SCANDINAVIAN TOBACCO GROUP / **ANNUAL REPORT 2013**

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2013

ABOUT SCANDINAVIAN TOBACCO GROUP

Our Group is all about creating moments of great enjoyment for smokers. We take pride in our fantastic international brands and successful regional brands, all developed, refined and innovated by talented people who are passionate about their work.

Today, Scandinavian Tobacco Group is the world's largest manufacturer of cigars and pipe tobacco. We also hold a strong position in the fine-cut tobacco category in the Scandinavian, US and other markets.

WORLDWIDE PRESENCE

The Group employs 9,200 people in the Dominican Republic, Honduras, Nicaragua, Indonesia, Europe, New Zealand, Australia, Canada and the US. We have 18 sales offices in North America, Europe, New Zealand and Australia, and we have sales to more than 100 countries around the world.

In the US, we have market-leading positions in handmade cigars and catalogue and internet sales through our ownership of General Cigar and Cigars International.

GREAT, LEADING BRANDS

Our portfolio contains more than 200 leading brands, including the cigar brands Café Crème, La Paz, Henri Wintermans, Macanudo, CAO, Partagas (US) and Cohiba (US). Pipe tobacco brands include Captain Black, Erinmore, Borkum Riff and W.Ø. Larsen, while our leading fine-cut tobacco brands include Crossroad, Bugler, Break, Escort, Bali Shag and Tiedemanns.

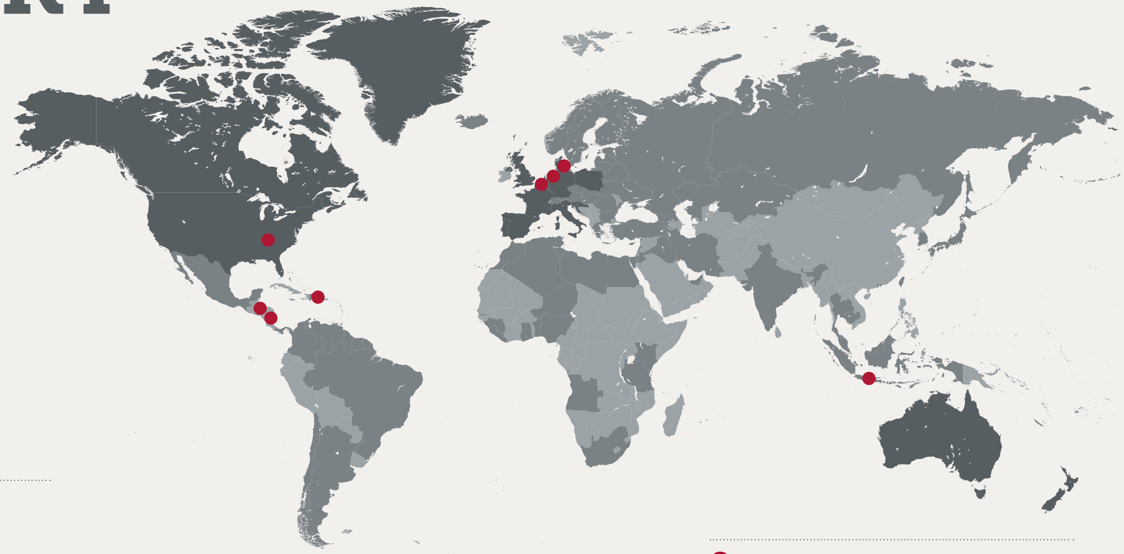
INTERNATIONAL MANAGEMENT

Scandinavian Tobacco Group is led by an international management team and has its head office in Denmark.

The Group is 51% owned by the Danish company Skandinavisk Holding A/S and 49% by Swedish Match. Skandinavisk Holding A/S is ultimately owned by two Danish foundations, the Augustinus Foundation and Det Obelske Familiefond, which have been active in the tobacco industry for more than 250 years. Swedish Match is a publicly owned company listed on the Stockholm Stock Exchange.

Read more: www.st-group.com.

THE GROUP **IN SHORT**



WORLD'S LARGEST

MANUFACTURER OF CIGARS AND PIPE TOBACCO

NO. 1 POSITIONS

- in the US market for handmade cigars
- in the European market for machine-made cigars
- in the global market for pipe tobacco
- in the US and Nordic markets for fine cut

- 12 PRODUCTION SITES IN 8 COUNTRIES
- 18 SALES COMPANIES IN 16 COUNTRIES
- SALES TO MORE THAN 100 COUNTRIES

9,200

TALENTED AND CURIOUS EMPLOYEES WORLDWIDE

VISION

To be a dynamic and innovative tobacco company with growing leadership in cigars and pipe tobacco and a significant position in fine cut.

MISSION

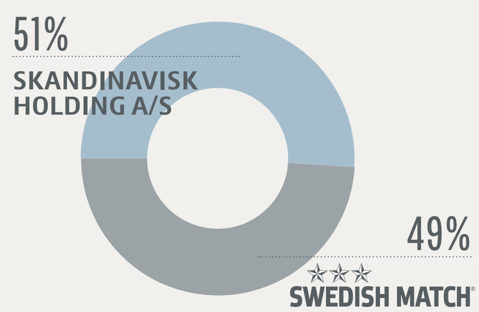
With great brands and talented and curious people we give smokers the best smoking enjoyment and thereby secure continuous growth in turnover and profit.

STRONG GLOBAL BRAND PORTFOLIO

200

GLOBAL AND LOCAL TOBACCO BRANDS

OWNERSHIP



2010

MERGER BETWEEN SCANDINAVIAN TOBACCO GROUP AND THE MAIN PART OF SWEDISH MATCH'S CIGAR AND PIPE TOBACCO BUSINESS

CONTENTS

IT'S ABOUT **PEOPLE**

Our business is about people. It's about individuals who enjoy cigars, get pleasure from smoking a pipe or from rolling their own cigarettes. They all have different motivations. Some smoke to achieve inner peace, others to make a good evening with friends even better. Some like a smooth smoke, others prefer it full-body.

Our business is also about 9,200 people across four continents who use their talent and curiosity to give others the best possible smoking experience. We have therefore set out to lead in cigars, pipe tobacco and fine cut in all the markets where our brands are present.

Leading is not an easy task. But we have developed a unique portfolio of more than 200 brands, including truly iconic ones such as Café Crème and Macanudo that are benchmark brands in the machine-made and handmade cigar categories, respectively.

We aim to keep all our brands vibrant, making them contemporary and relevant to consumers. Then there is what we see as our special task and big opportunity: to innovate and develop products that attract smokers from other tobacco categories. This is a constant focus for everybody in our company.

While paving the way to future market opportunities, we also take care of our day-to-day business. In 2013, total markets declined significantly in volume terms, not least our core markets. Despite this, we managed to keep net sales flat with a growth rate of 0.5% in local currencies.

We had hoped for more, however. We therefore reviewed our 'Route 2016' strategy to ensure that we continue to grow our net sales and support our ambition to deliver improved earnings. The review confirmed our strategy with a few adjustments.

We will continue to focus on growth in markets where our share is low and total market volumes are high. And we will continue our efforts to be at the forefront wherever there are growing opportunities within our categories. In 2013, we delivered growth in all regions except for our core markets in Western and Northern Europe. And we grew in all categories except for machine-made cigars. Little cigars and fine cut delivered double-digit growth rates; pipe tobacco and our catalogue and internet sales in the US delivered high growth rates as well. Overall, we have improved our market position and share of markets and categories since the launch of our strategy in 2011.

It is an important part of our strategy that we continue to invest in our future. The transformation of our supply chain has been a gigantic task demanding extraordinary efforts across our organisation. Closing down two machine-made cigars factories

Our business is also about 9,200 people across four continents who use their talent and curiosity to give others the best possible smoking experience.

while re-building the remaining four and implementing a new ERP system is not an easy task. However, I want to remind us all that this project is making us a stronger company. We can take pride in completing it ahead of schedule.

We have made another big investment in consumer insights. We are committed to delivering a first-class smoking experience to anyone who enjoys our cigars and pipe tobacco or rolls his own cigarettes. And we are dedicated to innovation, in particular to developing new products that attract smokers from other categories. Our innovation and product development teams are leveraging these consumer insights.

Meanwhile, we want to pay tribute to smokers throughout this annual report. They come from different countries, each with their own story, their own experiences and their own dreams. But there are a few things that they share: they enjoy tobacco, and they are ready to share their stories with us.

Throughout our Annual Report 2013 you will meet Lars, Lillan, Ole, Cesar, Joséphine and Conny. They are people to whom we want to give the best smoking enjoyment. They are some of the people that our business is all about.

Anders Colding Friis
CEO

FINANCIAL FACTS OF THE GROUP

FINANCIAL PERFORMANCE

	REPORTED IN MDKK	GROWTH 2012-2013	ADJUSTED FOR CURRENCY	ADJUSTED FOR ONE-OFF ITEMS
NET SALES	5,925	-0.9%	0.5%	1.7%
EBITDA	1,175	-9.7%	-8.3%	-3.5%

EBITDA MARGIN

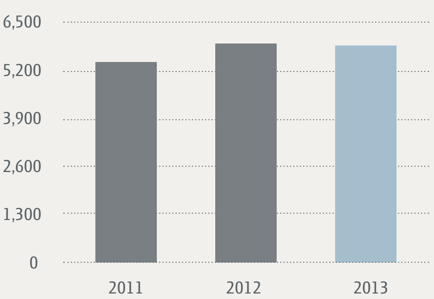
19.8%

CASH FLOW FROM OPERATING ACTIVITIES

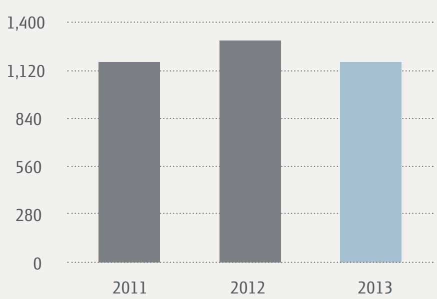
742 MDKK ↑ 4%

3 YEARS PERFORMANCE

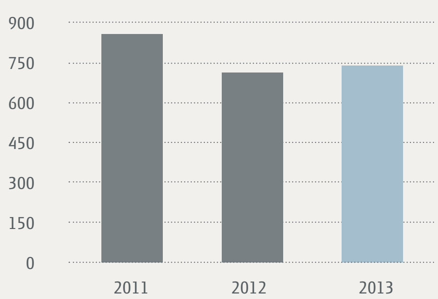
NET SALES



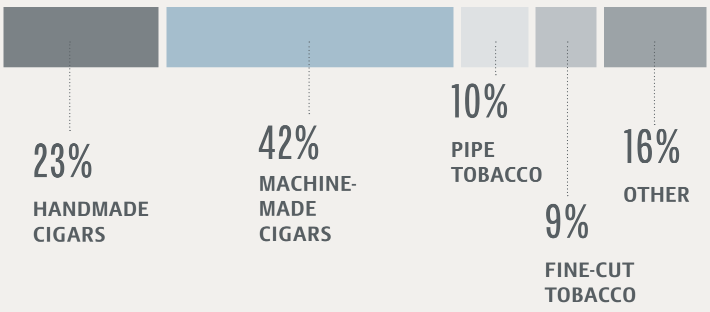
EBITDA



CASH FLOW FROM OPERATING ACTIVITIES



NET SALES FROM CATEGORIES



NET SALES FROM REGIONS

	Share 2013	Growth 2013*	CAGR 2011-2013*
North America	37.9%	2.2%	5.3%
Northern Europe	14.8%	-2.6%	-1.5%
Western Europe	22.9%	-13.3%	-3.6%
Southern Europe	6.3%	5.5%	0.9%
Oceania	7.0%	27.2%	17.5%
Rest of the World	11.1%	12.7%	9.4%
Total	**100.0%**	**0.5%**	**2.9%**

* Adj. for currencies

GROUP FINANCIAL HIGHLIGHTS AND KEY RATIOS

DKK million	2013	2012	2011	2010*
INCOME STATEMENT				
Net sales	5,925	5,978	5,472	1,355
Gross profit	2,915	2,992	2,780	576
EBITDA	1,175	1,301	1,174	-46
EBITA	1,046	1,176	1,035	-83
EBIT	775	931	825	-183
Net financial items (excl. share of profit of associated company)	-104	-101	-47	-5
Profit before tax	676	843	782	-188
Income taxes	-103	-224	-204	41
Net profit	573	618	578	-147
STATEMENT OF COMPREHENSIVE INCOME				
Other comprehensive income	-253	-118	118	94
Total comprehensive income	320	501	696	-53
BALANCE SHEET				
Intangible assets	7,379	7,792	7,802	6,964
Property, plant and equipment	1,112	991	990	950
Other non-current assets	181	194	206	103
Inventories	2,927	2,781	2,660	2,413
Receivables	1,133	1,293	1,144	1,247
Total assets	13,196	13,736	13,753	12,106
Equity	8,333	8,425	8,274	7,578
Net interest-bearing debt (NIBD)	2,808	2,908	2,741	2,380
Investment in property, plant and equipment	271	138	124	93
CASH FLOW STATEMENT				
Cash flow from operating activities	742	716	860	90
Cash flow from investing activities	-315	-388	-1,152	-95
Cash flow from financing activities	-647	-596	815	38
Cash and cash equivalents end of period	464	684	952	429
KEY RATIOS				
Gross margin	49.2%	50.0%	50.8%	42.5%
EBITDA margin	19.8%	21.8%	21.5%	-3.4%
NIBD/EBITDA	2.4	2.2	2.3	n/a
NIBD/EBITA	2.7	2.5	2.6	n/a
EBIT margin	13.1%	15.6%	15.1%	-13.5%
Tax percentage	15.2%	26.6%	26.1%	21.7%
Return on assets	5.9%	6.8%	6.0%	-6.0%
Equity ratio	63.1%	61.3%	60.2%	62.6%
Return on equity	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 107.




