our most luxurious premium pipe tobacco brand. The brand features Scandinavian-style blends with flavours including fruits and berries, vanilla and occasionally spiced tobaccos.

Cohiba is one of the world's most luxurious premium brands in the handmade cigar category. General Cigar owns the brand in the US where it enjoys the highest levels of consumer awareness and brand equity.

Macanudo is known as 'America's Cigar' and the 'Ultimate Cigar' in the US where the brand builds on a heritage unlike any other. The brand is also being introduced with a unique blend and packaging designed to appeal to the European consumer.



Café Crème is the world's largest cigarillo brand, available in more than 100 countries. It has been market and category leader since it was launched in 1963. Café Crème is also the largest brand in our portfolio.

Colts was originally developed as a cigar brand for the Canadian market. Today, it has expanded into new regions and into the categories of pipe tobacco, fine cut and little cigars. Colts is one of the top five best-sellers in our entire brand portfolio

Erinmore is the world's largest pipe tobacco brand, holds a premium position in our portfolio and is sold in more than 30 markets.

La Paz is one of the top five sellers in our entire brand portfolio. La Paz means 'peace' in Spanish and comes with a rough, feathered fire-end, which is called the "floss" or "wilde end" of the cigar.

Captain Black is one of our fastest growing brands. Originally a pipe tobacco in the US, Captain Black is now strongly positioned as an international brand across pipe tobacco, cigars, little cigars and fine-cut tobacco.

THE INSIDE STORY

Café Crème is one of the largest cigar brands in the world, but it has stagnated in the market segments that see the largest growth. How do you revitalise a brand that you can't advertise for? Our Café Crème team chose to emerge itself in the consumers and their needs.

It is the summer of 2012. To Sofie Ralfkiær it is the day of her big exam, but it does not feel like it. Sofie is Senoir Int. Brand Manager for Café Crème, the world's largest cigarillo brand. She feels calm and certain that the first consumer test will go well. Sofie and her team have, prior to this, reviewed more than 40 drafts for a new Café Crème design. She is sure they chose the right one. Sofie believes in the brightest and most modern design that shows off the metallic colour of the tin and lets the yellow signature Café Crème colour take a backseat.

"We nailed it. The consumers loved the way our brand was re-invented. But number one on my list didn't make it. The Café Crème smokers did not want to make the fact that they smoke cigarillos less visible. They want a modern brand that acknowledges its history and sends a loud and clear message about its identity," Sofie explains.

"I don't think I had the full picture of the typical Café Crème consumer until our consumer test group chose the package. In general, the trend for smokers is to seek out smooth and short smoking. This is definitely driven by the trend seen in the cigarette market. But our Café Crème smokers don't want a cigarette experience. They choose the small cigarillo, because they associate it with quality and authenticity. The fuller, yet still smooth, taste helps them to control their smoking. Café Crème is a conscious choice."

A year prior to this, Lars Toft Wassberg called in his Café Crème team. The analysis is unequivocal for the Senior Vice President of Marketing. The world's largest cigarillo brand is doing well, but competitors are closing in. Year after year, Café Crème Original wins, but the brand is not growing where the market is. On the contrary, Café Crème stagnates in the filter and flavour segments.

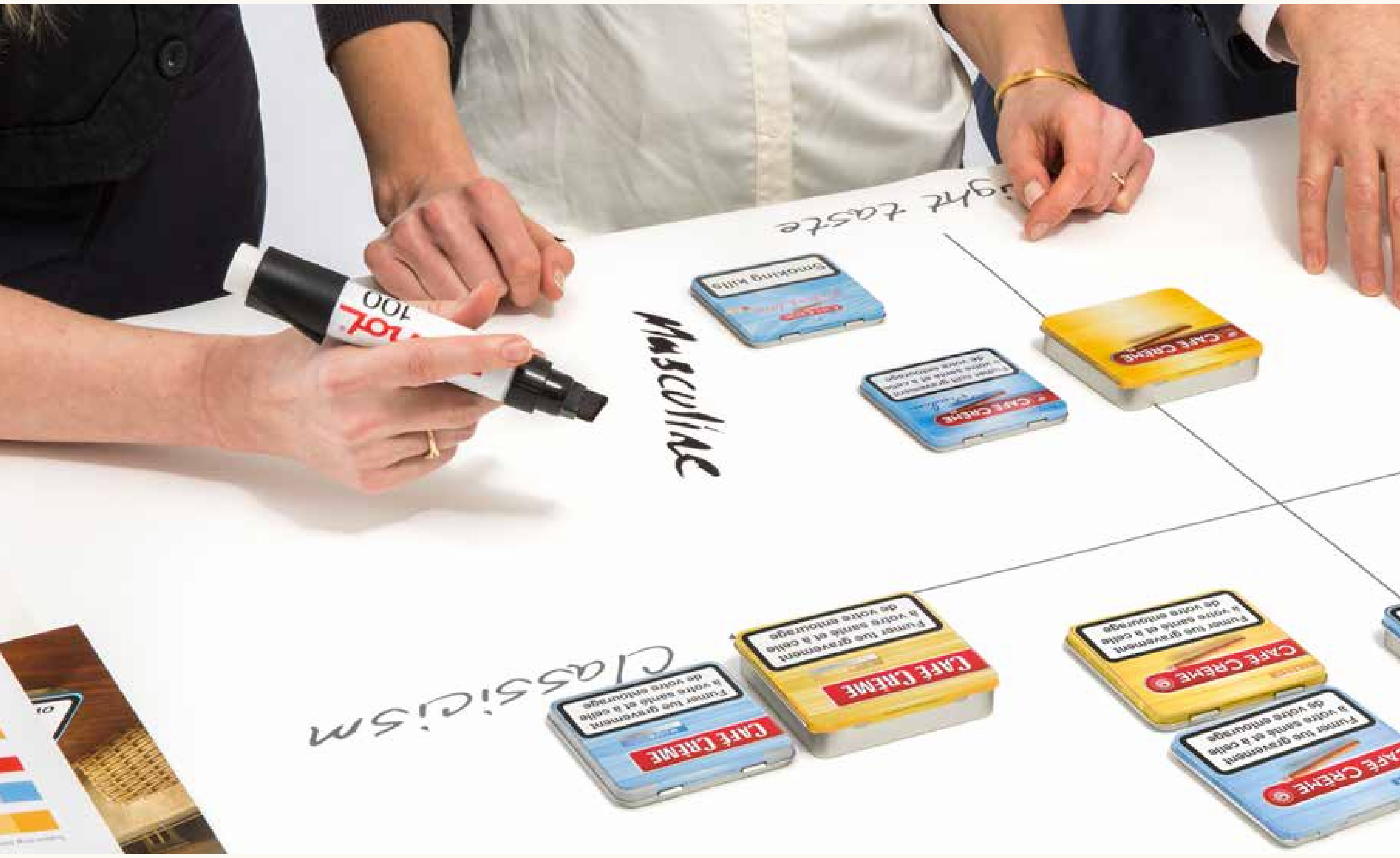
"In most parts of the world, tobacco is subject to advertising bans. We can't advertise our way to greater market shares. Changing consumer habits is a long-term effort. Without being able to promote, we have to work at least twice as hard with the three other P's in our marketing toolbox: Placement, Price and Product, the latter being the most important. We had to target the heart of Café Crème," says Lars.

Lars has done this with an abundance of brands. Cigars, cigarettes and chocolate brands. This time, the assignment was different.

"We had to start from scratch. The cigar business is relatively traditional. We wanted to renew Café Crème with the tools that one would use to renew any global, market-leading brand in other parts of the FMCG market. We gave ourselves the task of developing one of our largest brands and at the same


PERSONALIZATION
ANTHEM!
CAFÉ CRÈME

CAFÉ CRÈME



time develop a state-of-the-art toolbox which makes our innovation precise and consumer-driven."

To address the challenge, Lars assembled a team of tobacco specialists, brand experts and developers from our supply chain. The team also included Sanne Abildskov as International Research Manager. Sanne came directly from Millward Brown, a company specialised in communications and brand equity research.

"Our tobacco experts were developing a sensory language for the smoking experience. Café Crème is known as a smooth cigarillo, but the consumer perception of the concept 'smooth' has changed since 1963 when the brand was first launched. How could we regain the position as the smooth cigarillo in our line extensions? The project required a shared perception of what 'bright', 'dark', 'complex', 'dry', 'fermented' and many other words mean. We created the language and they also created and calibrated the smoking panel which today is the backbone of product and taste development," Sanne explains.

Sanne also brought other tools into the development of Café Crème. Consumer types and their so-called 'need states' were developed. Research of megatrends, consumer trends and industry trends became part of the development work. And a long series of consumer focus groups were interviewed in important markets such as France, the UK, Spain and Italy. What did they think of design and taste? Was the packaging attractive and could they decode the different kinds of packaging?

"We conducted focus groups and ethnographical research on Café Crème smokers. We even followed them on Instagram. What we learned was that Café Crème smokers are very conscious about their choice and also very proud of it. But they don't choose the cigarillo format to stand out from other smokers. They are social people who often smoke for social reasons and to share special moments with friends. At other times, they will smoke a Café Crème cigarillo to reward themselves for a job well done, or to create a moment of 'retreat' and relaxation. Café Crème smokers do not smoke a pack in half a day, but are often very conscious about when they smoke. They are also modern people who live in cities and have a cosmopolitan outlook on life," says Sanne.

In the autumn of 2013, the redesigned Café Crème was launched for the first customers at the biggest European tobacco trade fair: Inter-tabac in Dortmund. In the year to come, the new Café Crème was introduced country by country.

"The new package design is what is most visible. The coffee cup, which used to be part of the design, was removed after 50 years and the cigarillo itself has a more prominent role. The consumers want to see the cigar. The colours have become more defined and the colour coding for flavours such as vanilla and arome have become more logical. Café Crème has become much more visible in a shop assortment. But all this is only part of the result," Sofie explains.

"We have developed the products and their flavours in our line extensions, especially within the filter and flavour universe. The product has been

We conducted focus groups and ethnographical research on Café Crème smokers. We even followed them on Instagram"

1963

1972

1976

1994

1997


CAFÉ CRÈME
CAFÉ CRÈME
01
FILTER & COFFEE
Smoking seriously harms you and others around you
CAFÉ CRÈME
02
FILTER & VANILLA
Smoking seriously harms you and others around you
CAFÉ CRÈME
03
FILTER & CREAM
Smoking seriously harms you and others around you

" The improvement is also a result of getting to know our consumers and developing Café Crème in cooperation with them"

significantly improved because we got a shared sensory language as a frame of reference for our work. The improvement is also a result of getting to know our consumers and developing Café Crème in cooperation with them. The product tastes better and especially our filter and flavour variants are now perceived as smooth – also by cigarette smokers," she explains.

To Lars, there is a clear future direction:

"Café Crème still shows strong performance. The numbers tell the story and the success is also seen in the cooperation we have with our retail customers. Café Crème is a living, vibrant brand that does not stand still anymore. This is very rewarding to all of us who have worked to revitalise the brand. And the best thing is that we have the development plan and future activities in place that will continue the long-term push to develop the global leadership of Café Crème."

2002

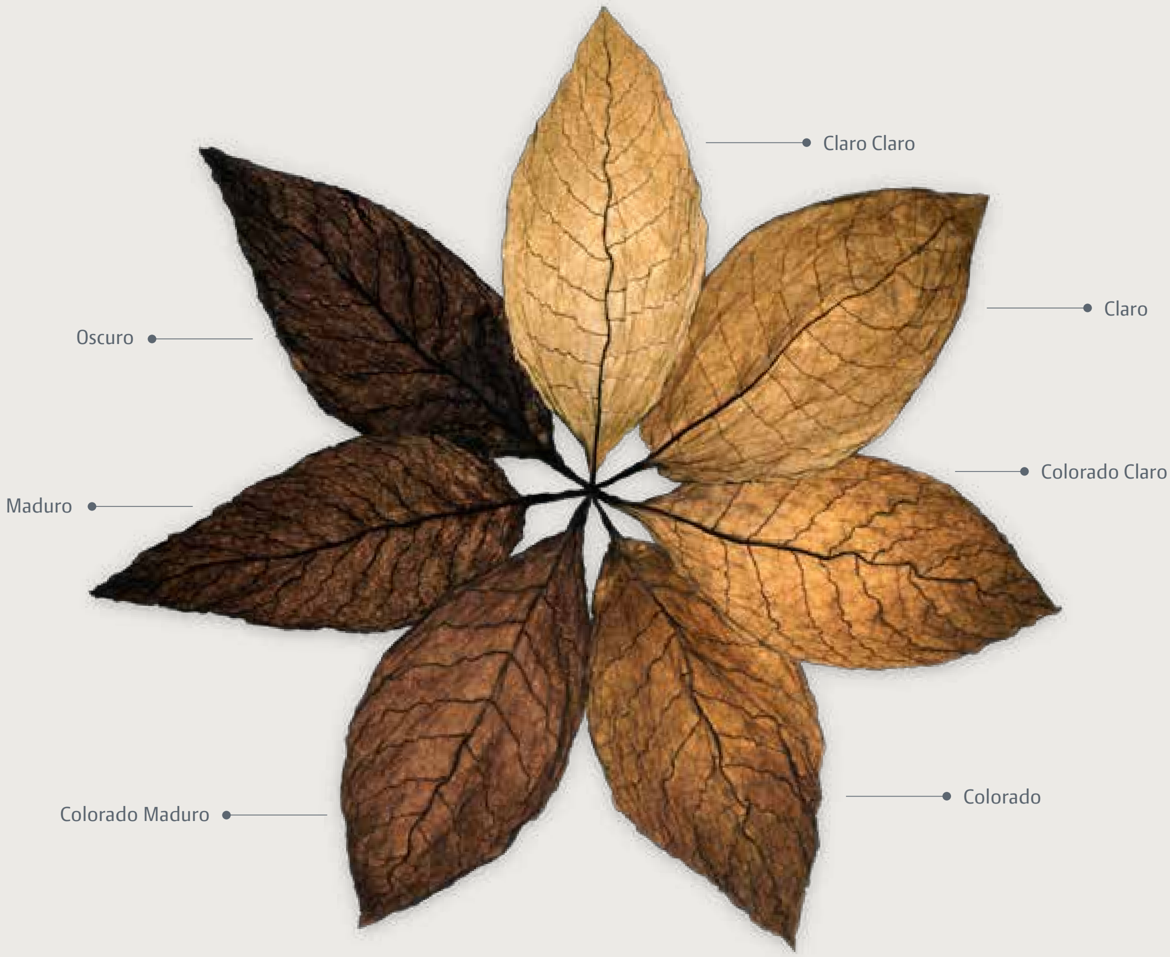
2005

2007

2013

The Colour

Tells the Story



The colour of a cigar wrapper reveals a complex story of how the leaf was grown and fermented. The most commonly used colour scale is an impressive range of shades varying from the lightest Claro Claro to the darkest Oscuro. As cigar aficionados, we are passionate about developing flawless wrappers that complete our cigars.

OSCURO
The cigars have a stronger and richer flavour. Oscuro, also known as double Maduro, is the darkest maduro wrapper and is almost black. The leaf is left on the plant – and fermented – the longest of all the wrappers which gives it its deep sweetness.

MADURO
Means 'mature' or 'ripe' in Spanish. The leaf is very dark brown, aromatic, sweet and strong- flavoured. The leaves used for Maduro wrappers must be significantly thicker than others as they undergo a longer fermentation process.

COLORADO MADURO
The wrapper is aromatic, dark brown and has a rich medium flavour. The colour is in between that of Colorado and Maduro.

CLARO CLARO
The lightest-coloured wrapper; light green also called Candela. Candela has a fresh leafy flavour. The colour is achieved by picking the tobacco leaves before the plant has fully matured and by a heat-assisted quick-drying process.

CLARO
Claro is a light tan wrapper picked before full maturity. Claro cigars are smooth-tasting and usually shade-grown. Shade-grown refers to the process of being grown under giant sheets of cheesecloth, which keeps the leaves from being exposed to too much sunlight; this ensures a smooth flavour.

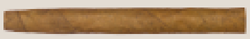
COLORADO CLARO
Light brown to brown colour. Colorado Claro is often a sun-grown wrapper and it has a full-bodied flavour.

COLORADO
The wrapper is reddish or dark brown, robust and rich in flavour.

Cigar Formats

While cigar size names (such as Corona, Robusto and Churchill) give an indication of the size of a cigar, exact sizes can differ from one brand to another. Cigars of different sizes can have different taste characteristics. This is because large cigars have more filler tobacco and tend to be more complex, burning more slowly and at a cooler temperature than a smaller cigar. There is a whole world to discover and experiment with. As with all things in life, smokers have their favourites. But aficionados still like to compare their favourite formats with others, especially when a new cigar hits the market.

CIGARILLO



PEQUENO

PANATELA

ROTHSCHILD

ROBUSTO

PYRAMID

CORONA

TORO

TORPEDO (BELISCO)

GIGANTE

LONSDALE

CHURCHILL

From Seed to Cigar

A tiny seed can easily take two years or more to turn into a premium handmade cigar. The devotion poured into the project is comparable to that involved with making a fine whisky or wine. Each wrapper leaf needs to be flawless. The curing of the leaves must be done with care, passion and precision. And the planting of the seedlings is like caring for babies in a specially protected environment. The lifespan of this luxury item might be long, but the discerning cigar smoker will agree that it is worth the wait.

1. PLANTING
Tiny, coated seeds are planted and nurtured.

2. HARVESTING
Leaves are picked two or three at a time, starting from the bottom of the plant.

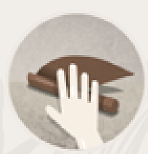
3. CURING
Curing is the managed drying of leaves, whether in the sun, over a fire or in a heated barn.

4. FERMENTATION
This ensures the tobacco's characteristics are improved to give it the smoothest possible taste.

5. CONDITIONING, SORTING AND GRADING
The leaves are ready to be sorted according to their colour, quality and size.

6. MULLING
The tobacco is placed in wooden cases for about six weeks.

7. STRIPPING PROCESS
The central vein of the tobacco is removed completely for wrapper and binder tobacco, and partially removed for filler tobacco.



8. ROLLING
The bulk of the cigar is provided by a blend of leaves called the filler; this is held in place by the binder, which in turn is wrapped within the wrapper.

9. INSPECTION AND AGEING
Every cigar is meticulously inspected. Cigars that pass inspection are stored in cedar-lined ageing rooms for at least three weeks.

10. PACKING
The cigars are sorted according to colour shading and sent for final inspection.

11. STORAGE
Storage needs to take place in optimal humidity (between 72% and 75%).

W http://www.st-group.com/en/about-our-tobacco/making-of-tobacco/cigars

Flavouring

PIPE TOBACCO

The flavour of a specific pipe tobacco blend is an intricate mix of the tobaccos used, how they are treated, which kind of pipe the blend is smoked in and, of course, whether flavours have been added to the tobacco.

FLAVOUR

Pipe tobacco has a pleasing aroma. For a major part of the market, it is further enhanced with natural flavours. Casing is a process that should not be confused with flavouring. Rather, it 'rounds' the raw tobaccos before actual flavour is added. Casing can be done with sugar, molasses, cocoa and various other flavourings.

Most people enjoy the fragrance of a good blend, even those who do not smoke it. Many people are taken back to a meaningful memory when a particular fragrance hits their nostrils. Our pipe tobacco experts are among the most passionate in the world; perfecting a blend is a life mission to them. They are always on the lookout for new ways of blending – and new ways of tantalising the taste buds of the world's most dedicated pipe smokers.

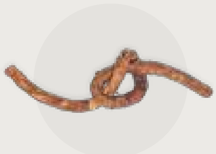
Different Cuts for Different People

There is no need to discuss individual tastes when there is an option for everyone. These are some of the world's most widely used pipe tobacco formats, and they are all produced by the world's largest manufacturer of pipe tobacco: Scandinavian Tobacco Group.

LOOSE CUT
Burns quickly and can burn hot. If it burns too hot, the smoke can cause a burning sensation on the tongue.

READY RUBBED
Ready rubbed is less demanding than flake. It is slightly easier to pack and smoke the pipe. It gives a slower and cooler burn and preserves flavour and moistness well.

MIXTURE
The mixture is a blend of different cuts and/ or blends of tobacco.



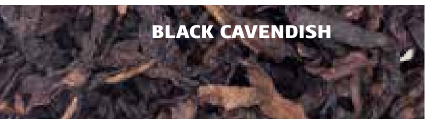
ROPE
Rope is a variation of the flake cut, with many of the same smoking characteristics.

FLAKE
Flake needs to be rubbed up and packed into the pipe. It requires a bit more effort to pack and smoke. Flake gives a slower and cooler burn, and the flake cut preserves flavour and moistness well.

CROSS CUT
Cross cut is primarily used as a 'decorative topping' in a mixture.

SPUN CUT
Spun cut is a variation of the flake cut, with many of the same smoking characteristics.

Pipe Tobacco



The Shape of an Experience

Pipe shapes are about more than looks. The shape of a pipe influences the smoking experience. Pipes with a short mouthpiece burn warmer and more intensely, while those with a longer mouthpiece give a lighter and cooler smoking sensation. Pipe mouthpieces are most often variations of 'straight', 'half bent' (also called 'round bent') and 'full bent'.

Bent Apple

Churchwarden

Poker

Horn

Blowfish

Cutty

Cavalier

Gourd Calabash

Calabash

Bulldog

Billiard

THE HISTORY
OF TOBACCO

SENDING CLOUDS TO THE SKY

Since Native Americans began enjoying tobacco thousands of years ago, it has been chewed, sniffed and above all smoked.

While nobody knows how smoking started, one early myth tells of a Native American shaman who wanted to create rain. His tribe was suffering during a drought, and he knew that rain was connected with clouds. So, quite reasonably, he thought that sending his own ‘clouds’ skywards might create the downpour his people needed so desperately.

By the time Columbus landed in 1492, smoking was well-established among priests, chiefs and other shamans as a way of creating a special bond between man, gods and nature.

SMOKING FOR RELIGION, POLITICS – AND ENJOYMENT

It was about 8,000 years ago that tobacco as we know it today started to be grown in the Americas. Scientists have found evidence from around this time of changes taking place in plants as a result of cultivation and selective breeding. But it’s not until around year 0 that we find the first hard evidence of smoking, among the indigenous people of Peru. Then, from around 470, the Mayan people brought smoking with them as they migrated northwards as far as the Mississippi valley. Long before Columbus, it had spread north as far as Hudson Bay. Tobacco spread along with a complex system of religious and political rites. Native Americans have left written evidence that they believed that the Great Spirit Manitou was revealed in the rising smoke.

TOBACCO “DRINKER” IS SENT TO PRISON

“The natives brought fruit, wooden spears and certain dried leaves which gave off a distinct fragrance.”

These words from the journal of Christopher Columbus were written following his landing on the Bahamas island of San Salvador on 12 October 1492. Although he initially discarded the tobacco, two of his crew were intrigued to see local people “drinking” its smoke (the term “smoking” was yet to be invented) a month later on Cuba.

As a result, crewman Rodrigo de Jerez became the first non-American to take up smoking. But in Spain, he was sent to prison because common belief dictated that only the Devil could blow smoke from mouth and nose.

NO MORE HEADACHES FOR THE QUEEN OF FRANCE

The spread of tobacco across Europe was rapid, originally driven by its use as a medicine.

16th century French queen Catherine de Medici was prescribed snuff by her physician Jean Nicot (hence the word “nicotine”) as a cure for her frequent and severe migraines. Sure enough, the sneezing it caused expelled the painful “evil spirits”.

GROWING INTERNATIONAL TRADE TAKES TOBACCO GLOBAL

Tobacco spread fast along trading routes from the ports of Europe, soon reaching Russia, Turkey and China.

Dutch and Portuguese vessels then took it even further, to the great Japanese ports of Nagasaki and Kagoshima. Africa was next, bombarded by the French to the West and the Portuguese from the East. Within a few decades, tobacco had reached the whole known world.

KINGS, CHURCHES AND GOVERNMENTS GET IN ON THE ACT

Despite its rapid spread across the world, tobacco wasn’t universally popular. England’s King James 1 called it a “barbarous custom”. The Catholic Church wasn’t above real barbarity in its opposition, sanctioning the execution in 1692 of five friars who smoked during a service. In Turkey, Sultan Murad (1623 – 40) beheaded anybody caught smoking in public.

Elsewhere, rulers tried to control it in other ways. In 1635, Louis XIII of France determined it was medicine that only doctors could prescribe – a restriction that was overturned the following year due to the profit opportunities its growing popularity represented.

Many governments got in on the act, widely imposing import taxes to grasp its profit potential. British officials had another reason for attempting to control production in Virginia – settlers were growing so much tobacco in 1629 that they were neglecting food crops. So tobacco has been taxed and regulated for centuries.