FINANCIAL HIGHLIGHTS

Scandinavian Tobacco Group is aiming at growing its market leadership in cigars and pipe tobacco and at growing its business outside its core markets in Northern and Western Europe. We are also pursuing growth opportunities for fine-cut tobacco in selected geographies.

Our growth strategy builds on ensuring strong brands, product innovation and excellence both in sales and in our supply chain. In 2013, we grew our strategic brands, progressed towards delivering genuine break-through innovation and launched more than 250 new products and brand initiatives. We also advanced ahead of schedule on the 6-2-4 project, which is changing our production footprint in machine-made cigars and securing cost-leadership in our supply chain.

In a tough year, we successfully grew net sales in local currencies in all categories except for machine-made cigars. We also secured growth in all geographies outside Northern and Western Europe. In total, our net sales ended the year on a par with 2012 when adjusted for currency impact.

INCOME STATEMENT

Reported net sales for 2013 totalled DKK 5,925 million (DKK 5,978 million in 2012). In local currencies, net sales were largely the same as last year (up 0.5%). Adjusted for agreed one-off stock reductions at our distributor in France, net sales grew by 1.7%. This growth was driven by price increases in all categories and higher volumes of pipe tobacco and fine-cut tobacco. This volume growth was partly offset by negative mix effects in the machine-made cigars category, where low-margin products grow faster than high-margin machine-made cigars.

The Group's gross profit margin of 49.2% for 2013 is largely unchanged from last year (50.0%).

Reported operating costs increased by 3% to DKK 1,740 million (DKK 1,690 million). In local currencies, and adjusted for one-off severance costs, operating costs grew by 4%. This was mainly due to inflation and increased sales activities in selected countries.

Reported EBITDA amounted to DKK 1,175 million, 10% below 2012 (DKK 1,301 million). In local currencies, and adjusted for severance costs and the stock reduction in France, EBITDA declined by 3%. This was mainly due to a lower contribution margin driven by negative mix effects and higher operating costs resulting from inflation.

Depreciation and impairment totalled DKK 129 million, largely in line with last year (DKK 125 million). Amortisation and impairment amounted to DKK 271 million. This was an increase of 11%, driven by the full-year impact of the buy-back of distribution rights in Australia and the acquisitions of software and various trademarks during the year.

Net financial items came to a cost of DKK 104 million, a 4% increase that was due to exchange losses in 2013 resulting from decreasing exchange rates compared to DKK; these were partly offset by lower interest costs.

The tax rate for the year stood at 15%, compared to 27% in 2012. This was significantly impacted by newly enacted tax rates in Denmark and Sweden. Our net profit for the year totalled DKK 573 million, 7% below 2012 (DKK 618 million).

The Group's other comprehensive income amounted to minus DKK 253 million; this was mainly due to exchange rate adjustments during the year on our foreign investments.

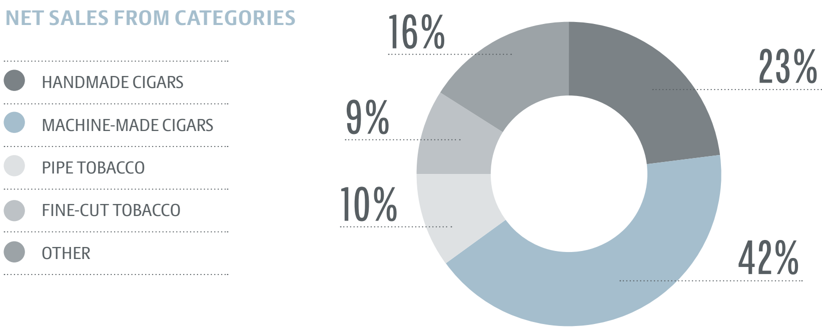
The overall financial performance in local currencies, adjusted for major one-off items, was below expectations for the year. This was mainly caused by a negative mix in the machine-made cigar category and lower fine-cut volumes than anticipated.

BALANCE SHEET

Goodwill and trademarks represented a value of DKK 7,008 million (DKK 7,379 million), equal to 53% of the Group's total assets (54%). This decline in value since 2012 was mainly caused by the amortisation of trademarks and the lower USD exchange rate, which resulted in a decline in the value of goodwill and trademarks relating to our US activities.

The Group's other intangible assets mainly comprised software and distribution rights. During 2013, we invested DKK 48 million in intangibles,

NET SALES FROM CATEGORIES



mainly software and the acquisition of Pipesand-Cigars.com to our US internet and catalogue business Cigars International.

Tangible assets primarily related to our production facilities around the world. During 2013, we invested DKK 271 million (DKK 138 million) in assets, including new warehouses in Belgium and Denmark, a new fine-cut factory in Holstebro, which is expected to be ready for use in late 2014, and the renewal of production facilities.

Our DKK 98 million (DKK 105 million) investment in associated companies related to our 20% ownership of Caribbean Cigar Holdings Group Co. S.A.

The Group's inventories amounted to DKK 2,927 million in 2013, a 5% increase from 2012's DKK 2,781 million. The increase is driven by the higher activity at Cigars International, increased levels of finished goods and higher stock in hand of tax and excise stamps.

Equity totalled DKK 8,333 million (DKK 8,425 million), equivalent to 63% of the total balance sheet (61%). The movement in the year was made up of total comprehensive income in the year of DKK 320 million, minus a dividend paid of DKK 412 million.

Liabilities amounted to DKK 4,906 million at 31 December 2013 (DKK 5,311 million). The Group repaid part of an external US Dollar loan during the year. In addition some of the deferred tax liabilities became due during the year.

DEVELOPMENT BY CATEGORY

We always intend to innovate and grow in all our categories. We achieved this in the handmade cigar and pipe tobacco categories despite declining total markets. We also achieved our highest growth rates in the fine-cut category, where the total market is growing. It was only in machine-made cigars that our net sales showed some decline in local currencies.

Our handmade cigars business is predominantly in the US where two out of three handmade cigars are sold globally. In the category, we grew by 2.4% in local currencies. Our US subsidiary Cigars International led the category with double-digit growth and increasing market shares. In fact, this internet and catalogue retailer now ships over 20% of all handmade cigars purchased in the US.

The growth in our handmade cigar category was partly held back by stock reductions at a few of General Cigar's large accounts. In Europe, the handmade business grew most strongly in France, Belgium, the Netherlands, Croatia and Italy, albeit from a low basis.

The total market for machine-made cigars is growing in the US and declining from a high basis in Europe where we are market leader. Our net sales declined by 2.6% in local currencies in the machine-made cigars category. This was mainly due to decline in total market volumes, especially in our core markets in the UK, Belgium, the Netherlands and France. The latter was also affected by reduced stock levels.

We have made an effort to grow in machine-made cigars in the US market, and we expect this to pay off within a few years. The category is performing well in Australia, Ukraine and Russia with double-digit growth rates.

We have launched little cigars in several markets in Europe, Canada, Iraq and Ukraine, and total markets are growing within this niche. Still a new product in the market place, we have grown significantly in this niche in the markets where little cigars have been recently launched. Although this growth has been offset by decline in the US market, we have successfully achieved double-digit growth in little cigars.

During the year, we grew our pipe tobacco net sales by 5.1% in local currencies in the face of significant total market declines in the core European and US markets. Today, we lead the category with more than 50% of the global market for traditional pipe tobacco. Growth in the pipe tobacco category was spearheaded by Australia and West Africa, which account for almost one fifth of our pipe tobacco volumes.

The total market for fine-cut tobacco is growing by about 2% a year, led by Southern and Western Europe. It continues to decline from a high basis in the US and the Nordics, which have traditionally been strongholds for Scandinavian Tobacco Group. In 2013, we managed to grow by 6.3% in the category through launches in new markets, including Germany, Spain, Switzerland and Israel.

3 BN

CIGARS PRODUCED IN 2013

5,000 TONS

FINE CUT AND PIPE TOBACCO PRODUCED IN 2013

OUR DEVELOPMENT, REGION BY REGION

We are matching our effort to grow in new categories with the expansion of our footprint in markets where we do not have a market-leading position. This strategy is paying off, with growth in all geographies except the Nordics and Western Europe. In 2013, two-thirds of our net sales were generated in geographies where we are growing our business.

CONTINUED GROWTH IN NORTH AMERICA

We grew our net sales in North America by 2.2% (CAGR 2011-13: 5.3%) in a slightly decreasing market. The North American market accounted for 37.9% of our total net sales in 2013.

General Cigar leads its market for premium handmade cigars with a market share of around 25%. Following several years of growth, in 2013, it faced stock reductions at a few large accounts, while its business levels with its other customers were unchanged from the previous year.

General Cigar continues to take an innovative approach to the market, delivering more than 100 new products and initiatives into the market place in 2013. Sales from these new initiatives keep paying off and account for more and more of net sales. Among many initiatives are the 2013 collaboration between the Cohiba brand and the rapper Shawn 'Jay Z' Carter in their bid to reinvent modern luxury, as well as establishing the highly innovative Foundry boutique brand. General Cigar also launched 'freshness packages', which do away with the need for humidor-storage so that over 20,000 convenience stores can now carry premium handmade cigars.

It is still early days for General Cigar's focus on Europe, but early signs are encouraging as they deliver double-digit growth rates from a low basis in selected markets.

Staying in North America, Cigars International has extended its market leadership with double-digit growth. Today, this internet and catalogue retailer counts for one in five handmade cigars sold in the US. The growth is driven by strong customer acquisition and retention, based on its innovative culture and direct-marketing skills that aim to meet each customer's individual demand for something new. In 2013, Cigars International increased focus on pipes and pipe tobacco and extended its customer base with mostly pipe smokers through the acquisition of PipesandCigars.com.

Together with new service offerings to retailers, a superstore retail concept and several other innovations, the internet and catalogue business outpaced the category.

We acquired Scandinavian Tobacco Group Lane (STG Lane) in 2011, and it now serves the US market for fine cut, pipe tobacco and machine-made cigars. The total markets for fine cut and traditional pipe tobacco are in decline in the US, and although STG Lane has won share in both categories, volume and net sales from these categories both declined in 2013.

In 2013, STG Lane introduced 20 new machine-made cigars into the market place. These were well-received by customers and are undergoing refinement to resonate even better with consumers. STG Lane's focus on developing more key account sales also proved successful – several new collaborations included Walmart's listing of several cigar brands.

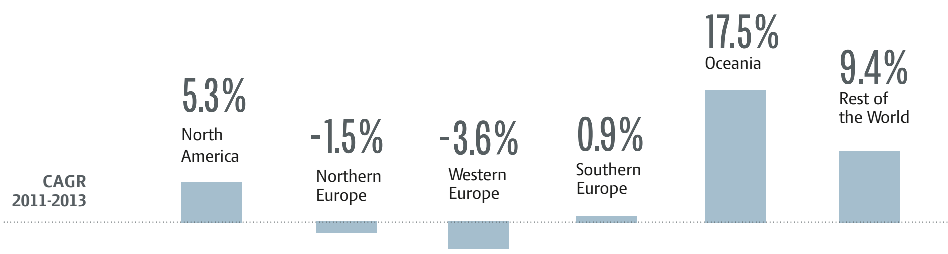
Although Canada's tobacco market is heavily regulated, our business there grew in local currency. We achieved this in both the handmade and the machine-made cigar markets and through the successful introduction of little cigars.

A MIXED PICTURE IN EUROPE

The European market for cigars, pipe tobacco and fine-cut tobacco presents a mixed picture. Total markets are declining significantly in Northern Europe, as are some Western European markets such as Belgium, the Netherlands and to some extent France. Total markets are flat in Southern Europe and Germany. Most markets are being affected by consumers' continued down-trading to cheaper variants.