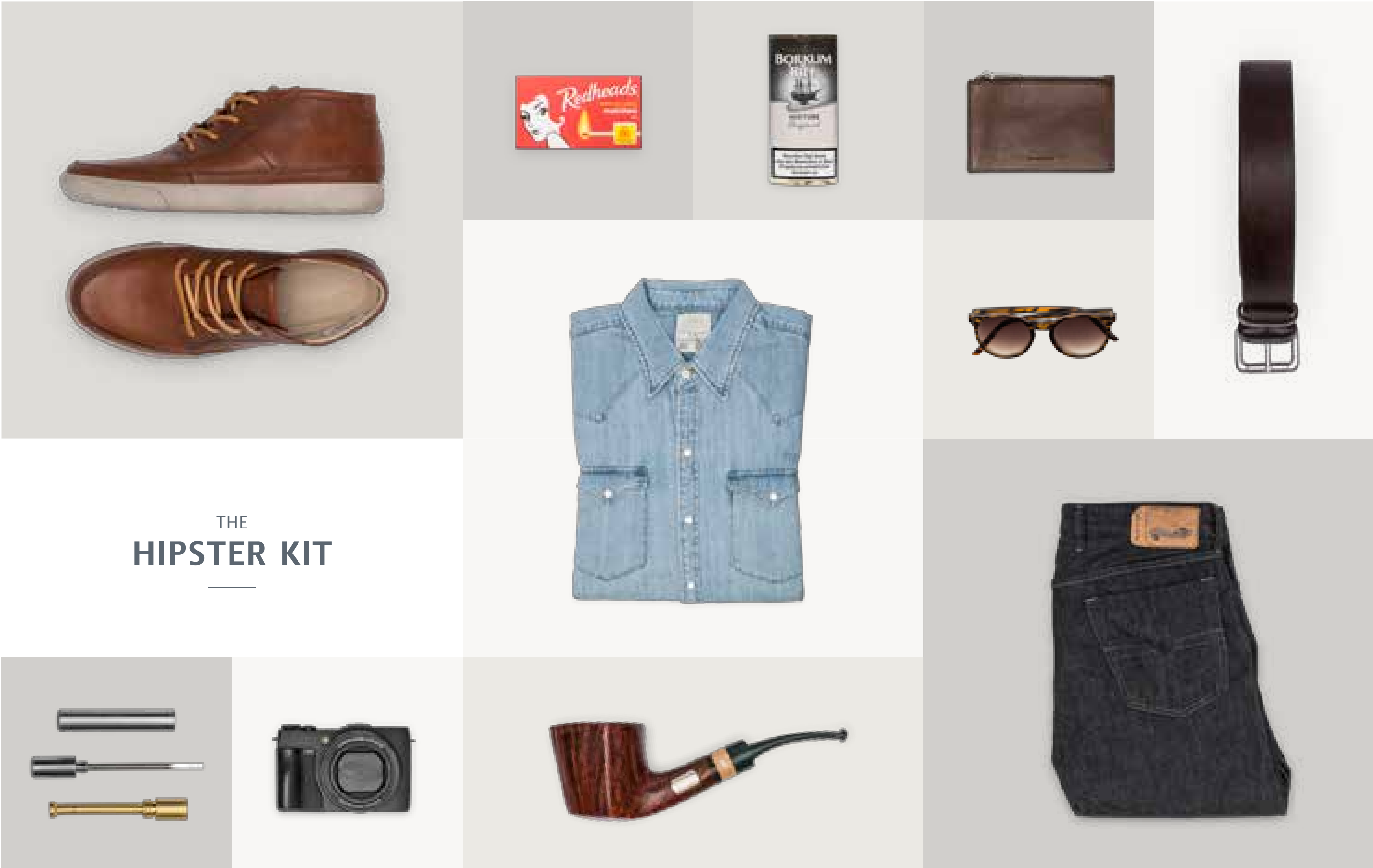
CREATIVE WAYS TO ENJOY TOBACCO

When Columbus and his crew first came across tobacco, they saw it being consumed through the mouth using a form of cigar.

But soon many other means of consumption were observed. Europeans also saw Native Americans using pipes to inhale through the nose as well as the mouth. Others witnessed tobacco being ground into a paste, which was then chewed to postpone hunger and thirst – very useful when on a hunting expedition. And snuff was universally popular.

In Europe, cigars did not catch on until the early 19th century. And it wasn’t until the 1880s that cigarettes – hitherto very expensive to make – became popular when production costs fell drastically.

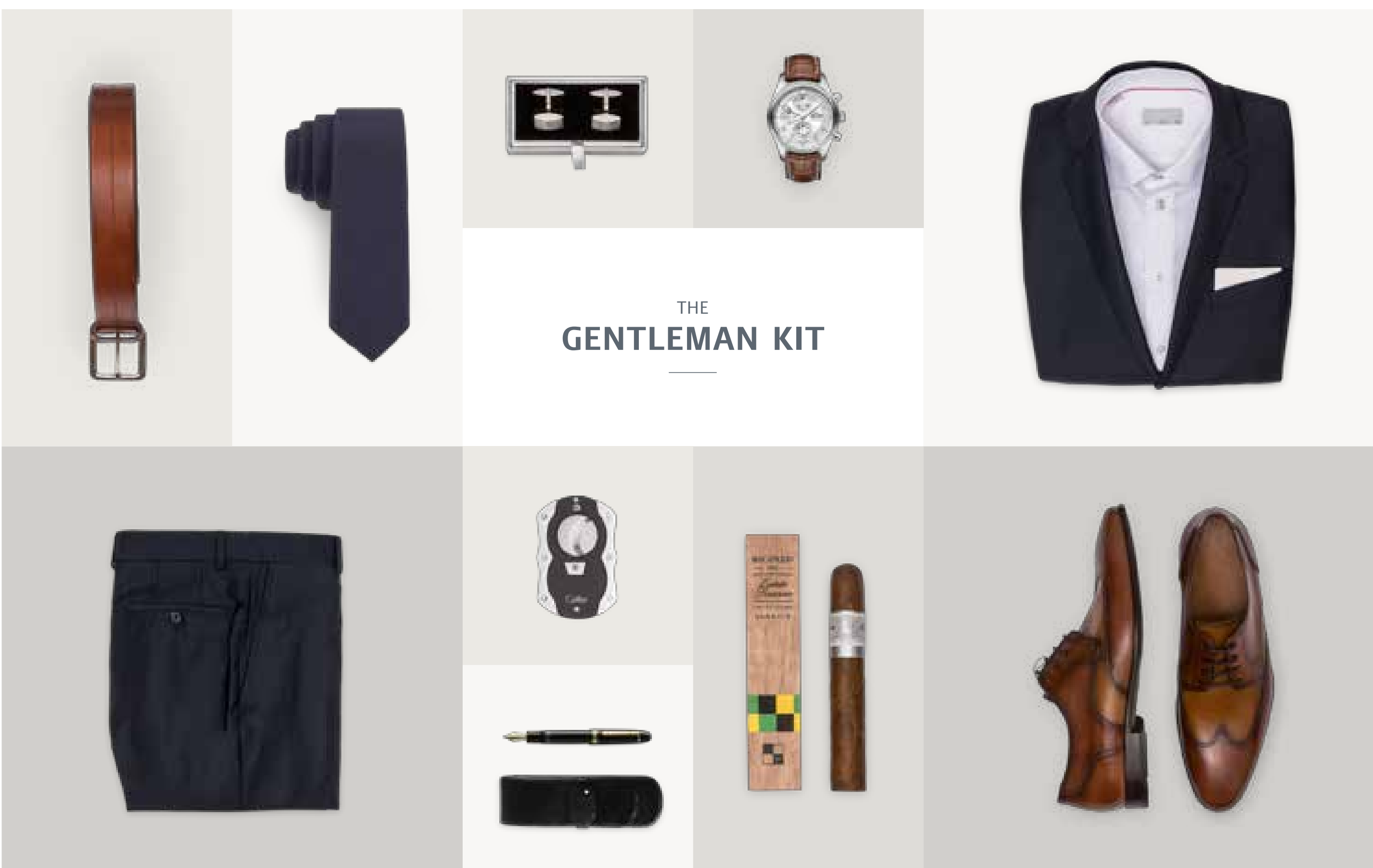
Smoking had become part of everyday life.



THE
HIPSTER KIT

HIPSTER, GENTLEMAN OR SOMEONE WHO DOESN'T HAVE A LABEL?

No two snowflakes are alike. Neither are people. We decide who we want to be. And we show the world who we are. Cigar and pipe smokers stand out from the crowd. We give our consumers more choices than any other company in the business. We have transformed our love of nature's finest products into a wealth of brands that consumers can explore to find the perfect fit.



THE
GENTLEMAN KIT

FINANCIAL STATEMENTS
SCANDINAVIAN TOBACCO GROUP

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY – 31 DECEMBER

CONSOLIDATED INCOME STATEMENT

DKK million	Note	2014	2013
Net sales	2.1	6,126.0	5,925.3
Cost of goods sold	2.1	-3,178.7	-3,010.8
Gross profit	**2.1**	**2,947.3**	**2,914.5**
Other external costs		-1,049.9	-1,108.4
Staff costs	2.2	-748.9	-631.8
Other income		28.7	0.3
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**1,177.2**	**1,174.6**
Depreciation	3.2	-102.0	-128.8
Earnings before interest, tax and amortisation (EBITA)		**1,075.2**	**1,045.8**
Amortisation	3.1	-167.5	-271.1
Earnings before interest and tax (EBIT)		**907.7**	**774.7**
Share of profit of associated companies, net of tax	4.4	6.2	5.4
Financial income	4.5	29.1	5.7
Financial costs	4.5	-97.4	-110.1
Profit before tax		**845.6**	**675.7**
Income taxes	2.3	-205.8	-102.9
Net profit for the year		**639.8**	**572.8**

OTHER COMPREHENSIVE INCOME

Items that will not be recycled subsequently to the Consolidated Income Statement:			
Actuarial gains and losses on pension obligations		-62.1	15.1
Tax of actuarial gains and losses on pension obligations		19.6	-6.0
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		31.0	35.0
Cash flow hedges, realisation of previously deferred (gains)/losses to net sales and cost of goods sold		9.3	-15.8
Cash flow hedges, deferred gains/(losses) incurred during the year		-45.7	19.7
Tax of hedging instruments		0.9	-9.7
Foreign exchange rate adjustments		543.4	-291.2
Other comprehensive income for the year, net of tax		**496.4**	**-252.9**
Total comprehensive income for the year		**1,136.2**	**319.9**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

ASSETS

DKK million	Note	2014	2013
NON-CURRENT ASSETS			
INTANGIBLE ASSETS			
Goodwill		4,205.3	3,874.5
Trademarks		3,352.1	3,133.7
IT software		82.9	104.4
Other intangible assets		249.8	266.4
Total intangible assets	3.1	**7,890.1**	**7,379.0**
PROPERTY, PLANT AND EQUIPMENT			
Land and buildings		678.6	565.0
Plant and machinery		339.1	247.7
Equipment, tools and fixtures		83.9	69.9
Leasehold improvements		43.2	36.4
Construction in progress		58.1	192.7
Total property, plant and equipment	3.2	**1,202.9**	**1,111.7**
OTHER NON-CURRENT ASSETS			
Investments in associated companies	4.4	109.7	97.5
Deferred income tax assets	2.3	172.3	82.6
Other financial fixed assets	4.4	0.6	0.7
Total other non-current assets		**282.6**	**180.8**
Total non-current assets		**9,375.6**	**8,671.5**
CURRENT ASSETS			
Inventories	3.3	**3,099.2**	**2,926.9**
RECEIVABLES			
Trade receivables	3.4	811.1	817.1
Receivables from affiliated companies		1.7	1.6
Other receivables		97.4	100.5
Prepaid corporate tax	2.3	143.2	172.5
Prepayments	3.5	52.7	41.4
Total receivables		**1,106.1**	**1,133.1**
Cash and cash equivalents		**581.0**	**464.3**
Total current assets		**4,786.3**	**4,524.3**
Total assets		**14,161.9**	**13,195.8**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

EQUITY AND LIABILITIES

DKK million	Note	2014	2013
Share capital		100.0	100.0
Reserve for hedging		-67.6	-63.1
Reserve for currency translation		485.0	-58.4
Retained earnings		8,569.6	8,354.3
Total equity		**9,087.0**	**8,332.8**
Bank loans	4.1	2,307.5	2,756.5
Deferred income tax liabilities	2.3	694.3	519.3
Pension obligations	3.7	233.0	209.5
Other provisions	3.6	38.9	45.5
Other liabilities		47.4	56.9
Total non-current liabilities		**3,321.1**	**3,587.7**
Bank loans	4.1	650.8	221.9
Trade payables		375.9	359.9
Corporate tax liabilities	2.3	93.9	170.9
Other provisions	3.6	44.1	41.2
Other liabilities		589.1	481.4
Total current liabilities		**1,753.8**	**1,275.3**
Total liabilities		**5,074.9**	**4,863.0**
Total equity and liabilities		**14,161.9**	**13,195.8**

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY – 31 DECEMBER 2014

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Retained earnings	Total
Equity at 1 January 2014	**100.0**	**-63.1**	**-58.4**	**8,354.3**	**8,332.8**
Comprehensive income for the year					
Net profit for the year	**0.0**	**0.0**	**0.0**	**639.8**	**639.8**
Other comprehensive income					
Cash flow hedges		-5.4			**-5.4**
Tax of cash flow hedges		0.9			**0.9**
Foreign exchange adjustments			543.4		**543.4**
Actuarial gains and losses on pension obligations				-62.1	**-62.1**
Tax of actuarial gains and losses on pension obligations				19.6	**19.6**
Total other comprehensive income	**0.0**	**-4.5**	**543.4**	**-42.5**	**496.4**
Total comprehensive income for the year	**0.0**	**-4.5**	**543.4**	**597.3**	**1,136.2**
Transactions with shareholders					
Dividend paid				-382.0	**-382.0**
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**-382.0**	**-382.0**
Equity at 31 December 2014	**100.0**	**-67.6**	**485.0**	**8,569.6**	**9,087.0**

Retained earnings include proposed dividends of DKK 427.0 million. Proposed dividend per share amounts to DKK 4.3. Dividend paid in 2014 consisted of dividend in respect of 2013 of DKK 382.0 million (dividend paid per share amounted to DKK 3.8).

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

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY – 31 DECEMBER 2013

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Retained earnings	Total
Equity at 1 January 2013	**100.0**	**-92.3**	**232.8**	**8,184.4**	**8,424.9**
Comprehensive income for the year					
Net profit for the year	**0.0**	**0.0**	**0.0**	**572.8**	**572.8**
Other comprehensive income					
Cash flow hedges		38.9			**38.9**
Tax of cash flow hedges		-9.7			**-9.7**
Foreign exchange adjustments			-291.2		**-291.2**
Actuarial gains and losses on pension obligations				15.1	**15.1**
Tax of actuarial gains and losses on pension obligations				-6.0	**-6.0**
Total other comprehensive income	**0.0**	**29.2**	**-291.2**	**9.1**	**-252.9**
Total comprehensive income for the year	**0.0**	**29.2**	**-291.2**	**581.9**	**319.9**
Transactions with shareholders					
Dividend paid				-412.0	**-412.0**
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**-412.0**	**-412.0**
Equity at 31 December 2013	**100.0**	**-63.1**	**-58.4**	**8,354.3**	**8,332.8**

Retained earnings include proposed dividends of DKK 382.0 million. Proposed dividend per share amounts to DKK 3.8. Dividend paid in 2013 consisted of dividend in respect of 2012 of DKK 412.0 million (dividend per share amounted to DKK 4.1).

The share capital consists of 100,000,000 shares of a nominal value of DKK 1. No shares carry any special rights. There has been no changes in the share capital in the period 1 October 2010 to 31 December 2012.

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY – 31 DECEMBER

DKK million	Note	2014	2013
Net profit for the year		639.8	572.8
Adjustments	5.1	508.7	601.8
Changes in working capital	4.3	189.1	-115.4
Cash flow from operating activities before financial items		**1,337.7**	**1,059.2**
Financial income received	4.5	29.1	5.7
Financial costs paid	4.5	-97.4	-110.1
Cash flow from operating activities before tax		**1,269.4**	**954.8**
Tax payments	2.3	-213.3	-210.0
Cash flow from operating activities		**1,056.0**	**744.8**
Acquisitions	3.8	-310.2	-19.9
Acquisition of intangible assets	3.1	-22.8	-31.1
Acquisition of property, plant and equipment	3.2	-192.4	-271.1
Proceeds from sale of property, plant and equipment		50.1	0.0
Dividend from associated companies	4.4	4.2	4.4
Cash flow from investing activities		**-471.2**	**-317.7**
New external funding		353.5	0.0
Instalment bank loans		-439.7	-235.0
Dividend payment		-382.0	-412.0
Cash flow from financing activities		**-468.2**	**-647.0**
Net cash flow for the year		**116.7**	**-219.9**
Cash and cash equivalents, net at 1 January		464.3	684.2
Net cash flow for the year		116.7	-219.9
Cash and cash equivalents, net at 31 December		**581.0**	**464.3**

NOTES

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

SECTION 1 'BASIS OF PREPARATION'

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

1.1 Summary of significant accounting policies p 71
1.2 Other accounting policies p 72
1.3 Other general accounting policies p 73

SECTION 2 'RESULTS FOR THE YEAR'

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

2.1 Gross profit (net sales and cost of goods sold) p 74
2.2 Staff costs p 77
2.3 Income and deferred income taxes p 78

SECTION 3 'OPERATING ASSETS AND LIABILITIES'

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

3.1 Intangible assets p 80
3.2 Property, plant and equipment p 82
3.3 Inventories p 84
3.4 Trade receivables p 85
3.5 Prepayments p 86
3.6 Other provisions p 86
3.7 Pension obligations p 87
3.8 Business acquisitions p 90

SECTION 4 'CAPITAL STRUCTURE AND FINANCING ITEMS'

Encompasses notes related to capital structure and financing items.

4.1 Financial institutions p 91
4.2 Financial risks and instruments p 92
4.3 Changes in working capital p 96
4.4 Financial fixed assets p 97
4.5 Financial income and costs p 99

SECTION 5 'OTHER DISCLOSURES'

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

5.1 Cash flow adjustments p 100
5.2 Contingent liabilities p 100
5.3 Related-party transactions p 101
5.4 Events after the reporting period p 102
5.5 Fee to statutory auditor p 102
5.6 Entities in Scandinavian Tobacco Group p 103
5.7 Explanation of financial ratios p 105

SECTION 1

BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1.1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

The functional currency of the Parent Company is Danish kroner and this is also the presentation currency of the Group.

The principal accounting policies set out below have been applied consistently in the preparation of the Consolidated Financial Statements for all the years presented (except for financial highlights for the period 1 October to 31 December 2010 which have not been restated as part of the transition to IFRS in 2012).

PRINCIPAL ACCOUNTING POLICIES

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

ESTIMATION UNCERTAINTY

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

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

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

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

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

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

NOTE 1.2

OTHER ACCOUNTING POLICIES

CHANGE IN ACCOUNTING ESTIMATES FOR INTANGIBLE AND TANGIBLE ASSETS

Management has reassessed the useful lives of certain intangible and tangible assets including trademarks, capitalised IT costs and production equipment during 2014.

The reassessment has led to the following changes in amortisation and depreciation periods:

	Previous estimate of useful lives	Revised estimate of useful lives	Effect on depreciation and amortisation (DKK million)
Trademarks	10-25 years	10-25 years / indefinite	92
IT software	3-5 years	5 years	15
Plant and machinery	3-20 years	12-20 years	20
Total impact before tax			**127**

The effect of the change in the estimates for 2014 is a decrease in depreciation and amortisation charges of DKK 127 million and an increase in result after tax and equity of DKK 94 million. The estimated effect on the result after tax for 2015 will be about the same as in 2014. For following years the effect depends on the previous estimate of useful lives, but is expected to be an increase in result after tax, from the 2014 level, to approx. DKK 70 million per year.

Due to the change in estimate, trademarks with indefinite useful lives will be subject to impairment tests on a yearly basis.

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 IASB and IFRS endorsed by the European Union effective on or after 1 January 2014, it has been assessed that the application of these new IFRS has not had a material impact on the Consolidated Financial Statements in 2014, and the Group does not anticipate any significant impact on future periods from the adoption of these new IFRS (including the changes made to IFRS 10 regarding Consolidated Financial Statements and IFRS 11 regarding Joint Arrangements).

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

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

- IASB has issued IFRS 9 'Financial Instruments', with effective date 1 January 2018. It currently awaits EU endorsement. IFRS 9 is part of the IASB's project to replace IAS 39, and the new standard will substantially change the classification and measurement of financial instruments and hedging requirements. The Group has assessed the impact of the standard and determined that it will not have any significant impact on the Consolidated Financial Statements.
- IASB has issued IFRS 15 'Revenue from contracts with customers', with effective date 1 January 2017. It currently awaits EU endorsement. IFRS 15 is part of the convergence project with FASB to replace IAS 18. The new standard will establish a single, comprehensive framework for revenue recognition. The Group has assessed the impact of the standard and determined that it will not have any significant impact on the Consolidated Financial Statements.
- IASB has issued a re-exposure draft on IAS 17 'Leasing'. Depending on the wording of the final standard, the change in lease accounting is expected to require capitalisation of the majority of the Group's operational lease contracts with a minor impact on the Group's assets, liabilities and financial ratios, and no significant impact on net profit.

NOTE 1.3

OTHER GENERAL ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The Consolidated Financial Statements comprise the Parent Company, Scandinavian Tobacco Group A/S, and subsidiaries in which the Parent Company directly or indirectly holds more than 50% of the votes or in which the Parent Company, through share ownership or otherwise, exercises control. Enterprises in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are classified as associated companies. At consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

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

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

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

TRANSLATION POLICIES

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

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

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

OTHER EXTERNAL COSTS

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

EQUITY

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

The reserve for currency translation in the Consolidated Financial Statements comprises foreign exchange differences arising from translation of financial statements of foreign enterprises from their functional currencies to the presentation currency of the Group (Danish kroner). On full or partial realisation of the net investment the foreign exchange adjustments are recognised in the income statement. The reserve for hedges includes the accumulated net change in the fair value of hedging transactions qualifying for hedge accounting.

CASH FLOW STATEMENT

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

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

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

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

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

The cash flow statement cannot be derived directly from the published financial records.

SECTION 2

RESULTS FOR THE YEAR

This section comprises notes in relation to the results for the year, including disclosure on product segments. The Financial Highlights on page 9 gives a detailed description of the results for the year.

NOTE 2.1

GROSS PROFIT (NET SALES AND COST OF GOODS SOLD)

ACCOUNTING POLICIES

NET SALES

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

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

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

COST OF GOODS SOLD

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

SEGMENT REPORTING

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

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

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

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

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

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

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

There have been no material transactions between the different segments.

SEGMENT INFORMATION

2014

DKK million	Hand-made cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allocated	Total
Net sales	1,513.6	2,595.2	569.2	561.8	886.2	0.0	6,126.0
Cost of goods sold	-857.6	-1,254.4	-229.0	-261.9	-575.8	0.0	-3,178.7
Gross profit	**656.0**	**1,340.8**	**340.2**	**299.9**	**310.4**	**0.0**	**2,947.3**
Other external costs						-1,049.9	-1,049.9
Staff costs						-748.9	-748.9
Other income						28.7	28.7
EBITDA						**-1,770.1**	**1,177.2**
Depreciation						-102.0	-102.0
Amortisation						-167.5	-167.5
EBIT						**-2,039.6**	**907.7**
Share of profit of associated companies, net of tax						6.2	6.2
Financial income						29.1	29.1
Financial costs						-97.4	-97.4
Profit before tax						**-2,101.7**	**845.6**
Goodwill allocated to segments	**1,635.0**	**1,356.9**	**625.9**	**270.1**	**317.4**	**0.0**	**4,205.3**

2013

DKK million	Hand-made cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allocated	Total
Net sales	1,368.1	2,512.9	566.9	521.8	955.6	0.0	5,925.3
Cost of goods sold	-765.1	-1,150.5	-233.7	-248.1	-613.4	0.0	-3,010.8
Gross profit	**603.0**	**1,362.4**	**333.2**	**273.7**	**342.2**	**0.0**	**2,914.5**
Other external costs						-1,108.4	-1,108.4
Staff costs						-631.8	-631.8
Other income						0.3	0.3
EBITDA						**-1,739.9**	**1,174.6**
Depreciation						-128.8	-128.8
Amortisation						-271.1	-271.1
EBIT						**-2,139.8**	**774.7**
Share of profit of associated companies, net of tax						5.4	5.4
Financial income						5.7	5.7
Financial costs						-110.1	-110.1
Profit before tax						**-2,238.8**	**675.7**
Goodwill allocated to segments	**1,372.4**	**1,308.7***	**614.5**	**270.1**	**308.8***	**0.0**	**3,874.5**

*Due to an error in 2013, DKK 601.0 million has been reallocated from 'Other' to 'Machine-made' cigars.

SEGMENT INFORMATION (CONTINUED)

DKK million	2014	2013
Geographic information		
In the table below, sales to external customers are attributable to the country of the customers' domicile. External sales are distributed by geographic region as follows:		
North America	2,338.1	2,248.3
Northern Europe	930.3	876.1
Western Europe	1,443.2	1,356.6
Southern Europe	378.8	374.5
Oceania	387.5	413.8
Rest of world	648.1	656.0
Total net sales	**6,126.0**	**5,925.3**

The Group is domiciled in Denmark. Net sales from external customers in Denmark amount to DKK 237.4 million (DKK 230.0 million), and net sales from external customers outside Denmark amount to DKK 5,888.6 million (DKK 5,695.3 million). Individual material countries (>10% of total net sales) are the US DKK 2,091.7 million (DKK 1,977.4 million) and France DKK 683.0 million (DKK 623.1 million).

Information about major customers

Net sales of DKK 646.6 million (DKK 569.6 million) are derived from a single external customer and are attributable to different product segments, but primarily the machine-made cigar segment with 98% (97%).

Licence income and other sales of DKK 41.3 million (DKK 46.3 million) are included in the total net sales.

NOTE 2.2
STAFF COSTS

ACCOUNTING POLICIES

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

DKK million	2014	2013
Wages and salaries	1,231.3	1,085.4
Pensions – defined contribution plans	45.6	42.1
Pensions – defined benefit plans	-36.0	22.6
Social security costs	162.5	169.8
Total staff costs for the year	**1,403.5**	**1,319.9**
Staff costs included in intangible assets and property, plant and equipment	-7.7	-1.9
Change in employee costs included in inventories	-3.4	-3.6
Total staff costs expensed to the income statement	**1,392.4**	**1,314.4**
Included in the income statement:		
Cost of goods sold	643.5	682.6
Staff costs	748.9	631.8
Total included in the income statement	**1,392.4**	**1,314.4**
Salaries and fees to the Supervisory and Executive Board in the Parent Company can be specified as follows:		
Supervisory Board	**4.9**	**4.9**
Executive Board, salaries and other short-term benefits	34.5	23.4
Executive Board, pensions	2.1	3.4
Executive Board, share option programme	0.8	4.1
Total Executive Board	**37.4**	**30.9**
Total Supervisory Board and Executive Board	**42.3**	**35.8**
Average number of employees in the Group	**8,974**	**9,510**

Members of the Executive Board are entitled to an early retirement pension plan. The development in the pension commitment is included in the above pension cost with DKK 2.1 million (DKK 3.4 million).