European markets account for 44% of the Group's total net sales. Being market leader in Northern Europe, Belgium, the Netherlands and France, we saw our net sales in Europe decline by 7.5% in local currencies (CAGR 2011-13: 2.3%). The decline comprises a fall of 2.6% in Northern Europe (CAGR 2011-13: -1.5%) and of 13.3% in Western Europe due to destocking in France (CAGR 2011-13: -3.6%).

NET SALES FROM REGIONS (ADJ. FOR CURRENCIES)



In Southern Europe, we grew our net sales by 5.5% (CAGR 2011-13: 0.9%).

Northern European markets are mature and being affected by smoking bans. Together with consumers' down-trading to cheaper variants and a decline in pipe tobacco, this has affected our business in the UK even though we grew our market shares in 2013. Café Crème was challenged while Moments did very well. In Norway and Denmark, where we are market leader, we maintained our position within the fine-cut category but were affected by decline in the total market. Our net sales in the Danish cigar market stayed flat, supported by growth in little cigars.

Following a year of growth, in 2013 Western Europe delivered net sales below previous years. In our largest market, France, stock reductions account for half of the decline in net sales in the machine-made cigar category. We saw double-digit growth in both France and Belgium for the handmade cigars category. In Belgium, we redesigned the market-leading Mercator brand, which has continued to perform well. We also launched fine cut in Belgium, the Netherlands and Germany, where it has grown strongly from a low basis.

In Southern Europe, growth was led by Spain and Italy, which are both big markets for cigars and fine-cut tobacco. In both markets, we grew in machine-made cigars, led by our launch of little cigars in Spain where fine cut also does very well. In Portugal, fiscal policies have changed the excise structure several times over the last couple of years. This has hit the fine-cut market, but our overall performance is level with last year. Café Crème in particular keeps winning market share and now leads the market for machine-made cigars in Portugal with a share of more than 50%.

DOUBLE-DIGIT GROWTH IN AUSTRALIA AND EXPORT MARKETS

Our Oceania and Rest of the World regions grew by 18.1% in 2013 (CAGR 2011-13: 12.5%). Together, they now account for 18.1% of our business.

Oceania includes Australia and New Zealand. The heavily regulated Australian market introduced plain packaging in December 2012. Despite this, in 2013 we achieved double-digit growth in our Australian volumes and net sales in machine-made cigars, pipe tobacco and fine cut. This was due to increased market activities and a swift response to the new regulatory regime. In New Zealand, we grew our categories pipe tobacco and fine cut. In total, Oceania grew by 27.2% in 2013 (CAGR 2011-13: 17.5%).

Our Rest of the World region, which covers export markets, grew by 13.1% in 2013 (CAGR 2011-13: 9.4%). There are several pockets of growth in this region, the most prominent being West Africa, Israel, Ukraine and Global Travel Retail.

FINANCIAL OUTLOOK FOR 2014

In the coming years, we will continue to consolidate the Group in order to fully benefit from the merger of Scandinavian Tobacco Group and Swedish Match in late 2010, while simultaneously preparing for future growth through various sales, marketing and product-development initiatives. Thereby we focus on leveraging our leading scale and focus on the cigar, pipe tobacco and fine-cut niches. Based on our planned activities, management expects continued growth in net sales in local currencies during 2014, which supports the ambition to deliver improved earnings.

Sales volumes of cigars and pipe tobacco are in general under pressure due to the decreasing total market volumes in many of our mature core markets and shifts in consumer preferences driven by excise changes. Furthermore, the general economic environment is having an impact on all tobacco categories. However, the Group will continue to focus on growth through increasing market share, innovation, product development and expansion into new markets. We will strive in this way to deliver future growth in net sales and profit.

REGULATORY DEVELOPMENTS

Regulators in the EU and the US are revising how tobacco is regulated.

In the EU, a revised tobacco directive has largely been agreed on. Among other issues, this deals with health warnings, pack sizes, product descriptions, ingredients and traceability. The directive differentiates in some respects between the different product categories – e.g. it allows longer implementation times in relation to certain rules for products other than cigarettes and fine-cut tobacco.

In 2014, the United States Food and Drug Administration (FDA), which already regulates cigarettes and fine-cut and smokeless tobacco, is expected to publish regulation of cigars and pipe tobacco for public consultation. It is not clear at this point what this regulation will imply, but should the FDA wish to regulate cigars and pipe tobacco in the same way as cigarettes and fine-cut tobacco, this would imply heavy technical and administrative burdens for the Group's US businesses.

Our business is affected by regulation on national and supranational levels in various ways. We cannot make accurate conclusions regarding the long-term effect of the increasing smoking bans on sales. It is clear to us, however, that restrictions like display bans in retail stores and standardised packaging do impede the introduction of new products and limit competition. They also limit consumer choice, because smaller products will disappear while the strongest categories and best-established brands receive a competitive advantage. Larger manufacturers are likely to cope better with the growing administrative burden, heavier reporting requirements and required investments that come with the increasing regulation of production, products and packaging. However, the complex product portfolios in the cigar and pipe tobacco categories, with many different types and sizes of products and packaging, and the often small volumes, can put very heavy demands on manufacturers.

New regulations affect all manufacturers in our industry. We believe that we are one of the companies best positioned to cope with the developments to come in our industry. Not only are we a market leader, we also have the skills, resources and systems to deal with the added complexity, limitations and changes that new regulatory regimes will bring.

We believe that we are one of the companies best positioned to cope with the developments to come in our industry.

6,000 TICKETS SELL OUT IN TWO MINUTES

Every spring, cigar smokers have a blast with Cigars International. 6,000 smokers from every state in the US meet for the annual CIGAR fest, building a spirit and loyalty around the Cigars International brand that is envied by many companies. The 6,000 tickets for Cigars International's 10th Cigar Fest sold out in just two minutes.

CONSUMERS, RETAILERS AND JOURNALS REWARD INNOVATION

Scandinavian Tobacco Group was repeatedly recognised in 2013. Most prominent were a Robb Report trophy and the Best in Show award at the IPCPR trade show, which was attended by nearly 350 manufacturers and more than 2,200 retailers in the US. General Cigar's stunning 'Breaking Boundaries' exhibit summarised the Group's commitment to expand the premium cigar category by creating a brand for every occasion and an occasion for every brand.

2013 IN HIGHLIGHTS

JANUARY

MARCH

MAY

CIGARS INTERNATIONAL EXTENDS PORTFOLIO WITH PIPE TOBACCO

Cigars International acquired the catalogue and internet business PipesandCigars.com during the year. This acquisition has broadened Cigars International's offering to smokers with the addition of pipes and pipe tobacco, and is adding many new consumers to its business. By dealing with Cigars International, pipe smokers gain improved customer service, faster shipping and lower fees on expedited shipping.

MACANUDO SPONSORS BIG BREAK TV SERIES

Golf is the perfect outdoor occasion during which to enjoy a premium handmade cigar. In 2013, Macanudo partnered with NBC sports and its no. 1 rated cable station, The Golf Channel, to sponsor its top-rated show called Big Break. This hit series features men and women competing in skills challenges for an opportunity to qualify for a PGA or LPGA tour event. In its 10th season, Big Break generated over 450 million household impressions in the US and for the first time promoted America's bestselling premium handmade cigar on television.

RELAUNCH FOR THE WORLD'S NO. 1 SELLING CIGAR

We redesigned Café Crème on its 50th anniversary to send a clear signal to our customers that the world's no. 1 selling cigar is committed to remaining focused on the consumer and adding value to our customers' business. Café Crème has strongholds in France, UK, Italy, Spain and Portugal and is sold in more than 100 countries. When first launched 50 years ago, it was a break-through innovation in the cigar industry, transforming the cigar into 'a smooth smoke'.

NEW RECORDS IN SPEED DATING AND CIGAR PRODUCTION

In a focused initiative to consolidate our cost leadership, we continued to optimise our production footprint for machine-made cigars, including reducing the number of factories from six to four in the 6-2-4 project. The project is close to completion and the social integration of employees transferred to what is probably the world's largest cigar factory, STG Lummen in Belgium, is progressing well. At a one-day event, 550 employees broke the Guinness World Record for speed dating as part of a 'get-to-know-you' exercise for employees from the Lummen factory and the closed factory in Houthalen, Belgium. In late 2013, the Lummen factory also broke its own record with 7,021,144 cigars produced in a single day.

JULY

SEPTEMBER

NOVEMBER

WALMART LISTS CUBERO AND CAPTAIN BLACK

Our Cubero and Captain Black brands have been available from 4,043 additional US stores since last October. This followed their listing by Walmart, gaining distribution in almost every Walmart Supercenter, Discount Store and Supermarket in the US.

JAY Z AND GENERAL CIGAR REINVIGORATE THE SUPER PREMIUM CATEGORY

Cohiba has partnered with Shawn 'Jay Z' Carter to strengthen Cohiba's luxury positioning and to broaden its appeal as the preeminent super premium cigar brand in the US. This collaboration started more than two years ago and has resulted in a new cigar called Cohiba Comador that utilises rare tobaccos, proprietary processes and contemporary and innovative packaging.

NEW PERSPECTIVES

Lars has visited most corners of the world with completely different purposes. He is an architect and many of his trips have been for work. These professional trips usually send Lars to urban areas, but sometimes circumstances change that. Such an event occurred in 2004 when an earthquake hit The Indian Ocean resulting in a devastating tsunami. Lars went to Sri Lanka to help rebuild an entire village and it completely changed his perspective on life. During the construction there were constant riots because of a lack of food and supplies. During one of these riots his best bricklayer was shot in the head. A few days later the bricklayer was back on the job apologising for his absence and working as if nothing had happened. After that, Lars found he rarely complains about the things he would usually complain about.

Lars is a skilled sailor and he is often at sea. He enjoys big game fishing and travels when the urge for fishing emerges. Whether Lars is in a foreign city, a rural district of Sri Lanka, or at sea fishing, he enjoys the fulfilling aromas of a handmade cigar.



LARS, 43
ARCHITECT

OUR ROUTE 2016
STRATEGY

GROWTH

- Further develop our core markets and win market share within cigars, pipe tobacco and fine cut
- Grow market share in the major markets for machine-made cigars in the US, Germany, Italy and Spain
- Grow market share in handmade cigars in the US and expand internationally
- Explore geographical expansion into new markets in Asia, the Middle East, Eastern Europe and West Africa
- Grow market share in the US internet and catalogue business for premium cigars and pipe tobacco, and further expand into the retail sector
- Leverage our unique combination of strong global, regional and local brands
- Ensure and develop sales and commercial excellence
- Enhance our innovation leadership, based on consumer insights and product development

EFFICIENCY & QUALITY

- Ensure and consolidate our leading position as a cost-efficient manufacturer of quality cigars, pipe tobacco and fine cut
- Reduce complexity to lower cost and improve productivity while enabling product innovation
- Leverage group purchasing scale
- Leverage best practice across functions and countries
- Drive continuous improvements in our environmental, health and safety standards

PEOPLE

- Build One Company Culture based on common values
- Improve leadership and performance management
- Strengthen skill building
- Ensure high level of employee engagement

VISION

To be a dynamic and innovative tobacco company with growing leadership in cigars and pipe tobacco and a significant position in fine cut.

MISSION

With great brands and talented and curious people we give smokers the best smoking enjoyment and thereby secure continuous growth in turnover and profit.

OUR VALUES

TRUST builds better performance

TEAMPLAYER. Together we are better

RESPONSIBLE. We are accountable

INNOVATIVE. We challenge conventional thinking

PASSIONATE. We love what we do

ROUTE 2016 OUR STRATEGY IN ACTION

Our 'Route 2016' strategy was developed following the merger of Scandinavian Tobacco Group and selected Swedish Match businesses in 2010, which created a world leader in cigars and pipe tobacco. The core aspiration of our strategy is that by 2016 the Group will fully benefit from leveraging our market leading position and from focusing solely on cigars, pipe tobacco and fine-cut.

Our vision is to grow our market leadership in cigars and pipe tobacco and to build a significant position in fine cut. Building on our strong values, we will achieve this through our 'great brands' and 'talented and curious people', whose work to give smokers the greatest enjoyment secures our continuous growth in turnover and profit.

We are facing challenges such as changing consumer habits, volumes pressure and a continuously shifting regulatory environment. In 2013, volumes declined faster than anticipated, including in our core markets.

We have developed our strategy specifically to meet these challenges:

IMPROVED GEOGRAPHICAL FOOTPRINT AND GROWTH IN CATEGORIES

At the time of the merger, our strongholds were in those geographies and categories that have been declining the most. Since then, we have built stronger market positions in growing categories such as little cigars and fine cut, and in new geographies where we see opportunities for our portfolio. Today, our position is growing in all categories except machine-made cigars, and in all geographies outside Northern and Western Europe. Our growing regions account for more than 60% of our net sales.