Members of the Executive Board have in total been granted 675,000 share options (945,000 share options) entitling them to payment based on the created economic value in the case of certain events. During 2014, 270,000 options were forfeited. The programme is structured in A and B-options with a weighted average exercise price of DKK 74. The programme can be settled in cash or shares and expires on 31 December 2021. None of the granted options are exercisable at 31 December 2014 and the outstanding options have exercise prices between DKK 1 and DKK 100 per share. There have been no changes in the programme and no triggering events during the year.

The programme is recognised as a liability over the expected vesting period based on the number of options granted, the estimated probability of a trigger event and the expected vesting period. The value of the programme is subject to uncertainty due to the timing and probability of any events. The expense recognised in 2014 amounts to DKK 0.8 million (DKK 4.1 million) and the total carrying amount is estimated at DKK 4.9 million (DKK 4.1million) at 31 December 2014. The valuation of the options is based on the following assumptions: estimated vesting period, exercise price of DKK 74, estimated share price and estimated probability of a triggering event.

NOTE 2.3

INCOME AND DEFERRED INCOME TAXES

ACCOUNTING POLICIES

INCOME TAXES

Tax for the year consists of current tax for the year and deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to other comprehensive income is recognised directly in other comprehensive income.

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

DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax is recognised in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised in respect of temporary differences concerning goodwill not deductible for tax purposes and other items – apart from business acquisitions – where temporary differences have arisen at the time of acquisition without affecting the profit for the year or the taxable income.

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

CURRENT TAX RECEIVABLES AND LIABILITIES

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

DKK million	2014	2013
Tax expense		
Current income tax	-161.0	-172.4
Change in deferred tax charge	-24.3	53.8
	-185.3	**-118.6**
Tax is allocated as follows:		
Income taxes	-205.8	-102.9
Tax on other comprehensive income related to hedging instruments	0.9	-9.7
Tax on other comprehensive income related to actuarial gains and losses on pension obligations	19.6	-6.0
	-185.3	**-118.6**
Income tax receivable (net) – in the balance sheet		
Prepaid tax	143.2	172.5
Corporate tax liabilities	93.9	170.9
	-49.3	**-1.6**
Income tax receivable (net):		
Balance at 1 January	-1.6	37.6
Currency adjustments	8.1	-1.6
Acquisition of entities	-3.5	0.0
Prior-year tax adjustment	-2.5	1.3
Tax paid on account in current year	-197.3	-200.6
Received regarding previous years	33.6	33.6
Paid regarding previous years	-49.6	-43.0
Current income tax	163.5	171.1
Balance at 31 December	**-49.3**	**-1.6**

DKK million	2014	2013
Deferred tax (net) – in the balance sheet		
Deferred income tax assets	172.3	82.6
Deferred income tax liabilities	694.3	519.3
Deferred income tax liabilities (net)	**522.0**	**436.7**
Deferred tax (net)		
Balance at 1 January	436.7	493.5
Currency adjustments	-4.5	-3.0
Acquisition of entities	65.5	0.0
Change in deferred tax charge	24.3	-53.8
Balance at 31 December	**522.0**	**436.7**
Breakdown of deferred income tax liabilities (net):		
Intangible assets	605.4	474.9
Property, plant and equipment	36.3	23.5
Inventories	-64.2	-57.1
Receivables	-1.6	-1.9
Pensions	-60.3	-49.2
Other liabilities	0.5	-1.9
Tax losses to be carried forward	-27.3	-6.4
Other	33.2	54.8
	522.0	**436.7**
Breakdown of tax on profit for the year:		
Tax calculated at 24.5% (2013: 25%) of profit before tax	-207.2	-168.9
Tax according to income statement	-205.8	-102.9
	1.4	**66.0**
Tax effect of:		
Non-deductible costs	-12.1	-7.7
Income from associated companies	1.5	1.3
Non-taxable income	3.7	6.5
Prior-year adjustments	2.7	11.0
Other tax percentages	12.5	7.2
Effect of enacted change of tax rates	0.4	26.2
Other	-7.3	21.5
	1.4	**66.0**

No deferred tax liabilities are recognised for potential temporary differences associated with investments in subsidiaries and associated company. The Group can normally control the timing of the reversals of such temporary differences and none are probable in the foreseeable future.

At 31 December 2014 the Group has no unrecognised tax assets (DKK 42.9 million).

SECTION 3

OPERATING ASSETS AND LIABILITIES

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

NOTE 3.1

INTANGIBLE ASSETS

ACCOUNTING POLICIES

Goodwill

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

Trademarks

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

IT software

IT software 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 5 years.

Other intangible assets

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

KEY ACCOUNTING ESTIMATES

Impairment of intangible assets

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

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

Goodwill and trademarks with indefinite useful lives

In the annual impairment test of goodwill and trademarks with indefinite useful lives, an estimate is made to determine how the enterprise/trademarks will be able to generate sufficient positive net cash flow in the future to support the value of goodwill, trademarks and other net assets of the enterprise/trademark in question. The estimate of the future net cash flow is based upon Management's projections, anticipated future cash flow based upon the strategy plan for the coming years, and on projections for years following the strategy period, based on general expectations and risks. The discount rates used to calculate the recoverable amount reflect the risk-free interest rate of the individual geographical regions and related risk. The carrying value of goodwill amounted to DKK 4,205.3 million (DKK 3,874.5 million). The carrying value of trademarks with indefinite useful lives amounted to DKK 1,741.0.

Other trademarks

Acquired trademarks have been deemed to have definite useful lives and are in general amortised over a period of 10-25 years. Trademarks are tested for impairment when circumstances indicate that the value of a trademark is impaired. The carrying value of other trademarks amounted to DKK 1,611.1 million (DKK 3,133.7 million). Amortisation amounted to DKK 102.5 million (DKK 191.8 million). During 2014, Management did not identify any indications of impairment.

INTANGIBLE ASSETS (CONTINUED)

2014

DKK million	Goodwill	Trademarks	IT software	Other intangible assets	Total
Accumulated cost at 1 January 2014	3,875.4	3,750.8	244.4	291.5	8,162.1
Exchange rate adjustment	285.7	118.1	2.4	4.8	411.0
Acquisition of entities	45.1	217.2	0.0	3.1	265.4
Addition	0.0	0.6	22.2	0.0	22.8
Disposal	0.0	0.0	-9.4	0.0	-9.4
Accumulated cost at 31 December 2014	4,206.2	4,086.7	259.6	299.4	8,851.9
Accumulated amortisation and impairment at 1 January 2014	0.9	617.1	140.0	25.1	783.1
Exchange rate adjustment	0.0	15.0	1.4	3.5	19.9
Amortisation	0.0	102.5	44.0	21.0	167.5
Disposal	0.0	0.0	-8.7	0.0	-8.7
Accumulated amortisation and impairment at 31 December 2014	0.9	734.6	176.7	49.6	961.8
Carrying amount at 31 December 2014	**4,205.3**	**3,352.1**	**82.9**	**249.8**	**7,890.1**

2013

DKK million	Goodwill	Trademarks	IT software	Other intangible assets	Total
Accumulated cost at 1 January 2013	3,975.3	3,842.7	223.2	277.1	8,318.3
Exchange rate adjustment	-99.9	-100.4	-0.8	-2.5	-203.6
Acquisition of entities	0.0	0.0	0.0	16.8	16.8
Addition	0.0	8.5	22.2	0.4	31.1
Disposal	0.0	0.0	-0.2	-0.3	-0.5
Accumulated cost at 31 December 2013	3,875.4	3,750.8	244.4	291.5	8,162.1
Accumulated amortisation and impairment at 1 January 2013	0.9	438.1	82.2	5.4	526.6
Exchange rate adjustment	0.0	-12.8	-0.6	-0.7	-14.1
Amortisation	0.0	191.8	58.4	20.9	271.1
Disposal	0.0	0.0	0.0	-0.5	-0.5
Accumulated amortisation and impairment at 31 December 2013	0.9	617.1	140.0	25.1	783.1
Carrying amount at 31 December 2013	**3,874.5**	**3,133.7**	**104.4**	**266.4**	**7,379.0**

INTANGIBLE ASSETS (CONTINUED)

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

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

The values in use are calculated using a valuation model based on discounted expected future cash flows (DCF-model). The cash flows used in the valuation model are based upon Management's projections and anticipated future cash flows based upon the strategy plan for the coming years, after which a terminal value is calculated.

Terminal growth is conservatively set to 1.4% on average for goodwill. Management has used a conservative discount rate (WACC after tax) of 8.0% for all segments except for the pipe tobacco segment where a discount rate of 8.2% has been applied.

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

When goodwill and trademarks with indefinite useful lives were tested for impairment in 2014 (and 2013 for goodwill), the value in use exceeded the carrying value for the Group. When performing sensitivity analysis by increasing the discount rate by 1 percentage point, the value in use still exceeded the carrying value per segment.

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 lives are not amortised but are reviewed annually for impairment. Other trademarks are amortised in a straight line over the expected useful lives. Trademarks with the highest accounting value are listed below:

DKK million	Remaining amortisation period	Carrying amount 2014	Carrying amount 2013
Captain Black, Bugler and Kite	16 years / Indefinite	753.7	681.3
Café Crème	Indefinite	482.4	482.4
Tiedemanns	21 years	251.3	282.2
Mercator, Cubero and Schimmelpenninck	13 years	203.8	216.8
La Paz	Indefinite	215.2	215.2
Other trademarks	1-21 years / Indefinite	1,445.7	1,255.8
Total		**3,352.1**	**3,133.7**

Other intangible assets

Other intangible assets comprise mainly acquired distribution rights.

NOTE 3.2
PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

2014

DKK million	Land and buildings	Plant and machinery	Equipment, tools and fixtures	Leasehold improve-ments	Construc-tion in progress	Total
Accumulated cost at 1 January 2014	657.9	439.6	165.8	49.0	192.7	1,505.0
Exchange rate adjustment	13.5	15.7	9.5	5.3	2.4	46.4
Acquisition of entities	0.0	0.7	5.5	0.0	0.0	6.2
Addition	0.3	0.5	7.8	0.0	183.8	192.4
Transfers/reclassifications	169.4	123.5	20.6	7.3	-320.8	0.0
Disposals	-45.2	-53.6	-10.7	-0.4	0.0	-109.9
Accumulated cost at 31 December 2014	795.9	526.4	198.5	61.2	58.1	1,640.1
Accumulated depreciation and impairment at 1 January 2014	92.9	191.9	95.9	12.6	0.0	393.3
Exchange rate adjustment	2.0	5.6	5.2	1.5	0.0	14.3
Depreciation	33.0	42.7	22.4	3.9	0.0	102.0
Depreciation on disposals	-10.6	-52.9	-8.9	0.0	0.0	-72.4
Accumulated depreciation and impairment at 31 December 2014	117.3	187.3	114.6	18.0	0.0	437.2
Carrying amount at 31 December 2014	**678.6**	**339.1**	**83.9**	**43.2**	**58.1**	**1,202.9**

2013

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 2013	643.6	419.8	116.3	38.8	63.2	1,281.7
Exchange rate adjustment	-9.1	-12.3	-8.5	-1.2	-1.1	-32.2
Addition	1.1	3.3	6.4	0.7	259.6	271.1
Transfers/reclassifications	24.5	36.9	56.9	10.7	-129.0	0.0
Disposals	-2.2	-8.1	-5.3	0.0	0.0	-15.6
Accumulated cost at 31 December 2013	657.9	439.6	165.8	49.0	192.7	1,505.0
Accumulated depreciation and impairment at 1 January 2013	63.9	165.2	51.9	9.3	0.0	290.3
Exchange rate adjustment	-1.3	-5.5	-4.2	-0.4	0.0	-11.4
Depreciation	32.5	71.6	21.0	3.7	0.0	128.8
Reclassification	0.0	-31.3	31.3	0.0	0.0	0.0
Depreciation on disposals	-2.2	-8.1	-4.1	0.0	0.0	-14.4
Accumulated depreciation and impairment at 31 December 2013	92.9	191.9	95.9	12.6	0.0	393.3
Carrying amount at 31 December 2013	**565.0**	**247.7**	**69.9**	**36.4**	**192.7**	**1,111.7**

NOTE 3.3

INVENTORIES

ACCOUNTING POLICIES

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

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

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

KEY ACCOUNTING ESTIMATES

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

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

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

DKK million	2014	2013
Raw materials and consumables	1,595.3	1,467.0
Work in progress	496.1	475.7
Finished goods, goods for resale and excise stamps	1,007.8	984.2
	3,099.2	**2,926.9**

Provision for obsolete stock at year-end amounted to DKK 144.8 million (DKK 125.0 million). 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 2,535.2 million (DKK 2,328.2 million).

NOTE 3.4
TRADE RECEIVABLES

ACCOUNTING POLICIES

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

DKK million	2014	2013
Trade receivables (net) at 31 December comprised the following:		
Trade receivables (gross)	838.5	834.9
Provision for bad debt	-27.4	-17.8
Trade receivables (net)	**811.1**	**817.1**
Movements in the Group provision for bad debt are as follows:		
Provision for bad debt at 1 January	-17.8	-24.9
Provision this year	-11.3	-1.6
Reversal of provision for possible losses	0.3	5.2
Confirmed losses	1.7	3.0
Effect of exchange rate adjustments	-0.3	0.5
Total provision at 31 December	**-27.4**	**-17.8**
Non-impaired trade receivables can be specified as follows:		
Current	673.0	662.1
Overdue < 30 days	110.4	126.4
Overdue 31 – 60 days	14.7	19.0
Overdue 61 – 90 days	4.4	3.5
Overdue 91 – 180 days	4.4	4.5
Overdue > 180 days	4.3	1.6
Total	**811.1**	**817.1**

NOTE 3.5

PREPAYMENTS

ACCOUNTING POLICIES

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

NOTE 3.6

OTHER PROVISIONS

ACCOUNTING POLICIES

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

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

DKK million	2014	2013
Balance at 1 January	86.7	129.3
Exchange rate adjustment	0.1	1.1
Discounting cost	2.4	3.0
Addition during the period	53.7	0.2
Utilised during the period	-55.4	-46.5
Reversed provision unused	-4.5	-0.4
Carrying amount at 31 December	**83.0**	**86.7**
Non-current	38.9	45.5
Current	44.1	41.2
Total	**83.0**	**86.7**

Other provisions mainly consist of restructuring costs in relation to a reduction in the number of existing machine-made cigar factories from six to four and restructuring of sales forces. The restructuring costs are primarily related to redundancy payments and the main part is expected to fall due within 1-4 years.

NOTE 3.7
PENSION OBLIGATIONS

ACCOUNTING POLICIES
The Group operates a number of defined contribution plans throughout the world. In a few countries, the Group operates defined benefit plans; these are primarily located in Belgium, Germany, France, Indonesia, the Dominican Republic and the US.

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.

Past service costs are recognised immediately in the income statement.

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

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

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

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

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

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

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

Post-employment defined benefit – recognised in the balance sheet

DKK million	2014	2013
Present value of funded obligations	202.7	585.4
Fair value of plan assets	-109.5	-522.5
Deficit (+) / surplus (-)	93.2	62.9
Present value of unfunded obligations	139.8	127.9
Unrecognised assets due to recoverability limit	0.0	18.7
Net asset (-) / liability (+) in the balance sheet	**233.0**	**209.5**
Amounts in the balance sheet (reported as non-current)		
Liabilities	233.0	209.5
Assets	0.0	0.0
Net asset (-) / liability (+) in the balance sheet	**233.0**	**209.5**

PENSION OBLIGATIONS (CONTINUED)

DKK million	2014	2013
Movement during the period in the net asset (-) / liability (+)		
Balance at 1 January	209.5	217.0
Recognised in the income statement	-25.9	31.6
Actuarial gain/loss recognised in comprehensive income, financial assumptions	82.9	-20.3
Actuarial gain/loss recognised in comprehensive income, demographic assumptions	-1.5	-0.1
Asset limit	-19.3	5.3
Benefit payments to employees	-12.0	-6.6
Employer contributions	-10.9	-13.5
Currency effect	10.2	-3.9
Balance at 31 December	**233.0**	**209.5**

KEY ACCOUNTING ESTIMATES

Actuarial assumptions

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

Actuarial assumptions used for valuation (expressed as weighted averages and in %)	2014	2013
Discount rate	3.6	3.7
Future salary increases	3.9	3.3
Inflation	2.1	2.2

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

DKK million	1%-point increase	1%-point decrease
Discount rate	-62.8	75.1
Future salary increase	71.1	-54.1

PENSION OBLIGATIONS (CONTINUED)

DKK million	2014	2013
Change in the defined benefit obligations and plan assets		
Defined benefit obligations – movement		
Balance at 1 January	713.3	722.5
Current service costs	21.5	24.3
Interest cost	26.3	23.8
Recognised past-service costs	0.0	-1.4
Actuarial losses (+) / gains (-)	122.4	-24.2
Benefits paid	-40.9	-28.0
Gains on curtailments	-506.0	0.0
Gains on settlements	-8.4	0.0
Currency effect	14.3	-3.7
Balance at 31 December	**342.5**	**713.3**
Plan assets – movement in fair value		
Balance at 1 January	522.5	518.6
Interest income	16.9	16.3
Actuarial losses (-) / gains (+)	40.9	-3.8
Employer contributions	22.7	20.1
Benefits paid	-40.7	-27.9
Gains on curtailments	-451.6	0.0
Currency effect	-1.2	-0.1
Other	0.0	-0.7
Balance at 31 December	**109.5**	**522.5**

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

The actual return on plan assets in 2014 was a gain of DKK 44.2 million (DKK 12.5 million).

	2014		2013		2014	2013
DKK million	Quoted	Unquoted	Quoted	Unquoted	Total	Total
Categories of plan assets						
Equity securities	0.0	0.0	49.6	0.0	0.0	49.6
Bonds	25.7	82.8	257.4	0.0	108.5	257.4
Other	1.0	0.0	32.8	182.7	1.0	215.5
Total	**26.7**	**82.8**	**339.8**	**182.7**	**109.5**	**522.5**

The ‘Other’ category primarily related to fully insured defined benefit plans in the Netherlands.

The weighted average duration of the defined benefit obligation is 13.4 years (9.2 years).

PENSION OBLIGATIONS (CONTINUED)

DKK million	2014	2013
Post-employment benefit plans recognised in income statement		
Current service costs	21.5	24.3
Interest on net obligation	10.1	8.0
Recognised past service costs	5.4	0.5
Gains on curtailments	-54.4	-1.4
Gains on settlements	-8.4	0.0
Recognised net actuarial losses (+) / gains (-)	-0.1	0.2
Net income (-) / expense (+) reported in the income statement	**-25.9**	**31.6**
The income/costs for defined benefit plans are reported under the following headings in the income statement:		
Staff costs	-36.0	22.6
Financial costs	10.1	9.0
Net income (-) / expense (+) reported in the income statement	**-25.9**	**31.6**
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 (-)	81.4	-20.4
Effect of asset limit	-19.3	5.3
Cumulative net actuarial losses (+) / gains (-)	155.8	71.3

Expected contribution next year

Expected contributions for post-employment benefit plans for the year ending 31 December 2014 amounts to DKK 15.7 million (DKK 15.3 million).

Defined contribution plans

The Group has certain obligations under defined contributions plans. Contributions to these plans are determined by provisions in the relevant plan. Costs for defined contribution plans charged to income statement for the year ending 31 December 2014 amounts to DKK 45.6 million (DKK 42.1 million).

NOTE 3.8

BUSINESS ACQUISITIONS

In September 2014, the Group acquired the cigar companies Verellen in Belgium and Toraño Family Cigar Company in the US.

Net sales and total assets of Verellen and Toraño Family Cigar Company constitute less than three per cent of STG's net sales and total assets.

Given the insignificance of the acquisitions, no information according to IFRS 3 Business Combination has been disclosed in the Annual Report for 2014.

In April 2013, the Group acquired the US online retail business Pipes and Cigars.

Net sales and total assets of Pipes and Cigars constitute less than one per cent 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 2013.

SECTION 4

CAPITAL STRUCTURE AND FINANCING ITEMS

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

NOTE 4.1

FINANCIAL INSTITUTIONS

ACCOUNTING POLICIES

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

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

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

DKK million	2014	2013
Financial institutions are recognised in the balance sheet as follows:		
Non-current liabilities	2,307.5	2,756.5
Current liabilities	650.8	221.9
Total	**2,958.3**	**2,978.4**

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

			Carrying amount		Fair value* Level 2	
Currency	Fixed/floating	Maturity date	2014	2013	2014	2013
EUR	Floating	31/05/16	576.9	578.2	576.9	578.2
EUR	Floating	31/05/18	576.9	578.2	576.9	578.2
EUR	Floating	31/05/16	576.9	578.2	576.9	578.2
EUR	Floating	31/05/18	576.9	578.2	576.9	578.2
EUR	Floating	27/08/15	148.8		148.8	
USD	Floating	31/05/16	501.9	665.6	501.9	665.6
			2,958.3	**2,978.4**	**2,958.3**	**2,978.4**

* 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.

95% (100%) of the interest rate risk related to EUR and USD loans has been hedged by entering into fixed interest rate swap contracts.

In the event of bankruptcy among the lending banks, the Group has the right to offset cash deposits in the counter party bank debt totaling DKK 335.6 million (DKK 198.0 million).

NOTE 4.2
FINANCIAL RISKS AND INSTRUMENTS

ACCOUNTING POLICIES

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

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

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

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

Risk management policy
The Group manages financial risks based on financial strategies and policies approved by the Supervisory Board.

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

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

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

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

Foreign exchange exposure in the Group consists of two types of risk (a) cash flow risk and (b) balance sheet-translation risk and financial risk.

Cash flow risk is related to the potential change in value of future operations and cash flows resulting from changes in currency rates. Such effects may have an impact on the Group's net consolidated earnings. Cash flow risk is hedged for a period up to 18 months.

Balance sheet risk – translation risk is related to the potential change in value of equity in foreign subsidiaries when translating to DKK. Such effects may have an impact on the Group's equity in DKK. As a general rule, the Group does not hedge translation risk.

Balance sheet risk – financial risk is related to the potential change in value coming from the translation of financial assets and liabilities in foreign currencies. Such effects may have an impact on the Group's net consolidated earnings. Financial risk due to translation of financial assets and liabilities in foreign currency is hedged when applicable.

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

The Group manages foreign exchange risk through the use of financial derivatives, such as forward contracts and options.

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

A 5% increase/decrease in the USD rate would impact (before tax) the result and equity positively/negatively by DKK 3.4 million (DKK 4.0 million).

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

The Group's consolidated interest rate risk is measured at group level only. The Group's interest rate exposure is determined by aggregating the exposure of financial liabilities and financial assets.

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

As at the balance sheet date, the Group has interest swap agreements totalling a principal of EUR 310.0 million (EUR 310.0 million) and USD 82.0 million (USD 123.0 million), which relate to bank loans originally raised in 2011 and partly extented in 2013.

As 95% of the total interest rate risk of debt is hedged, a change in interest rate would primarily affect the equity. Assuming the current portfolio of swap contracts remains the same, an increase in the EUR and USD rate of interest by one percentage point would affect (before tax impact) equity positively by DKK 55.0 million (DKK 77.2 million) and DKK 4.2 million (DKK 8.8 million), respectively.

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

Operational credit risk
The Group's balance sheet at 31 December 2014 included trade receivables with a net book value of DKK 811.1 million (DKK 817.1 million), representing a gross receivable balance of DKK 838.5 million (DKK 834.9 million) and a bad debt provision of DKK 27.4 million (DKK 17.8 million), based on an individual assessment. The provision for bad debt was based on an objective indication of impairment, such as outstanding payments and financial difficulties, e.g. the debtor's suspension of payments, bankruptcy or expected bankruptcy.

In addition, overdue but not impaired receivables as at 31 December which have not been written down totalled DKK 138.2 million (DKK 155.0 million). Please refer to note 3.4.

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

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

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

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

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

The monitoring is primarily based on review of official ratings from Moody's and/or Standard & Poor's.