IMPROVED SUPPLY CHAIN LAYOUT

We have changed our factory footprint since the merger in order to consolidate our leading position as a cost-efficient manufacturer of quality cigars, pipe tobacco and fine cut. This is the case in our handmade cigar, our pipe tobacco and our fine-cut supply chains. We have also made substantial changes in our machine-made cigar supply chain, where we are reducing the number of manufacturing sites from six to four factories and investing significantly.

More key initiatives are listed on the facing page.

STRATEGY REFINEMENT: MORE EFFICIENCY AND INNOVATION TO COME

Although our performance in 2013 was strong given the challenges across our total markets, we have nonetheless further reviewed our strategy. Our markets still offer significant growth opportunities, and 'Route 2016' positions Scandinavian Tobacco Group well to seize these. The review confirmed our strategy while refining it further.

Our response to possible further decline in the total market is to focus even more on innovation and product development together with an increased emphasis on delivering efficiency.

Initial synergies were obtained primarily from the merging of our commercial organisations, and we are now also beginning to see the full effect of an integrated supply chain.

Our strategy outlines an ambitious innovation agenda, which aims to deliver an innovative mindset across the organisation alongside a stream of tangible break-through innovations in the market place. Following the review of our strategy, we are pushing even harder to bring innovation and newly developed products to the consumer. Today, we have a stronger pipeline of innovative products thanks to a structured approach that includes our investments in consumer insights, a cross-organisational innovation team dedicated entirely to break-through innovation projects, and an improved set-up for transforming innovation concepts into market-ready products.

Furthermore, we are continuing to focus on the three pillars of our strategy:

- To build undisputed market leadership
- To sustain cost leadership in our supply chain
- To develop a winning organisation

GROWTH

We are building market leadership and winning market share by developing our core markets, expanding our geographic footprint and developing our different tobacco categories. Markets with high growth potential include the machine-made cigars markets in the US, Germany, Italy and Spain, together with handmade cigars. New markets such as Asia, the Middle East, Eastern Europe and West Africa also offer growth opportunities. Our internet and catalogue business in the US is growing fast and is further fuelled by our expansion into retail.

We are also achieving growth by investing in the fine-cut and little cigar markets, and by maintaining and developing contemporary products that resonate with consumers. Developing brands and products that address the demands of cigarette smokers is also a huge opportunity (see our chapter on categories and brands, pages 26-33).

Our organisation has been organised to support these goals and we have taken back distribution of our own products in for example Australia leveraging our expertise into the sales and distribution areas.

Our strategy has a dual focus: developing core strategic brands with international business potential; and safeguarding strong regional and local brands to take advantage of our current strongholds and to meet local consumer preferences. Brands with international potential include Café Crème, Captain Black, Macanudo and our newly developed value-for-money brand, Break. Our work is progressing according to plan with several new launches, re-designs and other brand initiatives.

The global roll-out of the sales excellence programme we initiated in 2011 aims to streamline sales processes and increase efficiency by offering shared tools and training. In 2013, our entire sales organisation participated in brand-related training programmes, and local trainers were trained to enhance local capabilities to enable even more skills building.

Innovation plays a crucial role in the development of our business and has been further reinforced following the review of our strategy in 2013.

EFFICIENCY & QUALITY

Cost leadership is sustained by improving the lay-out of our factories and reducing complexity.

In machine-made cigars, the 6-2-4 project has changed our supply chain footprint, transferring cigar production from Pasuruan in Indonesia and Houthalen in Belgium to the four remaining sites in Belgium, the Netherlands, Denmark and Pandaan in Indonesia. These remaining sites have all been prepared for the manufacture of increased volumes through an ambitious investment programme.

In fine cut, we are bringing the production of expanded tobacco in-house to a new factory in Holstebro, Denmark, thereby ensuring stability of supply and significantly lower tobacco costs. This is leading to improved competitiveness in this market, which is one of the fastest growing categories. The new factory is expected to be completed in late 2014.

We reduce complexity in blends, formats, leaf grades and ingredients across our supply chain, leading to improved productivity.

To assure quality, ensure traceability and lower the number of rejected cigars, General Cigar has centralised its quality assurance and implements barcoding on each individual handmade cigar from all its factories.

PEOPLE

The talent and curiosity of our employees are assets that give us competitive edge and enable us to deliver on our strategy.

We nurture talent and curiosity by promoting a One Company Culture that builds on trust to enable us to take advantage of the diversity and many different skill-sets and perspectives of our employees. Trust is among the five core values that glue the Group together, having been created from many acquisitions and the merger between Scandinavian Tobacco Group and Swedish Match. Together with improved leadership, succession planning and a high level of engagement, the foundation stones of our winning organisation are our One Company Culture, our values, our talent and our curiosity.

We developed our values in 2011 and continued their company-wide implementation in 2012 and 2013. Our values ensure a consistent profile in the market and provide us with guidance in our decision-making processes. We believe that our employees have a high level of ownership of our values. According to a survey of new employees, our values are very visible to new employees and lived by the organisation. Our 2014 employee engagement survey, STG Insight, will monitor and track progress.

This survey will also measure the level of employee engagement. When conducted in 2011, the survey showed this to be above average compared to external Fast Moving Consumer Goods (FMCG) benchmarks and on a level with high-performing companies world-wide. Key drivers for engagement among our employees are clear job responsibilities, high ethical standards and a daily commitment to deliver quality in every job. We believe that these elements are fundamental for our employees' ability to fully unleash their talent and curiosity.

To ensure leadership quality and consistency 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 group. In 2013, our top 60 leaders participated in the Trusted Leader Programme that aims to enhance leadership both individually and as a group, and to ensure that our leaders have the leadership skills to grow our business. The Trusted Leader Programme continues into 2014 and is being expanded to the next level of managers.

We support the leadership programme with a systematic approach to the people review process, which assesses performance and potential resulting in a succession overview and plan across the Group. In 2013, succession planning was rolled out across the Group ensuring that our competitive edge in the market can be developed and maintained.

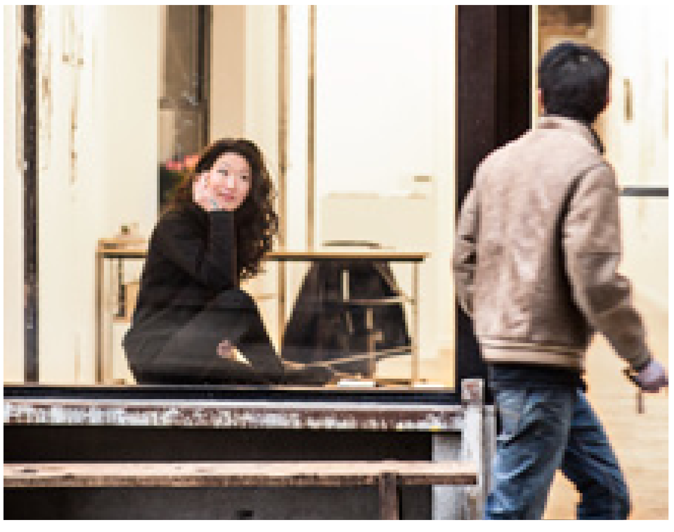
DIVERSITY -A SOURCE OF STRENGTH

We embrace workforce diversity as a source of strength. It leads to increased innovation, increased team performance and better problem solving abilities. It is our ambition that 25% of our shareholder-elected board members will be women by 2017. In 2013, we adopted a Diversity and Inclusion Policy guiding us in embracing diversity. The policy aims at ensuring stronger gender diversity in managerial positions which in the majority of business areas means increasing the number of women. Going forward, we convert the policy into actions that secure gender diversity across our business.

A LIFE FULL
OF OCCASIONS

You could say that Lillan is somewhat entrepreneurial – just like any other New York gallery owner with a past as a text editor, a sound engineer, a sushi chef and a textile and graphic designer! For as long as she can remember, it has been a dream of hers to open a gallery of fine arts in New York. In April 2010 she achieved that goal when she opened the Munch Gallery in the Lower East Side of Manhattan. She is the kind of person who is capable of moving on, even in the midst of her success – an ability that, alongside her numerous talents, is one reason for her success. On occasions, Lillan enjoys smoking – and occasions are not scarce in Lillan's life.



LILLAN, 41
GALLERIST


Redheads.
extra long safety
matches
45
Over
90
mm Long
OSA

LEVERAGING OUR **CATEGORIES AND BRANDS**

Scandinavian Tobacco Group has solid expertise in tobacco and a unique combination of strong global, regional and local brands. By leveraging this equity, we are able to grow our leadership in cigars, pipe tobacco and fine cut.

Every year, we carry out hundreds of initiatives to improve our brands and categories. Following the merger of the Swedish Match and Scandinavian Tobacco Group portfolios, our brands have been repositioned and developed to capture changing market dynamics and meet consumer preferences.

In machine-made cigars, we have strengthened our market position by improving the taste and adding filter and flavour variants to our portfolio, all while ensuring a contemporary look and feel through several redesigns of different brands. In handmade cigars, product development and innovation across all marketing disciplines play an important and wide-ranging role in meeting consumers' desire to have new experiences. In pipe tobacco, our focus is on maintaining and developing strategic brands that we can take into new markets. Finally, in fine cut we pursue an aggressive growth agenda by building strong regional brands, going into expanded tobacco and launching in new geographies. We have also launched several brands across categories.

Not only do we develop and safeguard strong regional and local brands in all categories, we also develop core strategic brands with international business potential. Among these are iconic brands such as Café Crème and Macanudo. As benchmark brands within their categories, these can realise untapped potential when nurtured, revitalised and eventually taken into new markets.

IN THE EYES OF OUR CONSUMERS

Since the launch of our 'Route 2016' strategy, we have taken a more consumer-centric approach to innovation and product development. We have gained considerable insights into consumer preferences, habits and needs, strengthening our ability to attract cigarette smokers to the cigar category by developing new brands, improving the taste of existing key brands and strengthening our performance in aromatic cigars.

The markets for cigars and pipe tobacco are to a large extent local and regional. At Scandinavian Tobacco Group, we build brands for a large number of markets, offering a brand, a variant and a smoking experience for every occasion.

HANDMADE CIGARS

The Group is US market leader in handmade cigars. The market accounts for two out of three handmade cigars sold globally and was slightly decreasing compared to 2012. Given our low market shares in Europe, the region offers growth opportunity for our Group.

Consumer preferences change quickly. Two out of three consumers ask for 'something new' when purchasing handmade cigars. Some tend to choose smaller and cheaper cigars and boutique brands are quickly gaining higher market shares.

As a market leader, General Cigar is working to expand its portfolio and strengthen its position by launching more than 100 brands within all handmade cigar segments, from super premium to value. Furthermore, with smoking bans impacting occasions and purchase frequency, General Cigar has activated an occasion-based marketing strategy targeting core brands against specific consumer segments and related smoking occasions.

Based on its unmatched database and analytical skills, Cigars International supports its suppliers by meeting new consumer demand through constant innovation.

MACHINE-MADE CIGARS

Scandinavian Tobacco Group leads the European machine-made cigar market and has a sizeable growth opportunity in North America. In the US, volumes are growing in a market that is almost as large as the declining European market. Overall, total market grows slightly.

In the premium segment, smokers tend to be loyal to the brands and products they know as they value their quality and consistency over time. Those in the mainstream segment are becoming increasingly interested in aromatic variants, smaller sizes and, in many cases, less expensive cigars.

With Café Crème, we have the strongest global brand in the machine-made cigar category. Our portfolio also contains a large number of strong regional and market-leading local brands. Over the last three 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.

We continue to aim for genuine break-through innovation in the category, building on in-depth consumer insights in selected key markets to develop several new innovations that will be launched in forthcoming years.

In particular, we have developed new brands for the US market and the value-for-money segment where little cigars play a significant role. In the US, our machine-made cigars have been well-received by our customers; we continue to intensify our product development efforts to meet consumer demands in this growing market.

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

FACTS ABOUT HANDMADE CIGARS:
No. 1 market position in the US
23% 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*

FACTS ABOUT MACHINE-MADE CIGARS:
No. 1 market position in Europe
42% of our net sales

KEY BRANDS
Premium: La Paz, Henri Wintermans, Oud Kampen and Petit
Mainstream: Café Crème, Captain Black, Mercator and Ché
Value-for-money: Talon, Break, Moments, Cubero and Blues

PIPE TOBACCO

The Group is champion of the global pipe tobacco market with a market share of over 50%. Our key markets are in Europe and North America, but we also see growth in West Africa. Overall, however, the total market volume continues its 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 it does to other categories. On the contrary, there is an increasing demand for luxury pipe tobacco in selected niche markets.

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

We have reintroduced strong brands such as Captain Black and Erinmore in markets where they have strong brand recognition, but were declining until we took them over. W.Ø. Larsen celebrates its 150th birthday in 2014. We keep enhancing the brand's luxury equity with innovative blends and limited editions.

FINE-CUT TOBACCO

We are a fine-cut tobacco market leader in the Nordics and the US. Total markets 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 and the 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 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 opening of a new factory for expanded tobacco in Holstebro, Denmark, in late 2014, we will improve our competitiveness in the fine-cut market further through a lower cost base and greater stability of supply.

FACTS ABOUT PIPE TOBACCO:

No. 1 market position globally
10% 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% of our net sales

KEY BRANDS

Premium: Tiedemanns, Bali Shag and Cross Road
Mainstream: Escort and Bugler
Value-for-money: Break and Salsa

COHIBA

Cohiba is one of the world's most luxurious premium cigar brand enjoying the highest levels of consumer awareness and brand equity. Cohiba grows market share and outperforms the premium cigar category.

General Cigar owns the brand in the US and focuses on enhancing the super premium equities of the brand by executing a strategy that uniquely aligns Cohiba with modern luxury.

In support of this strategy, Cohiba has commenced a partnership with Shawn 'Jay Z' Carter to introduce a super premium cigar called Cohiba Comador. Worldwide, Jay Z is known as a celebrity who has unmatched business and entrepreneurial acumen. In addition, it is widely known that he is a connoisseur of the luxury lifestyle. Cohiba's association with Jay Z has broadened the consumer base, strengthened its super premium equities and built awareness of Cohiba as the preeminent modern luxury cigar brand.

The initiative is supported by 'The Cohiba Luxe Program', an exclusive retailer partnership designed to enhance the overall equities and essence of the brand, aligning Cohiba with modern luxury in the mind of the consumer, in-store and on shelf.

MACANUDO

Macanudo is the best-selling premium cigar brand in the US. Known as 'America's Cigar' and the 'Ultimate Cigar,' the brand builds on a heritage unlike any other.

At a time when more brands than ever are competing for humidor space, retailers carry Macanudo because it is a trusted, well-known and approachable premium cigar that delivers consistency and quality in every smoke.

Macanudo extends its promise to new cigar smokers and deepens the brand's relationship with current consumers through continuous product development, by deepening its relationship with the sport of golf as well as through the expansion of premium handmade cigar availability. A core initiative for Macanudo is its 'freshness packages' which eliminate the need for humidor-storage and allow new stores outside of the category to sell premium cigars.

Macanudo has potential to grow outside the US. Therefore, a revitalised Macanudo brand and cigars will be introduced with a unique blend and packaging designed to appeal to the European consumer.

CAO

CAO is a core boutique brand within the General Cigar portfolio and has an international footprint as well.

In the US, CAO's positioning is modern, edgy and sometimes irreverent. As one of the pioneers in the boutique segment, CAO has a long successful history of innovation.

The brand continues delivering best-in-class innovations by launching Flathead to rave reviews. This collection of cigars offers a unique blend, format and package that CAO consumers widely accepted, resulting in one of the most successful new product introductions that General Cigar has seen in years.

Outside the US, CAO strengthens its position as an international brand with continued growth in many countries.

FOUNDRY

Foundry is one of the most innovative and imaginative brands in the handmade cigar category. Recently established as the leading-edge cigar brand, Foundry does well in the boutique segment.

The boutique segment continues to gain notoriety and market share within the US. With a commitment to gain share in this important aspect of premium hand rolled cigars, General Cigar launched Foundry in 2012.

The brand provides the company with the opportunity to compete with other leading boutique brands, most of which are smaller independent companies that are led and managed by their respective owners/founders.

The brand is unlike anything ever seen in the category. Foundry throws away conventional approaches and pioneers the use of tobacco, packaging and in-store activation.

The strategy is to build the brand into a boutique division called The Foundry Tobacco Company. Officially launched at the IPCPR in 2013, this launch was supported by introducing a new brand under Foundry Tobacco Company called Elements, Compounds and Musings.

CAFÉ CRÈME

Café Crème has been market and category leader since it was launched in 1963. Its proven sales record and global availability today make Café Crème the no. 1 cigarillo in the world.

Café Crème fulfils an important role as a truly global brand within Scandinavian Tobacco Group. The brand is available in more than 100 countries and has particular strongholds in France, the UK, Australia, Spain and Portugal.

Café Crème's popularity is due to its smooth and pleasurable smoking experience as well as the brand's innovation in size and packaging, making it a benchmark brand for other cigarillos.

Café Crème continues to improve its strong position in the mainstream segment, re-establishing the brand as a smooth and easy-to-smoke cigar. Most high profile is the redesign of the brand, which will hit the majority of markets in 2014. This is followed by an improved smoking experience and a re-launch of Café Crème's filter and flavour variants; together with smaller cigarillo formats such as Café Crème Finos and Piccolini. These variants are growing their shares of the overall brand.

LA PAZ

La Paz is the Group's second largest machine-made cigar brand. It is in the global top five of the category.

La Paz means 'peace' in Spanish, but the brand was developed in the Netherlands in 1813. Today, this premium cigar brand is well-positioned in neighbouring countries. France accounts for half its sales, while the Netherlands, Spain and Belgium are other big markets.

La Paz has the potential for further geographical expansion. We are supporting this by revitalising the brand through values such as authenticity, masculinity and vitality, and by leveraging its innovative approach within the category. La Paz is the first and so far the only machine-made cigar to have a natural filter, making it possible to add a filter and still keep La Paz Filtro de Tobacco 100% natural.

La Paz accounts for half the world market of the 'wilde' segment of cigars, which have a feathered fire end called the 'flos' or 'wilde end'. This was invented in 1969 – the story goes that the first La Paz Wilde was created by accident when the knife to cut the fire end went missing after machinery maintenance. It might not be true, but it is a nice story nonetheless.

CAPTAIN BLACK

Captain Black is a well-known brand in the US, the Middle East, Eastern Europe, parts of Africa and Asia.

Originally a pipe tobacco brand in the US, Captain Black has a heritage as an international, cross-category brand including pipe tobacco, cigars and little cigars. The journey began in 1973, when Lane Limited set its sails and Captain Black rapidly became the number one-selling pipe tobacco brand in the US. The brand entered the cigar category in the 1990s and little cigars a few years later. Captain Black Little Cigars enjoyed a speedy rise to popularity, which spread to the Middle and Far East.

The brand was acquired along with Lane Limited in 2011. Being a strategic brand within the Group portfolio, we are continuing its roll-out in the Middle East and Eastern Europe, building on the strong, masculine values connected with the brand name.

Captain Black is being redesigned to build a consistent brand image; new formats, flavours and packaging are being added. The brand performs particularly well in little cigars in Eastern Europe and the Middle East.

COLTS

Colts is a steady growing cross-category brand in the Group's portfolio. Developed for the Canadian mainstream market for machine-made cigars, the brand has subsequently expanded into new geographies and categories.

Colts builds on the heritage of the American firearm inventor Samuel Colt, and is therefore associated with masculinity and strength. This approach is highly effective in Canada where the brand does very well within the flavoured and tipped machine-made cigars segments, and in Eastern Europe where the brand is marketed as a value-for-money flavoured cigar.

Colts was launched as a pipe tobacco in selected markets in 2009. It is performing well not only in Canada, but also in Germany, Denmark and West Africa. Among other countries, Colts fine cut can also be found in Japan, Australia and South Africa.

Once a sub-brand to Old Port in Canada, the Colts brand became the choice of a new generation of smokers over 20 years ago. Today, 'M by Colts' has been developed for the Canadian market, attracting yet another generation of smokers into the cigar category.

W.Ø. LARSEN

W.Ø. Larsen is a premium pipe tobacco brand dating back to 1864 when Wilhelm Øckenholt Larsen established his first shop and the brand in Denmark. Today, W.Ø. Larsen has particular strongholds in Germany, Russia, Denmark and Asia.

W.Ø. Larsen blends are Scandinavian blends with a mellow-to-medium body and a range of flavours including liqueurs fruits and berries, vanilla and occasionally spiced tobacco.

Covering the upper end of the mainstream-to-luxury segment, the brand gives consumers the ultimate premium in tobacco blends. Products in the W.Ø. Larsen Limited Edition series are particularly successful. At year-end, W.Ø. Larsen launched an exclusive edition tin targeted at pipe tobacco connoisseurs. The tin has been very well received in Asia, where gifts play a crucial role and traditional Western products are highly valued.

The limited edition series adds to the brand's luxury equity in pipe tobacco. We are launching two limited editions to celebrate the 150th anniversary of the W.Ø. Larsen brand in 2014, drawing further attention to the potential of the premium segment in the profitable pipe tobacco category.

BORKUM RIFF

Borkum Riff is the world's most widely distributed pipe tobacco brand, meeting consumer demand in more than 50 markets worldwide in a category that is typically characterised by a range of smaller local and regional brands. Volume-wise, Borkum Riff is one of the largest pipe tobacco brands in the world.

Developed in Sweden in the 1960s, Borkum Riff carries a Scandinavian blend which is mild, sweet and with plenty of added flavours. The brand was originally developed with an eye on the US market, where it has been a best-selling brand for well over 30 years.

Borkum Riff has a broad portfolio, including a large number of variants and a taste for every preference within the mainstream segment. The brand has recently been redesigned and now reaches out with a uniform and exciting design that has great consumer impact. Limited editions also have a significant role to play for the brand – Borkum Riff introduces a limited edition every spring to capitalise on seasonal sales.

Borkum Riff was originally a lighthouse located at 53° 58' N, and 6° 22' E in Heligoland Bight off the Dutch coast in the North Sea.

BREAK

Break is the Group's fastest growing brand. Recently developed as a cross-category brand for little cigars and fine cut, its growth rate makes it really stand out.

The brand covers niches where total markets are showing most growth, and was developed to target the price-sensitive value segment in European markets.

In fine-cut tobacco, Break captures market share through price leadership in expanded tobacco. The brand has been launched in this category in Spain, Germany, the Netherlands, France and Denmark. More markets will follow when the Group's new manufacturing site for expanded tobacco enters production in late 2014.

Our growth in Break little cigars has been significant following launches in Spain, Portugal, Denmark, Greece and Italy within the last 18 months. More markets for little cigars will be added going forward.

TALON

We introduced our Talon brand just two years ago into the value-for-money segment in the US market. Today, it is our largest brand in little cigars, outpacing Captain Black and Winchester in the US market. The brand was also launched in Canada in late 2013.

Carrying the emblem of a bald eagle, the Talon brand is associated with American values.

To consumers, Talon offers great quality at an everyday low price. Talon is not the cheapest on the market, but has been true to its promise: great price and great quality. The cigars come in the six most popular flavours.

We have recently taken Talon, already a strong and double-digit growing brand in little cigars, into pipe tobacco in the US. Because it is now a cross-category brand, we can build on Talon's value-for-money positioning while increasing awareness and familiarity among consumers and ensuring prominent facing at retailers.

IF THE PIPE
COULD TALK

Some people know a lot about a few things. Others know a little about a lot. Ole knows a lot about everything. Ole is retired from an impressive career as an industrial designer and an architect. Every day, thousands of people are in contact with his creations including trains and airport equipment. He has professional skills in numerous disciplines, so meeting up with Ole is always exciting. Today we met him at an airfield because he was helping to restore an old aeroplane to its original design. Had we met with him the next day, we might have found him recording music in a studio. He is extremely versatile and you can never predict his ways. The only predictable thing about Ole is his pipe. No matter where you find Ole, you find his pipe.

OLE, 67
INDUSTRIAL DESIGNER

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) goes to the heart of our business philosophy and principles. Acting responsibly towards the individual human being, society and the environment is at the core of our business. For us, this also means being permanently aware of the health aspects of smoking.

We therefore align our business activities with the conduct you should expect from a responsible market leader. We do this for two reasons: because it sustains our business; and because we believe it is the right course of action.

In our factories, this focus enables us to manufacture cigars, pipe and fine-cut tobacco in a safe manner, both for our employees and with high regard to the environment. We reduce our tobacco waste, water consumption and emissions every year, and we set high standards and ambitious targets for our work environment as part of our health and safety programme. And we participate in the fight against child labour in those countries where tobacco is grown.

Scandinavian Tobacco Group acknowledges that tobacco products are different from other consumer products and that the health risks associated with them require stricter regulation – in particular to prevent children and adolescents from taking up smoking. Tobacco products continue to be subject to increased regulation in terms of manufacturing, promotion, presentation, sale and consumption.

We support 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. On the one hand, regulation should always take health issues and the protection of youth into account. On the other hand, regulation should also take into account that the typical consumer of cigars and pipe tobacco is a mature adult. The consumer profile and the different characteristics of the various tobacco product categories mean that legislation, where relevant, should differentiate between, for instance, cigars and other tobacco products.

We want to be a trusted participant in the legislative process, and we have valuable input and views to share specific to our products.

HEALTH AND SAFETY

It is our policy to strive for ever safer working conditions for our employees around the globe.