FINANCIAL RISKS AND INSTRUMENTS (CONTINUED)

Liquidity

Maturity at 31 December 2014	0-1 year	2-5 years	After 5 years	Total*	Fair value level 2**	Carrying amount
Recognised at amortised cost						
Financial institutions	676.2	2,350.9		3,027.1		2,958.3
Trade payables	375.9			375.9		375.9
Other liabilities	547.0			547.0		547.0
Total	**1,599.1**	**2,350.9**	**0.0**	**3,950.0**		**3,881.2**
Recognised at fair value						
Interest rate swaps	42.2	47.7		89.9	89.5	89.5
Forward contracts	0.0			0.0	0.0	0.0
Total	**42.2**	**47.7**	**0.0**	**89.9**		**89.5**
Total financial liabilities	**1,641.3**	**2,398.6**	**0.0**	**4,039.8**		**3,970.7**
Recognised at amortised cost						
Cash and cash equivalents	581.0			581.0		581.0
Trade receivables	811.1			811.1		811.1
Other receivables	97.5			97.5		97.5
Total	**1,489.6**	**0.0**	**0.0**	**1,489.6**		**1,489.6**
Recognised at fair value						
Currency swaps	1.6			1.6	1.6	1.6
Total	**1.6**	**0.0**	**0.0**	**1.6**		**1.6**
Total financial assets	**1,491.2**	**0.0**	**0.0**	**1,491.2**		**1,491.2**

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

** 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 AND INSTRUMENTS (CONTINUED)

Liquidity

Maturity at 31 December 2013	0-1 year	2-5 years	After 5 years	Total*	Fair value level 2**	Carrying amount
Recognised at amortised cost						
Financial institutions	255.0	2,824.7		3,079.7		2,978.4
Trade payables	359.9			359.9		359.9
Other liabilities	453.4			453.4		453.4
Total	**1,068.3**	**2,824.7**	**0.0**	**3,893.0**		**3,791.7**
Recognised at fair value						
Interest rate swaps	38.4	77.9		116.3	80.9	80.9
Forward contracts	3.2			3.2	3.2	3.2
Currency swaps	0.8			0.8	0.8	0.8
Total	**42.4**	**77.9**	**0.0**	**120.3**		**84.9**
Total financial liabilities	**1,110.7**	**2,902.6**	**0.0**	**4,013.3**		**3,876.6**
Recognised at amortised cost						
Cash and cash equivalents	464.3			464.3		464.3
Trade receivables	817.1			817.1		817.1
Other receivables	102.1			102.1		102.1
Total	**1,383.5**	**0.0**	**0.0**	**1,383.5**		**1,383.5**
Total financial assets	**1,383.5**	**0.0**	**0.0**	**1,383.5**		**1,383.5**

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

** 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 AND INSTRUMENTS (CONTINUED)

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

Level 1: Observable market prices of identical instruments

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

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

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

HEDGING TRANSACTIONS

The net fair value at 31 December 2014 of outstanding derivative contracts was negative by DKK 89.5 million (negative by DKK 84.1 million), of which DKK 0.0 million was attributable to forward contracts (negative by 3.2 DKK million), while minus DKK 89.5 million related to interest rate swaps (negative by DKK 80.9 million).

Forward contracts have been used to hedge currency risk of future cash flows denominated in GBP, CAD, NOK, IDR, CHF and AUD by swapping the exchange rate exposure to fixed payments in DKK and EUR. The total notional amount of these outstanding forward contracts was DKK 344.0 million as at 31 December 2014 (DKK 223.0 million). All forward contracts expire within 12 months (within 9 months).

Currency swaps have been used to hedge currency risk on the principal of an internal loan denominated in PLN. The total notional amount of currency swaps as hedge transactions was DKK 0.0 million as at 31 December 2014 (DKK 3.0 million).

Interest rate swaps have been used to hedge the floating rate on bank loans. As at the balance sheet date, the Group has outstanding interest rate swaps with a notional amount of EUR 310.0 million and USD 82.0 million (EUR 310.0 million and USD 123.0 million). Interest rate swaps follow the profile of the bank loans.

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

OTHER TRANSACTIONS

The Group uses financial transactions which do not qualify as hedge accounting according to IFRS. The net fair value at 31 December 2014 of outstanding currency swaps was positive by DKK 1.6 million (negative by DKK 0.8 million). The currency swaps are used to manage Group liquidity. As of the balance sheet date, the Group has outstanding currency swaps with a notional amount of DKK 387.6 million (DKK 396.5 million).

NOTE 4.3

CHANGES IN WORKING CAPITAL (CASH FLOW STATEMENT)

ACCOUNTING POLICIES

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

DKK million	2014	2013
Change in receivables	70.0	170.5
Change in inventories	98.5	-227.3
Change in liabilities	20.8	-94.5
Change in balances with affiliated companies (trade)	-0.1	35.9
	189.1	**-115.4**

NOTE 4.4

FINANCIAL FIXED ASSETS

ACCOUNTING POLICIES

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

The item 'Investments in associated companies' in the balance sheet includes the proportionate ownership share of the net asset value of the enterprises 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 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.

2014

DKK million	Investments in associated companies	Other
Cost at 1 January 2014	92.6	0.7
Addition	0.0	0.0
Deduction	0.0	-0.1
Accumulated cost at 31 December 2014	92.6	0.6
Accumulated revaluation and impairment at 1 January 2014	4.9	0.0
Dividend	-4.2	0.0
Currency translation	10.2	0.0
Profit after tax	6.2	0.0
Accumulated revaluation and impairment at 31 December 2014	17.1	0.0
Carrying amount at 31 December 2014	**109.7**	**0.6**

The Group's share of the results of its associated company and its aggregated assets (including goodwill) and liabilities is as follows (DKK million):

Name and country of incorporation	Assets	Liabilities	Revenues	Profit/ (Loss)	% interest held
Caribbean Cigar Holdings Group Co. S.A, Panama	377.6	82.0	263.9	31.0	20

FINANCIAL FIXED ASSETS (CONTINUED)

2013

DKK million	Investments in associated companies	Other
Cost at 1 January 2013	92.6	0.8
Addition	0.0	0.0
Deduction	0.0	-0.1
Accumulated cost at 31 December 2013	92.6	0.7
Accumulated revaluation and impairment at 1 January 2013	12.1	0.0
Dividend	-4.4	0.0
Currency translation	-8.2	0.0
Profit after tax	5.4	0.0
Accumulated revaluation and impairment at 31 December 2013	4.9	0.0
Carrying amount at 31 December 2013	**97.5**	**0.7**

The Group's share of the results of its associated company and its aggregated assets (including goodwill) and liabilities is as follows (DKK million):

Name and country of incorporation	Assets	Liabilities	Revenues	Profit/ (Loss)	% interest held
Caribbean Cigar Holdings Group Co. S.A, Panama	336.5	72.5	230.5	27.0	20

NOTE 4.5

FINANCIAL INCOME AND COSTS

ACCOUNTING POLICIES

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

FINANCIAL INCOME

DKK million	2014	2013
Interest on deposits in financial institutions etc.	4.2	2.7
Exchange gains, net	22.5	0.0
Other financial income	2.5	3.0
	29.1	**5.7**

FINANCIAL COSTS

DKK million	2014	2013
Interest to financial institutions etc.	76.8	81.3
Interest part of pension cost	10.1	9.0
Exchange losses, net	0.0	11.0
Other financing costs	10.6	8.8
	97.4	**110.1**

Interest on debt to financial institutions etc. includes cost of interest rate swaps of DKK 31 million (DKK 35 million).

The Group incurred loan costs of DKK 11.5 million in connection with the establishment of bank loans in 2011. The costs are amortised over five years. In 2014, a cost of DKK 2.3 million (DKK 2.3 million) is included in interest on debt to financial institutions, etc.

Other financing costs include discounting effect of provisions of DKK 2.4 million (DKK 3.0 million).

SECTION 5

OTHER DISCLOSURES

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

NOTE 5.1

CASH FLOW ADJUSTMENTS

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

DKK million	2014	2013
Financial items	68.3	104.4
Share of profit of associated companies, net of tax	-6.2	-5.4
Depreciation	102.0	128.8
Amortisation	167.5	271.1
Income taxes	205.8	102.9
(Gains)/losses from sale of property, plant and equipment	-28.7	0.0
	508.7	**601.8**

NOTE 5.2

CONTINGENT LIABILITIES

ACCOUNTING POLICIES

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

LEASE OBLIGATIONS

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

DKK million	2014	2013
Lease expenditures charged to the income statement during the year	129.3	96.6
Future minimum lease payment under operating lease contracts and rent commitments amounts to:		
Within 1 year	115.9	102.4
Between 1 and 5 years	167.0	127.1
After 5 years	35.5	71.7
	318.4	**301.2**

CONTINGENT LIABILITIES (CONTINUED)

GUARANTEE OBLIGATIONS

The Group has guarantee obligations totalling DKK 518.8 million (DKK 497.5 million), primarily given to local tax authorities in relation to excise and tax stamps.

LAWSUITS ETC.

From time to time the Group faces legal claims and disputes as part of the ordinary course of business, mainly related to employees and trademarks. At present there are no ongoing legal actions, claims or disputes that represent any material risk to the future financial results of the Group.

Through participation in joint taxation schemes the Group is joint and several liable for tax payables.

NOTE 5.3

RELATED-PARTY TRANSACTIONS

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

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

DKK million	2014	2013
Skandinavisk Holding A/S		
Services provided by Scandinavian Tobacco Group	3.2	3.1
Skandinavisk Holding II A/S		
Services provided by Scandinavian Tobacco Group	0.0	0.0
Dagrofa aps		
Sale of products from Scandinavian Tobacco Group (until 29 October 2013)	0.0	74.5
Tivoli		
Purchase of products and sponsorship to Scandinavian Tobacco Group	-0.9	-0.9
Swedish Match AB		
Purchase of products by Scandinavian Tobacco Group	-86.7	-119.1
Sale of products from Scandinavian Tobacco Group	76.3	68.1
Caribbean Cigar Holdings Group Co. S.A (Associated company)		
Purchase of products by Scandinavian Tobacco Group	-50.2	-45.0
At 31 December the Group had the following outstanding balance with related parties receivable/payable (+/-):		
Skandinavisk Holding A/S	1.7	1.6
Total	**1.7**	**1.6**

RELATED-PARTY TRANSACTIONS (CONTINUED)

For information on remuneration to the Management of Scandinavian Tobacco Group A/S, please refer to note 2.2. For an overview of Group companies, please refer to note 5.6. There have not been and are no loans to key management personnel in 2014 or 2013.

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

Ownership and Consolidated Financial Statements

The direct shareholders of Scandinavian Tobacco Group A/S are the following:

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

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

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

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

NOTE 5.4

EVENTS AFTER THE REPORTING PERIOD

The Group has not experienced any significant events after 31 December 2014 which have an impact on the annual report.

NOTE 5.5

FEE TO STATUTORY AUDITOR

DKK million	2014	2013
Statutory audit	5.2	5.8
Audit-related services	0.9	0.3
Tax advisory services	6.4	2.0
Other services	5.2	2.8
Total fee to statutory auditors	**17.7**	**10.9**

NOTE 5.6

ENTITIES IN SCANDINAVIAN TOBACCO GROUP

Company name	Country	Ownership	Activity: • Production	• Sale 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%			•	
Verellen N.V.	Belgium	100%	•			
Scandinavian Tobacco Group Zagreb d.o.o.	Croatia	100%		•		
Scandinavian Tobacco Group Assens A/S	Denmark	100%	•	•		
Scandinavian Tobacco Group Denmark A/S	Denmark	100%		•		
Scandinavian Tobacco Group Nykøbing ApS	Denmark	100%	•			
STG Finans ApS	Denmark	100%				•
STG Latin Holding ApS	Denmark	100%			•	
Peter Stokkebye Tobaksfabrik A/S	Denmark	100%		•		
Scandinavian Tobacco Group France S.A.S	France	100%		•		
Scandinavian Tobacco Group Deutschland GmbH	Germany	100%		•		
Scandinavian Tobacco Group Italy S.R.L.	Italy	100%		•		
Scandinavian Tobacco Group Norway AS	Norway	100%		•		
Scandinavian Tobacco Group Polska Sp. z o.o.	Poland	100%		•		
STG Portugal S.A.	Portugal	100%		•		
Scandinavian Tobacco Group d.o.o.	Slovenia	100%		•		
Scandinavian Tobacco Group Spain S.A.U.	Spain	100%		•		
Intermatch Sweden AB	Sweden	100%			•	
P.G.C. Hajenius B.V.	The Netherlands	100%		•		
Scandinavian Tobacco Group Eersel B.V.	The Netherlands	100%	•	•	•	
Scandinavian Tobacco Group Nederland B.V.	The Netherlands	100%		•		
Scandinavian Tobacco Group Tobacco Service B.V.	The Netherlands	100%		•		
ST Cigar Group Holding B.V.	The Netherlands	100%			•	
STG Finance B.V.	The Netherlands	100%				•
Scandinavian Tobacco Group Bethlehem Holdings B.V.	The Netherlands	100%			•	
Scandinavian Tobacco Group Bethlehem Sales B.V.	The Netherlands	100%		•	•	
Scandinavian Tobacco Group United Kingdom Limited	United Kingdom	100%		•		

ENTITIES IN SCANDINAVIAN TOBACCO GROUP (CONTINUED)

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

NOTE 5.7
EXPLANATION OF FINANCIAL RATIOS

$$\text{Gross margin} = \frac{\text{Gross profit}}{\text{Net sales}}$$

$$\text{EBITDA margin} = \frac{\text{EBITDA}}{\text{Net sales}}$$

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

$$\text{Tax percentage} = \frac{\text{Tax}}{\text{Profit before tax}}$$

$$\text{Return on assets} = \frac{\text{EBIT}}{\text{Total assets}}$$

$$\text{Equity ratio} = \frac{\text{Equity}}{\text{Total assets}}$$

$$\text{Return on equity} = \frac{\text{Net profit for the year}}{\text{Average equity}}$$

Net interest-bearing debt = Interest-bearing liabilites and pensions less cash equivalents and interest-bearing receivables