That is why we have our Environment, Health and Safety (EHS) programme which applies to all our manufacturing sites in eight countries in Europe, Central America, the Caribbean, the US and Asia. This programme is headed by a central EHS manager and supported by local site-based managers and an external EHS consultant.

SELECTED ACTIVITIES AND RESULTS IN 2013:
In 2013, accident rates continued to improve with a 30% reduction of reported work-related accidents compared to 2012. 78 accidents were reported.

A number of new auditors were trained and the week-long audits and a second review cycle started at year-end.

Site performance is assessed against the Group standard. Our goal is for all sites to reach the ambitious target score of 80 on a scale of up to 100 by 2016. At the end of 2013, four out of 12 sites had reached this goal.

NEXT STEPS:

- Implementing action plans to ensure continuous improvements to individual sites as well as to the Group as a whole.
- Continuing the audit cycle and completing 12 audits in 2014.

ENVIRONMENT

It is our policy to reduce our environmental footprint. Using less energy, generating less waste and emitting less CO2 in our production facilities are all everyday goals for the Group.

We manage to continuously reduce our environmental footprint as part of our EHS programme. In addition to achieving continual improvement, we are close to finishing the 6-2-4 project that reconfigures our factory footprint in machine-made cigars optimising our production and seeking energy-efficient solutions.

SELECTED ACTIVITIES AND RESULTS IN 2013:
In 2013, we reduced energy consumption from manufacturing by 3%. We also managed to recycle 41% of our tobacco waste, and we reduced our CO2 emissions by 10% per tonne of tobacco.

Cedar and mahogany are used to make cigar boxes. In the Dominican Republic and Honduras, we have our own reforestation programme which replenishes cedar and mahogany trees to replace those we use. To date, more than 35,000 trees have been replanted.

NEXT STEPS:

- Continuing to reduce energy consumption, waste generation and CO2 emissions in production.
- Maintaining our reforestation programme in the Dominican Republic and Honduras.

RESPONSIBLE MARKETING

We target our advertising and promotion to adults only.

We have procedures in place that ensure compliance with local laws and regulations in all our individual markets.

We work in different regulatory regimes in different markets. Our principles set minimum standards and govern where local regulations are less restrictive, either because tobacco is generally less regulated or because the regulation in place does not cover a specific activity.

SELECTED ACTIVITIES AND RESULTS IN 2013:
In 2013, we revised and improved our marketing principles, setting the standard for our behaviour in relation to consumers across the globe and in respect of all brands owned by the Group.

NEXT STEPS:

- Training of marketing staff and others across the Group to whom our marketing principles are relevant and following up to ensure compliance.
- Sharing the principles with our distributors in our many export markets.

COMBAT OF CHILD LABOUR

We do not employ children and we believe that all children should be protected against child labour and have access to education. We therefore continue our long multi-stakeholder cooperation to combat child labour. Through the ECLT (Eliminating Child Labour in Tobacco Growing) Foundation and together with local governments and NGOs, we work to create awareness of the issues and invest in educational and other measures to improve the livelihood of families that poverty would otherwise force to rely on child labour.

SELECTED ACTIVITIES AND RESULTS IN 2013:
In 2013, we carried out a risk assessment and progressed on designing an audit programme in relation to our tobacco suppliers.

NEXT STEPS:
- Continuing our engagement in ECLT to combat child labour, currently focusing on Kyrgyzstan, Malawi, Tanzania, Uganda and Mozambique.
- Renewing our tobacco supplier audits based on our risk assessment focusing on cigar and pipe tobacco suppliers.

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.

GENERAL CIGAR REACHES THOUSANDS WITH EDUCATION PROGRAMMES IN THE DOMINICAN REPUBLIC AND HONDURAS

Education is the key to a better future, so General Cigar has established programmes that increase literacy and skills among employees and residents of the Dominican Republic and Honduras. In the Literacy Initiative, employees and citizens who live in urban and rural areas surrounding the company's farms and factories are taught to read and write. To date, more than 600 people have advanced under this programme. More than 4,000 employees have prospered under the Continuing Education programme. And in a given year, approximately 30 employees are able to attend college or pursue advanced technical training, directly due to financial assistance from the company. Furthermore, General Cigar Dominicana provides financial support to four economically-challenged Dominican schools.

STG LUMMEN REDUCES ENERGY CONSUMPTION

STG Lummen, Belgium, is a recent recipient of the Charter Environment 2013 certificate, which is given to companies that perform above and beyond the legislative requirements for environment, health and safety. The factory continuously works on rationalising its energy consumption and reducing water consumption. This effort includes roof insulation, occupancy sensors that control lighting, automatically switching off compressed air at the end of a shift, heat recuperation, solar panels and water recycling.

CSR IN ACTION

HONDURAS THE DOMINICAN REPUBLIC BELGIUM

MORE THAN 35,000 TREES REPLACED IN THE DOMINICAN REPUBLIC AND HONDURAS

Protecting the environment and preventing pollution are vital elements of our commitment to tobacco cultivation. Perhaps the only cigar manufacturer to have its own reforestation programme, we replenish cedar and mahogany trees to replace those that are depleted in making our cigar boxes. Each of our farms in the Dominican Republic and Honduras participates in the reforestation activities, which are now part of our standard agricultural operations. To date, more than 35,000 trees have been replanted.

WE COMPOST TOBACCO WASTE AND REDUCE GREENHOUSE GASES

Our STG Lummen factory in Belgium composts 77% of its tobacco waste by giving it to a local recycling organisation. For farmers, tobacco waste presents an alternative to inorganic fertiliser. Tobacco that decomposes in landfills is a cause of methane that causes climate change, while waste turned into compost is a humus-like soil product that returns vital plant nutrition to the soil.

WE REDUCE NOISE IN PRODUCTION AREAS BY 50%

Our factory in Holstebro, Denmark has significantly reduced noise emissions from its machines. The 50% reduction was achieved by mapping the noisiest zones and machines and then by mounting noise-suppressing materials on the machines and hanging noise-reduction panels from ceilings and on the walls. This is an effective alternative to isolating the machines, which reduces productivity and causes inconvenience for operators. With less noise, employees experience a more pleasant working environment and although we still recommend the use of ear-protectors in this part of the factory, they are no longer obligatory.

DENMARK

TANZANIA

THE BATTLE AGAINST CHILD LABOUR IN TANZANIA

Through the ECLT Foundation (Eliminating Child Labour in Tobacco Growing), we contribute to various projects that create a better life for children in tobacco growing countries. In Tanzania, ECLT funds one such project, PROSPER (Promoting Sustainable Practices to Eradicate Child Labour in Tobacco).

Agriculture, the largest sector for child labour worldwide, is a major source of income for Tanzania, and tobacco is one of the country's largest export crops. Tanzania's tobacco-producing areas tend to have low primary school enrolment and high numbers of working children aged from five to 17.

The project identifies resources in the local communities which can enable the prevention of child labour and the withdrawal of children from it. Among other benefits, PROSPER improves access to education by providing scholarships for uniforms, books and school supplies; it also provides microloans to mothers, and basic social services such as health, water and sanitation to communities and schools. The advocacy element includes creating awareness of children's rights and of occupational safety and health standards for children of legal working age, i.e. between 15 and 17.

The project is expected to provide financial support to 1,800 families, helping them to pursue alternative forms of income and send their children to school. The aim is to raise the awareness of 20,000 people of the hazards of child labour and of children's rights to safety and education. The project was launched in 2011 and runs through 2015. Read more about the ECLT Foundation on www.eclt.org.


CLUB


MACANUDO


COHIBA

WHAT'S NEW? GENERAL CIGAR BUILDS LEADERSHIP WITH INNOVATION

Adventurous consumers are inspiring General Cigar to build on its market leadership with creativity and innovation. General Cigar is at the forefront of fulfilling consumers' desires to indulge themselves with new premium cigars.

In the world's largest market for handmade cigars, two thirds of cigar smokers are asking their shop keeper 'what's new?', and the number of boutique brands and limited edition offerings continues to proliferate. In response to increased competition, General Cigar has delivered a flurry of innovation and creativity in both marketing and new product development. The company has a market share of more than 25% of the US handmade cigar market, and is the owner and manufacturer of the largest and best-known cigar brands including Macanudo, Cohiba, La Gloria Cubana, Partagas and CAO.

Supporting its top-selling brands is a key area of focus, as General Cigar is bringing them to life in bold new ways by aligning its brands with lifestyle pursuits, such as golf, fishing and music. In 2013, General Cigar embarked on an ambitious endeavour to reinvigorate the super-premium segment through a collaboration between world-famous rapper Shawn 'Jay Z' Carter and Cohiba. Macanudo has also benefitted through its association with golf through its sponsorship of the Golf Channel's popular reality competition series, Big Break. The brand has also delivered its first limited edition product with the Estate Reserve collection. This critically acclaimed new line will soon be available globally.

Every year, General Cigar's artisans develop more than 100 new blends in large and small batches, working with proprietary processes and tobaccos from General Cigar's unique tobacco collection. In the boutique segment, CAO and La Gloria Cubana have released limited edition small batch products which have enjoyed instant success. Foundry Tobacco Company also played a pivotal role on the innovation front with formats and packaging never before seen in the premium cigar category.

Today, consumers have more opportunities to engage with our brands than ever before. Building on its long-term presence in brick and mortar shops, General Cigar has increased its offerings for online and catalogue retailers with new cigars such as Serie R Black, created exclusively for sale in those channels. In addition, the expansion of locked-in humidity packages for handmade cigars has also enabled the company to sell its products in more than 20,000 additional stores that could not previously carry handmade cigars without in-store humidors.

General Cigar's work to heighten awareness and knowledge of cigars is paving the way for consumers to explore more. With its innovative approach to consumers through PR, events and new collaborations, General Cigar is bringing a new buzz and excitement to the US cigar market. The consumer quest for 'what's new' is a daily inspiration for General Cigar. And as market leader, the company thrives on being at the forefront of its market.



PIPE GUILD
BLEND OF
THE MONTH
THE THAMES



ONE IN FIVE HANDMADE CIGARS COMES FROM BETHLEHEM

When Americans buy handmade cigars, one in five is shipped from Cigars International's warehouse in Bethlehem, Pennsylvania.

Today, the business is market leader and by far the largest internet and catalogue business for cigars in the US.

Nobody could possibly have foreseen this success in 1996 when the company was established as an internet shop for men's gifts. Based on its first market tests, Cigars International realised that cigars were the right commodity for them to pursue and kept this as its focus.

Digitally born and dedicated to fulfilling consumer preferences, Cigars International realised that people were asking for something slightly different from what the market place had to offer. In those days, cigars were only sold in boxes containing quite high numbers. Cigars International started selling cigars in baggies with fewer cigars and samplers that allowed consumers to taste a number of different cigars. This was a small but significant change at the time, and it paved the way for high year-on-year growth rates for the company.

Even today, the DNA of Cigars International is based on the study of consumers and their buying behaviour, the ability to provide any choice of cigars and brands that is required, and offering the ability to buy through any channel. Innovation and creativity are still the backbone of the company, which has embedded sophisticated direct marketing skills and built an amazing database which the company's marketers can data mine and interpret better than anybody else.

Cigars International is the brand that customers trust. Whether they want to buy premium or lower-value cigars, they want to buy them from Cigars International where they are offered premium customer service at a value price.

Over the years, the Cigars International offering and business platform have been continuously extended. Initially an internet retailer, the company added catalogues in 1999 when catalogue businesses were launching their first internet shops. In 2000, Cigars International opened a downtown shop in Bethlehem and has since added two superstores. With cigars.com in 2005, Cigars International added a dedicated site for cigar lovers who want and expect 'white glove concierge service'. Cigarbid.com offers good deals for customers who like to negotiate. And pipe smokers, too, have been offered premium customer service since the acquisition of PipesandCigars.com in 2013.

Cigars International has something for every cigar and pipe smoker and is even expanding its business as wholesaler for brick and mortar shops. Meier and Dutch sells to brick and mortar stores, and is now developing branded line extensions and marketing materials exclusively for brick and mortar shops.

On Christmas 2009, Cigars International passed 10,000 shipments in a day for the first time. Today, they reach that number frequently. In 2010, Cigars International moved to its new warehouse in Bethlehem. It is probably the world's largest humidor of 50,000 sq. feet, and even though the capacity was increased by 50% two years ago, it is already close to running short of space. The company's continuous, double-digit growth is literally manifested in the warehouse, from floor to ceiling.

FROM COLOMBIA **WITH PASSION**

Cesar runs the Deco Drive Cigars & Hookah Lounge in Miami, Florida. Cesar was born in Colombia and raised north of Miami. Today, he combines his knowledge of Colombian tobacco culture with insights from life in Southern Florida. The result is a beautiful business where tobacco culture is woven together with the ever-beating pulse of Miami. The store offers a world-class selection of cigars that brings in customers from all over the world, but you do not have to be an expert to appreciate the assortment and service. Cesar's comprehensive knowledge and passion for cigars is an inspiration to both connoisseurs and newcomers alike.

Cesar knows every detail in the process of making cigars – from field to shelf. If you visit him in the store, he will gladly share some of his passion with you.

CESAR, 45
MANAGER

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.

Christian Hother Sørensen (1964)
Executive Vice President

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

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

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 has been Executive Vice President of Supply Chain since 2008.

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

Anders Colding Friis (1963) Group CEO

Anders joined Scandinavian Tobacco Group in 1999. Until 2006, he was Executive Vice President and President of House of Prince. He has been CEO since 2006.

Anders is also chairman of the board of Monberg & Thorsen A/S, vice chairman of the board of IC Companys A/S and a member of the board of Topdanmark A/S. He is a member of the Executive Committee and Central Board of the Confederation of Danish Industry.

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.

Dan Carr (1963) President, General Cigar

Dan has held various management positions with the Group since 1996 when he joined General Cigar. From 1999 to 2007 he was 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 and a board member of the Tobacco Merchants Association.

Niels Frederiksen (1964) Executive Vice President

Niels has been with Scandinavian Tobacco Group since 1999 in various positions, including Senior Vice President and Executive Vice President for Group functions. Since 2013, he has been responsible for the smoking tobacco supply chain, the handmade cigar business outside the US, in co-operation with General Cigar, and strategic projects.

Charlotte Lückstadt Nielsen
Elected by the employees

Hanne Malling
Elected by the employees

Kurt Asmussen
Elected by the employees

Lindy Larsen
Elected by the employees

Fredrik Peyron

Joakim Tilly

SUPERVISORY BOARD

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

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CLUBS AND RETAIL STORES

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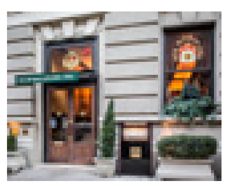

UNITED STATES
Club Macanudo
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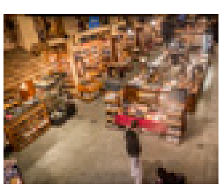
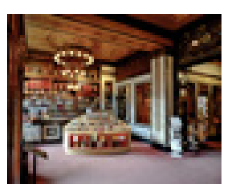


UNITED STATES
CI Bethlehem Super-Store
4078 Nazareth Pike
Bethlehem, PA 18020
Tel: +1 484 895 3933



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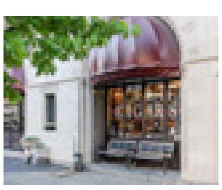
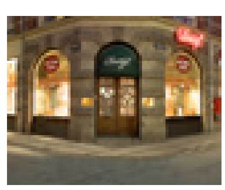


UNITED STATES
CI Downtown Store
535 Main Street
Bethlehem, PA 18018
Tel: +1 610 419 2076



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Director

Jean-Louis Leppert
Director
Handmade Cigars

SUPPLY CHAIN
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Senior Vice President

Bart Aarts
Senior Vice President

Jacob Bjerre
Senior Vice President

Thomas Lindegaard
Senior Vice President
Scientific and Regulatory Affairs

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Mette Valentin
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Pia Loft
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GROUP IT
Knud Erik Foged
Senior Vice President

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Kaspar Bach Habersaat
Director

GROUP FINANCE
Andreas Morthorst-Jensen
Director
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Morten Guldager
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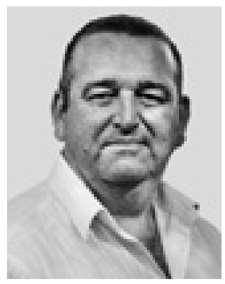

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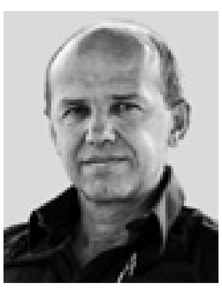

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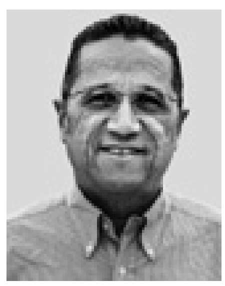
General Manager: Jan Nielsen



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General Manager: Henry Caballero

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CREATIVITY FROM **THE ROOFTOP OF PARIS**

Joséphine is a young artist living in the 5th arrondissement of Paris. She spends her days picking up inspiration from obvious and less obvious places in Paris. She lives near the Jardin du Luxembourg or The Luxembourg Gardens. It is the second largest public park in Paris and it is filled with inspirational statues, which Joséphine enjoys to draw. She is also very inspired by the ever-changing life in and around the metro and the lights over Paris. From her tin roof she takes a lot of pictures to capture the light. In her apartment she transforms her inspiration to small revelations of beauty. Besides traditional sculptures she also incorporates electric light in some of her amazing creations. When the evenings are closing in, she sometimes climbs out on the tin roof to smoke while taking in the beautiful scenery of Paris.


Sortie
1 r. Nélaton
Tour Eiffel

JOSÉPHINE, 24
ARTIST

FINANCIAL STATEMENTS

SCANDINAVIAN TOBACCO GROUP

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY – 31 DECEMBER

CONSOLIDATED INCOME STATEMENT

DKK million	Note	2013	2012
Net sales	2.1	5,925.3	5,978.0
Cost of goods sold	2.1	-3,010.8	-2,986.5
Gross profit	**2.1**	**2,914.5**	**2,991.5**
Other external costs		-1,108.4	-1,066.5
Staff costs	2.2	-631.8	-623.8
Other income		0.3	0.1
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**1,174.6**	**1,301.3**
Depreciation and impairment	3.2	-128.8	-125.0
Earnings before interest, tax and amortisation (EBITA)		**1,045.8**	**1,176.3**
Amortisation and impairment	3.1	-271.1	-244.9
Earnings before interest and tax (EBIT)		**774.7**	**931.4**
Share of profit of associated companies, net of tax	4.4	5.4	11.9
Financial income	4.5	5.7	5.4
Financial costs	4.5	-110.1	-106.1
Profit before tax		**675.7**	**842.6**
Income taxes	2.3	-102.9	-224.4
Net profit for the year		**572.8**	**618.2**

OTHER COMPREHENSIVE INCOME

Items that will not be recycled subsequently to the Consolidated Income Statement:		
Actuarial gains and losses on pension obligations	15.1	-53.4
Tax of actuarial gains and losses on pension obligations	-6.0	14.2
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	35.0	37.0
Cash flow hedges, realisation of previously deferred (gains)/losses to net sales and cost of goods sold	-15.8	20.3
Cash flow hedges, deferred gains/(losses) incurred during the year	19.7	-121.4
Tax of hedging instruments	-9.7	16.0
Foreign exchange rate adjustments	-291.2	-30.3
Other comprehensive income for the year, net of tax	**-252.9**	**-117.6**
Total comprehensive income for the year	**319.9**	**500.6**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

ASSETS

DKK million	Note	2013	2012
NON-CURRENT ASSETS			
INTANGIBLE ASSETS			
Goodwill		3,874.5	3,974.4
Trademarks		3,133.7	3,404.6
Other intangible assets		370.8	412.7
Total intangible assets	3.1	**7,379.0**	**7,791.7**
PROPERTY, PLANT AND EQUIPMENT			
Land and buildings		565.0	579.7
Plant and machinery		247.7	254.6
Equipment, tools and fixtures		69.9	64.4
Leasehold improvements		36.4	29.5
Construction in progress		192.7	63.2
Total property, plant and equipment	3.2	**1,111.7**	**991.4**
OTHER NON-CURRENT ASSETS			
Investments in associated companies	4.4	97.5	104.7
Deferred income tax assets	2.3	82.6	88.7
Other financial fixed assets	4.4	0.7	0.8
Total other non-current assets		**180.8**	**194.2**
Total non-current assets		**8,671.5**	**8,977.3**
Inventories	3.3	**2,926.9**	**2,780.7**
RECEIVABLES			
Trade receivables	3.4	817.1	971.8
Receivables from affiliated companies		1.6	37.5
Other receivables		100.5	119.6
Prepaid tax	2.3	172.5	110.6
Prepayments	3.5	41.4	53.8
Total receivables		**1,133.1**	**1,293.3**
Cash and cash equivalents		**464.3**	**684.2**
Total current assets		**4,524.3**	**4,758.2**
Total assets		**13,195.8**	**13,735.5**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

EQUITY AND LIABILITIES

DKK million	Note	2013	2012
Share capital		100.0	100.0
Reserve for hedging		-63.1	-92.3
Reserve for currency translation		-58.4	232.8
Retained earnings		8,354.3	8,184.4
Total equity		**8,332.8**	**8,424.9**
Bank loans	4.1	2,756.5	3,008.9
Deferred income tax liabilities	2.3	519.3	582.2
Pension obligations	3.7	209.5	217.0
Other provisions	3.6	45.5	96.6
Other liabilities		56.9	85.7
Total non-current liabilities		**3,587.7**	**3,990.4**
Bank loans	4.1	221.9	232.0
Trade payables		359.9	352.6
Corporate tax liabilities	2.3	170.9	148.2
Other provisions	3.6	41.2	32.7
Other liabilities		481.4	554.7
Total current liabilities		**1,275.3**	**1,320.2**
Total liabilities		**4,863.0**	**5,310.6**
Total equity and liabilities		**13,195.8**	**13,735.5**

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 paid 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.

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY – 31 DECEMBER 2012

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Retained earnings	Total
Equity at 1 January 2012	**100.0**	**-44.2**	**263.1**	**7,955.4**	**8,274.3**
Comprehensive income for the year					
Net profit for the year	**0.0**	**0.0**	**0.0**	**618.2**	**618.2**
Other comprehensive income					
Cash flow hedges		-64.1			**-64.1**
Tax of cash flow hedges		16.0			**16.0**
Foreign exchange adjustments			-30.3		**-30.3**
Actuarial gains and losses on pension obligations				-53.4	**-53.4**
Tax of actuarial gains and losses on pension obligations				14.2	**14.2**
Total other comprehensive income	**0.0**	**-48.1**	**-30.3**	**-39.2**	**-117.6**
Total comprehensive income for the year	**0.0**	**-48.1**	**-30.3**	**579.0**	**500.6**
Transactions with shareholders					
Dividend paid				-350.0	**-350.0**
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**-350.0**	**-350.0**
Equity at 31 December 2012	**100.0**	**-92.3**	**232.8**	**8,184.4**	**8,424.9**

Retained earnings include proposed dividends of DKK 412.0 million. Proposed dividend per share amounts to DKK 4.1. Dividend paid in 2012 consisted of dividend in respect of 2011 of DKK 350.0 million (dividend paid per share amounted to DKK 3.5).

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 2011.

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY – 31 DECEMBER

DKK million	Note	2013	2012
Net profit for the year		572.8	618.2
Adjustments	5.1	601.8	683.1
Changes in working capital	4.3	-118.5	-360.6
Cash flow from operating activities before financial items		**1,056.1**	**940.7**
Financial income received	4.5	5.7	5.4
Financial costs paid	4.5	-110.1	-106.1
Cash flow from operating activities before tax		**951.7**	**840.0**
Tax payments	2.3	-210.0	-123.6
Cash flow from operating activities		**741.7**	**716.4**
Acquisition of intangible assets	3.1	-47.9	-253.7
Acquisition of property, plant and equipment	3.2	-271.1	-138.4
Dividend from associated company	4.4	4.4	3.9
Cash flow from investing activities		**-314.6**	**-388.2**
Instalment bank loan		-235.0	-245.7
Dividend payment		-412.0	-350.0
Cash flow from financing activities		**-647.0**	**-595.7**
Net cash flow for the year		**-219.9**	**-267.5**
Cash and cash equivalents at 1 January		684.2	951.7
Net cash flow for the year		-219.9	-267.5
Cash and cash equivalents at 31 December		**464.3**	**684.2**

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 Groups financial accounting policies in general and an overview of Management's key accounting estimates.

SECTION 2 'RESULTS FOR THE YEAR'

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

SECTION 3 'OPERATING ASSETS AND LIABILITIES'

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

SECTION 4 'CAPITAL STRUCTURE AND FINANCING ITEMS'

Encompasses notes related to capital structure and financing items.

SECTION 5 'OTHER DISCLOSURES'

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

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

While preparing the Consolidated financial statements of the Group for the period ended 31 December 2013, Management identified a prior period accounting error which must be accounted for retrospectively in the financial statements in accordance with IFRS 3 and IAS 8. Consequently, comparative amounts presented in the current period's financial statements affected by the accounting error, have been adjusted. Current period amounts are therefore unaffected.

The prior period accounting error is related to deferred income tax liabilities in the opening balances as of 1 October 2010 which has been overstated with an amount of USD 17 million converted at the year-end USD/DKK exchange rate in each of the affected years.

The amount has been corrected in each period between deferred income tax liabilities and goodwill in the balance sheet and has no effect on the Group's income statement or equity.