FINANCIAL STATEMENTS
THE PARENT COMPANY

INCOME STATEMENT – PARENT COMPANY

1 JANUARY – 31 DECEMBER

DKK million	Note	2014	2013
Other income		**195.7**	**222.0**
Other external costs		-116.5	-106.7
Staff costs	2	-101.1	-95.7
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**-21.9**	**19.6**
Depreciation	3	-0.9	-1.0
Earnings before interest, tax and amortisation (EBITA)		**-22.8**	**18.6**
Amortisation	3	-10.1	-10.0
Earnings before interest and tax (EBIT)		**-32.9**	**8.6**
Result of investments in affiliated companies, net of tax	4	419.2	335.6
Financial income	5	64.7	98.2
Financial costs	6	-115.0	-90.7
Profit before tax		**336.0**	**351.7**
Income taxes	7	17.8	-8.4
Net profit for the year		**353.8**	**343.3**
DISTRIBUTION OF PROFIT			
Proposed distribution of profit:			
Proposed dividend		427.0	382.0
Reserve for retained earnings – equity method		0.0	0.0
Retained earnings		-73.2	-38.7
		353.8	**343.3**

BALANCE SHEET AT 31 DECEMBER – PARENT COMPANY

ASSETS

DKK million	Note	2014	2013
Other intangible assets		26.8	20.4
Intangible assets	8	**26.8**	**20.4**
Equipment, tools and fixtures		0.0	0.1
Leasehold improvements		3.6	4.4
Property, plant and equipment	9	**3.6**	**4.5**
Investments in affiliated companies		10,303.5	9,449.5
Financial fixed assets	10	**10,303.5**	**9,449.5**
Fixed assets		**10,333.9**	**9,474.4**
Receivables from affiliated companies		2,257.9	2,553.8
Other receivables		3.0	1.7
Income tax receivable		62.4	0.0
Prepayments	11	12.9	12.8
Total receivables		**2,336.2**	**2,568.3**
Cash and cash equivalents		**454.9**	**244.7**
Current Assets		**2,791.1**	**2,813.0**
Assets		**13,125.0**	**12,287.4**

BALANCE SHEET AT 31 DECEMBER – PARENT COMPANY

EQUITY, PROVISIONS AND LIABILITIES

DKK million	Note	2014	2013
Share capital		100.0	100.0
Retained earnings		7,581.0	7,157.8
Proposed dividend		427.0	382.0
Equity		**8,108.0**	**7,639.8**
Deferred income tax liabilities	7	16.0	6.4
Pension obligations	12	11.3	17.1
Other provisions	12	4.5	4.0
Provisions		**31.8**	**27.5**
Bank loans		2,307.5	2,756.5
Long-term liabilities		**2,307.5**	**2,756.5**
Bank loans		650.8	221.9
Liabilities to affiliated companies		1,870.1	1,488.1
Income tax payable		0.0	19.2
Trade creditors		11.9	12.9
Other liabilities		144.9	121.5
Current liabilities		**2,677.7**	**1,863.6**
Liabilities		**4,985.2**	**4,620.1**
Equity, provisions and liabilities		**13,125.0**	**12,287.4**
Contingent liabilities	13		
Financial instruments	14		
Related-party transactions	15		
Ownership	16		

STATEMENT OF CHANGES IN EQUITY – PARENT COMPANY

1 JANUARY – 31 DECEMBER

DKK million	Share capital	Retained earnings	Proposed dividends	Total
Equity at 1 January 2014	100.0	7,157.8	382.0	7,639.8
Fair value adjustments of hedging instruments		-5.4		-5.4
Tax of hedging instruments		0.9		0.9
Equity movement in subsidiaries		-42.5		-42.5
Foreign exchange adjustments of net investments in foreign subsidiaries		543.4		543.4
Dividend paid			-382.0	-382.0
Profit / loss for the year		-73.2	427.0	353.8
Equity at 31 December 2014	**100.0**	**7,581.0**	**427.0**	**8,108.0**
Equity at 1 January 2013	100.0	7,449.4	412.0	7,961.4
Fair value adjustments of hedging instruments		38.9		38.9
Tax of hedging instruments		-9.7		-9.7
Equity movement in subsidiaries		9.1		9.1
Foreign exchange adjustments of net investments in foreign subsidiaries		-291.2		-291.2
Dividend paid			-412.0	-412.0
Profit / loss for the year		-38.7	382.0	343.3
Equity at 31 December 2013	**100.0**	**7,157.8**	**382.0**	**7,639.8**

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

The share capital was increased by DKK 99.9 million in 2010. Apart from this, there has been no changes to the share capital in the past five years.

NOTES TO THE PARENT COMPANY

NOTE 1
ACCOUNTING POLICIES

The Parent Company has prepared its Financial Statements in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C. 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.

RESULT OF INVESTMENTS IN AFFILIATED COMPANIES, NET OF TAX

The item 'Result of investments in affiliated companies, net of tax' in the income statement includes the proportionate share of the profit for the year after tax less goodwill amortisation.

GOODWILL

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

TRADEMARKS

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

INVESTMENTS IN AFFILIATED COMPANIES

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

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

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

DEFINED BENEFIT PENSION PLANS

In relation to defined benefit pension, the provisions in IAS 19 have been adopted. Derogation from the Danish Financial Statements Act for defined benefit pension plans means that the year's actuarial fluctuations are recognised in the statement of equity rather than in the income statement. For the monetary impact, please refer to the statement of changes in equity and note 3.7 'Pension obligations' regarding the Group.

NOTE 2
STAFF COSTS

DKK million	2014	2013
Salaries	101.8	86.9
Pensions	-0.8	8.8
Social security costs	0.1	0.0
	101.1	**95.7**
Salaries and fees to the Supervisory and Executive Boards:		
Supervisory Board	**4.9**	**4.9**
Executive Board, salaries and other short-term benefits	34.5	23.4
Executive Board, pensions	2.1	3.4
Executive Board, share option programme	0.8	4.1
Total Executive Board	**37.4**	**30.9**
Total Supervisory Board and Executive Board	**42.3**	**35.8**
Average number of employees	**82**	**82**

NOTE 3
DEPRECIATION AND AMORTISATION

DKK million	2014	2013
Depreciation		
Equipment, tools and fixtures	0.1	0.2
Leasehold improvements	0.8	0.8
	0.9	**1.0**
Amortisation		
Other intangible assets	10.1	10.0
	10.1	**10.0**

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

DKK million	2014	2013
Result of investments in affiliated companies, net of tax	419.2	335.6
	419.2	**335.6**

NOTE 5
FINANCIAL INCOME

DKK million	2014	2013
Interest on deposits in financial institutions, etc.	0.4	0.4
Interest on balances with affiliated companies	63.7	90.1
Exchange gains, net	0.0	7.7
Other financial income	0.6	0.0
	64.7	**98.2**

NOTE 6
FINANCIAL COSTS

DKK million	2014	2013
Interest on debt to financial institutions, etc.	76.4	80.5
Interest on balances with affiliated companies	11.1	9.2
Exchange losses, net	26.4	0.0
Other financing costs	1.1	1.0
	115.0	**90.7**

NOTE 7
INCOME TAXES

DKK million	2014	2013
Current income tax	-25.6	16.6
Deferred income tax	10.1	-12.3
Adjustment regarding prior years, current income tax	-1.8	-6.4
Adjustment regarding prior years, deferred income tax	-0.5	10.5
	-17.8	**8.4**

Scandinavian Tobacco Group A/S and its Danish subsidiaries are jointly taxed with all Danish companies controlled by Chr. Augustinus Fabrikker A/S. Chr. Augustinus Fabrikker A/S is the management company of the jointly taxed companies and settles corporate taxes with the tax authorities.

Breakdown of deferred income tax:		
Intangible assets	3.3	5.1
Property, plant and equipment	-0.5	0.1
Receivables	14.9	4.4
Other liabilities	-1.7	-3.2
	16.0	**6.4**

Breakdown of income taxes:		
Tax calculated at 24.5% (2013: 25%) of profit before tax	78.1	87.9

Tax effect of:		
Adjustment regarding prior years	-2.3	4.1
Non-deductable costs	4.9	0.3
Result of investments in affiliated companies	-98.5	-83.9
	-17.8	**8.4**

NOTE 8
INTANGIBLE ASSETS

DKK million	Other intangible assets
Accumulated cost at 1 January 2014	45.0
Addition	16.9
Disposal	0.0
Accumulated cost at 31 December 2014	61.9
Accumulated amortisation at 1 January 2014	24.6
Adjustment	0.4
Amortisation	10.1
Accumulated amortisation at 31 December 2014	35.1
Carrying amount at 31 December 2014	**26.8**

NOTE 9
PROPERTY, PLANT AND EQUIPMENT

DKK million	Equipment, tools and fixtures	Leasehold improve-ments	Total
Accumulated cost at 1 January 2014	0.9	6.7	7.6
Addition	0.0	0.0	0.0
Disposal	0.0	0.0	0.0
Accumulated cost at 31 December 2014	0.9	6.7	7.6
Accumulated depreciation at 1 January 2014	0.8	2.3	3.1
Depreciation	0.1	0.8	0.9
Depreciation on disposals	0.0	0.0	0.0
Accumulated depreciation at 31 December 2014	0.9	3.1	4.0
Carrying amount at 31 December 2014	**0.0**	**3.6**	**3.6**

NOTE 10
INVESTMENTS IN AFFILIATED COMPANIES

DKK million	2014	2013
Accumulated cost at 1 January	10,728.7	9,695.1
Addition	1,809.9	1,033.6
Disposal	0.0	0.0
Accumulated cost at 31 December	12,538.6	10,728.7
Accumulated revaluation and impairment at 1 January	-1,279.2	-545.9
Dividends	-1,876.0	-786.8
Currency translation	543.4	-291.2
Equity adjustments	-42.5	9.1
Profit after tax	419.2	335.6
Accumulated revaluation and impairment at 31 December	-2,235.1	-1,279.2
Carrying amount at 31 December	**10,303.5**	**9,449.5**

Investments in affiliated companies can be specified as follows:

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

For a complete list of all entities in the Group please refer to note 5.6 pages 103-104.

NOTE 11
PREPAYMENTS

Prepayments comprise prepaid costs relating to rent, licences, insurance, etc.

NOTE 12
PENSION OBLIGATIONS AND OTHER PROVISIONS

DKK million	Pension obligations	Other provisions
Balance at 1 January	17.1	4.0
Disposals during the year	-8.4	0.0
Additions during the year	2.6	0.5
Utilised during the year	0.0	0.0
	11.3	**4.5**
Expected due:		
Within 1 year	0.0	0.0
Between 1 and 5 years	0.0	4.5
After 5 years	11.3	0.0
	11.3	**4.5**

NOTE 13
CONTINGENT LIABILITIES

GUARANTEE OBLIGATIONS

The Company has guarantee obligations totalling DKK 511 million at 31 December 2014 (DKK 491 million).

LEASE OBLIGATIONS

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

DKK million	2014	2013
Within 1 year	55.4	49.8
Between 1 and 5 years	7.8	5.0
After 5 years	0.0	0.0
	63.2	**54.8**

NOTE 14
FINANCIAL INSTRUMENTS

Reference is made to note 4.2 regarding the Group.

NOTE 15
RELATED-PARTY TRANSACTIONS

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

NOTE 16
OWNERSHIP

The direct shareholders of Scandinavian Tobacco Group A/S are the following:

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

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

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

MANAGEMENT'S STATEMENT

The Executive and Supervisory Boards have today considered and adopted the Annual Report of Scandinavian Tobacco Group A/S for the financial year 1 January to 31 December 2014.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Financial Statements for the Parent Company are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Financial Statements for the Parent Company give a true and fair view of the financial position at 31 December 2014 of the Group and the Company and of the results of the Group and the Company's operations and consolidated cash flows for the financial year 1 January to 31 December 2014.

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

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

Soeborg, 5 March 2015

EXECUTIVE BOARD

Niels Frederiksen

Christian Hother Sørensen | Rob Zwarts | Sisse Fjelsted Rasmussen

SUPERVISORY BOARD

Jørgen Tandrup
Chairman

Anders Obel | Charlotte Lückstadt Nielsen | Conny Karlsson

Fredrik Lagercrantz | Hanne Malling | Henning Kruse Petersen

Kurt Asmussen | Lars Dahlgren | Lindy Larsen

Marlene Forsell | Tommy Pedersen

INDEPENDENT AUDITOR'S REPORTS

To the Shareholders of Scandinavian Tobacco Group A/S

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS AND PARENT COMPANY FINANCIAL STATEMENTS

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Scandinavian Tobacco Group A/S for the financial year 1 January to 31 December 2014, which comprise income statement, balance sheet, statement of changes in equity and notes including summary of significant accounting policies for both the Group and the Parent Company, as well as consolidated cash flow statement and statement of comprehensive income for the Group. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Parent Company Financial Statements are prepared under the Danish Financial Statements Act.

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

Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and for preparing 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 Consolidated Financial Statements and Parent Company Financial Statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

The audit has not resulted in any qualification.

OPINION

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2014 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2014 in accordance with International Financial Reporting Standards as adopted by the EU. 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 2014 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2014 in accordance with the Danish Financial Statements Act.

STATEMENT ON MANAGEMENT'S REVIEW

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

Copenhagen, 5 March 2015

PricewaterhouseCoopers
Stasautoriseret Revisionspartnerselskab

Torben Jensen
State Authorised Public Accountant

Thomas Wraae Holm
State Authorised Public Accountant

Scandinavian Tobacco Group A/S
Sydmarken 42
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