Impact in DKK in each of the affected comparison periods is listed in the table below:

	2011			2012		
DKK million	Previous amount	Error adjustment	Adjusted amount	Previous amount	Error adjustment	Adjusted amount
Goodwill	4,130.0	-97.7	4,032.3	4,070.6	-96.2	3,974.4
Deferred income tax liability	657.6	-97.7	559.9	678.4	-96.2	582.2

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

IMPACT OF NEW ACCOUNTING STANDARDS

In 2013, the following standards and amendments with relevance for the Group were brought into effect and implemented:

- Amendments to IAS 19 'Employee Benefits'
- Amendments to IAS 28 'Investments in Associates and Joint Ventures'
- Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 12 'Disclosure of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'

None of these have had a significant impact on recognition and measurement, but they have led to further specifications in the notes. The Group does not anticipate any significant impact on future periods from the adoption of these new standards and amendments.

EARLY ADOPTION OF THE NEW OR AMENDED IFRS

The Group has early adopted the amendment to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets', effective for annual periods beginning on or after 1 January 2014.

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', which is applicable to reporting periods starting on or after 1 January 2015. It is part of the IASB project to replace IAS 39, and the new standard will substantially change the classification and measurement of financial instruments and hedging requirements. The new standards and the amendment have not yet been endorsed by the European Union. The Group has assessed the impact of the standard and determined that, in its current wording, it will not have any significant impact on the Consolidated Financial Statements.
- IASB has issued re-exposure drafts on IAS 18 'Revenue' and IAS 17 'Leasing'. The revised IAS 18 is expected to have only immaterial impact on the Consolidated Financial Statements. The change in lease accounting is expected to require capitalisation of the majority of the Group's lease contracts, which will have some impact on the Group's assets, liabilities and financial ratios, but no significant impact on net profit. However, the final impact may change depending on the final wording of the standards.

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 in intangible assets in the balance sheet as goodwill. 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.

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 11 gives a detailed description of the results for the year.

NOTE 2.1

GROSS PROFIT (NET SALES AND COST OF GOODS SOLD)

ACCOUNTING POLICIES

NET SALES

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable. Revenue is recognised exclusive of VAT, excise stamps 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 license income.

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

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

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

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

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

There has been no material transactions between the different segments.

SEGMENT INFORMATION

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 and impairment						-128.8	-128.8
Amortisation and impairment						-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**	**707.7**	**614.5**	**270.1**	**909.8**	**0.0**	**3,874.5**

2012

DKK million	Hand-made cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allocated	Total
Net sales	1,378.4	2,592.5	549.1	491.1	966.9	0.0	5,978.0
Cost of goods sold	-741.7	-1,166.8	-214.8	-229.2	-634.1	0.0	-2,986.5
Gross profit	**636.7**	**1,425.8**	**334.3**	**261.9**	**332.8**	**0.0**	**2,991.5**
Other external costs						-1,066.5	-1,066.5
Staff costs						-623.8	-623.8
Other income						0.1	0.1
EBITDA						**-1,690.2**	**1,301.3**
Depreciation and impairment						-125.0	-125.0
Amortisation and impairment						-244.9	-244.9
EBIT						**-2,060.1**	**931.4**
Share of profit of associated companies, net of tax						11.9	11.9
Financial income						5.4	5.4
Financial costs						-106.1	-106.1
Profit before tax						**-2,148.9**	**842.6**
Goodwill allocated to segments	**1,454.6**	**718.8**	**617.8**	**272.3**	**910.9**	**0.0**	**3,974.4**

SEGMENT INFORMATION (CONTINUED)

DKK million	2013	2012

Geographic information

In the table below, sales to external customers are attributable to the country of the customers domicile. External sales are distributed per geographic region as follows:

North America	2,248.3	2,251.0
Northern Europe	876.1	880.9
Western Europe	1,356.6	1,560.1
Southern Europe	374.5	355.1
Oceania	413.8	350.6
Rest of world	656.0	580.3
Total net sales	**5,925.3**	**5,978.0**

The Group is domiciled in Denmark. Net sales from external customers in Denmark amount to DKK 230.0 million (DKK 241.2 million), and net sales from external customers outside Denmark amount to DKK 5,695.3 million (DKK 5,736.8 million). Individual material countries (>10% of total net sales) are the US DKK 1,977.4 million (DKK 1,991.2 million) and France DKK 623.1 million (DKK 741.8 million).

Information about major customers

Net sales of DKK 569.6 million (DKK 675.7 million) are derived from a single external customer and are attributable to different product segments, but primarily the machine-made cigar segment with 97% (98%).

License income of DKK 46.3 million (DKK 40.9 million) is 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	2013	2012
Wages and salaries	1,085.4	1,099.1
Pensions – defined contribution plans	42.1	33.0
Pensions – defined benefit plans	22.6	16.8
Other social security costs	169.8	144.1
Total staff costs for the year	**1,319.9**	**1,293.0**
Staff costs included in intangible assets and property, plant and equipment	-1.9	-8.1
Change in employee costs included in inventories	-3.6	-9.7
Total staff costs expensed to the income statement	**1,314.4**	**1,275.2**
Included in the income statement:		
Cost of goods sold	682.6	651.4
Staff costs	631.8	623.8
Total included in the income statement	**1,314.4**	**1,275.2**

Salaries and fees to the Supervisory and Executive Board in the parent company can be specified as follows:

Supervisory Board	**4.9**	**4.4**
Executive Board, salaries and other short-term benefits	23.4	27.5
Executive Board, pensions	3.4	2.7
Executive Board, share option programme	4.1	0.0
Total Executive Board	**30.9**	**30.2**
Total Supervisory Board and Executive Board	**35.8**	**34.6**
Average number of employees in the Group	**9,510**	**9,472**

Niels Frederiksen joined the Executive Board as of 1 April, 2013 and from this date his remuneration is included in the total amount of the Executive Board.

Members of the Executive Board are entitled to an early retirement pension plan. The increase in the pension commitment is included in the above pension cost with DKK 3.4 million (DKK 2.7 million).

Members of the Executive Board have in total been granted 776,250 share options in 2012 entitling them to payment based on the created economic value in the case of certain events. 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 2013 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 value is estimated to DKK 4.1m (DKK 0m) at 31 December 2013. 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. Deferred tax assets and liabilities are offset within the same fiscal tax unit.

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	2013	2012
Tax expense		
Current income tax	-172.4	-186.7
Change in deferred tax charge	53.8	-7.5
	-118.6	**-194.2**
Tax is allocated as follows:		
Income taxes	-102.9	-224.4
Tax on other comprehensive income related to hedging instruments	-9.7	16.0
Tax on other comprehensive income related to actuarial gains and losses on pension obligations	-6.0	14.2
	-118.6	**-194.2**
Income tax payable/receivable (net) – in the balance sheet		
Prepaid tax	172.5	110.6
Corporate tax liabilities	170.9	148.2
	-1.6	**37.6**
Income tax payable (net):		
Balance at 1 January	37.6	5.2
Currency adjustments	-1.6	1.7
Prior-year tax adjustment	1.3	10.6
Tax paid on account in current year	-200.6	-99.2
Received regarding previous years	33.6	58.9
Paid regarding previous years	-43.0	-83.3
Current income tax	171.1	176.1
Reclassification from deferred income tax	0.0	-32.4
Balance at 31 December	**-1.6**	**37.6**

DKK million	2013	2012
Deferred tax (net) – in the balance sheet		
Deferred income tax assets	82.6	88.7
Deferred income tax liabilities	519.3	582.2
Deferred income tax liabilities (net)	**436.7**	**493.5**
Deferred tax (net)		
Balance at 1 January	493.5	458.2
Currency adjustments	-3.0	-4.6
Change in deferred tax charge	-53.8	7.5
Reclassification to income tax	0.0	32.4
Balance at 31 December	**436.7**	**493.5**
Breakdown of deferred income tax liabilities (net):		
Intangible assets	474.9	564.3
Property, plant and equipment	23.5	32.5
Inventories	-27.3	-37.8
Receivables	-1.9	-1.0
Pensions	-49.2	-47.0
Other liabilities	-31.7	-29.9
Tax losses to be carried forward	-6.4	-28.8
Other	54.8	41.2
	436.7	**493.5**
Breakdown of tax on profit for the period:		
Tax calculated at 25% of profit before tax	-168.9	-210.6
Tax according to income statement	-102.9	-224.4
	66.0	**-13.8**
Tax effect of:		
Non-deductible costs	-7.7	-7.1
Income from associated companies	1.3	3.0
Non-taxable income	6.5	2.4
Prior year adjustments	11.0	-10.6
Other tax percentages	7.2	16.5
Effect of enacted change of tax rates	26.2	0.0
Other	21.5	-18.0
	66.0	**-13.8**

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 2013 the Group has unrecognised tax assets amounting to DKK 42.9 million (DKK 0).

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. Trademarks are amortised on a straight-line basis over the estimated useful life determined on the basis of Management's experience with the individual trademarks. The amortisation period is typically in the range 10-25 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 3-20 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 tests include 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

In the annual impairment test of goodwill, an estimate is made to determine how the enterprise will be able to generate sufficient future positive net cash flows to support the value of goodwill, trademarks and other net assets of the enterprise in question. The estimate of the future net cash flows is based upon Management's projections and 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 3,874.5 million (DKK 3,974.4 million).

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 the trademarks is impaired. The carrying value of trademarks amounted to DKK 3,133.7 million (DKK 3,404.6 million). Amortisation amounted to DKK 191.8 million (DKK 191.1 million). During 2013, Management did not identify any indications of impairment.

INTANGIBLE ASSETS (CONTINUED)

2013

DKK million	Goodwill	Trademarks	Other intangible assets	Total
Accumulated cost at 1 January 2013	3,975.3	3,842.7	500.3	8,318.3
Exchange rate adjustment	-99.9	-100.4	-3.3	-203.6
Addition	0.0	8.5	39.4	47.9
Disposal	0.0	0.0	-0.5	-0.5
Accumulated cost at 31 December 2013	3,875.4	3,750.8	535.9	8,162.1
Accumulated amortisation and impairment at 1 January 2013	0.9	438.1	87.6	526.6
Exchange rate adjustment	0.0	-12.8	-1.3	-14.1
Amortisation and impairment	0.0	191.8	79.3	271.1
Disposal	0.0	0.0	-0.5	-0.5
Accumulated amortisation and impairment at 31 December 2013	0.9	617.1	165.1	783.1
Carrying amount at 31 December 2013	**3,874.5**	**3,133.7**	**370.8**	**7,379.0**

2012

DKK million	Goodwill	Trademarks	Other intangible assets	Total
Accumulated cost at 1 January 2012	4,032.3	3,815.1	221.1	8,068.5
Exchange rate adjustment	-29.9	26.8	-0.8	-3.9
Reclassification	-27.4	0.8	26.6	0.0
Addition	0.3	0.0	253.4	253.7
Accumulated cost at 31 December 2012	3,975.3	3,842.7	500.3	8,318.3
Accumulated amortisation and impairment at 1 January 2012	0.0	230.8	35.6	266.4
Exchange rate adjustment	0.0	16.2	-0.9	15.3
Amortisation and impairment	0.9	191.1	52.9	244.9
Accumulated amortisation and impairment at 31 December 2012	0.9	438.1	87.6	526.6
Carrying amount at 31 December 2012	**3,974.4**	**3,404.6**	**412.7**	**7,791.7**

INTANGIBLE ASSETS (CONTINUED)

The goodwill within the Group is tested for impairment annually and whenever there is an indication of impairment. When carrying out the impairment test, 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 0.8%. Management has used a discount rate (WACC) of 8.0% (7.9%) for all segments except the pipe tobacco segment where a discount rate of 8.3% has been applied. The discount rates are based on the risk inherent in the related activity's current business model and industry comparisons.

When goodwill was tested for impairment in 2013 (and 2012), 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. The individual trademarks are amortised in a straight line over the expected lifetime. The most significant trademarks are listed below:

DKK million	Remaining amortisation period	Carrying amount 2013	2012
Captain Black, Bugler and Kite	17 years	681.3	755.1
Café Crème	22 years	482.4	504.6
Tiedemanns	22 years	282.2	335.0
Mercator, Cuberro and Schimmelpenninck	14 years	216.8	248.8
La Paz	22 years	215.2	225.2
Other trademarks	1-22 years	1,255.8	1,335.9
Total		**3,133.7**	**3,404.6**

Other intangible assets

Other intangible assets comprise mainly IT software and 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	3-20 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.

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 and impairment	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**

2012

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 2012	607.5	390.7	80.3	20.1	71.4	1,170.0
Exchange rate adjustment	-2.4	-8.9	-1.2	-0.1	-0.3	-12.9
Addition	12.3	32.0	11.3	2.5	80.3	138.4
Transfers/reclassifications	29.3	13.2	29.0	16.7	-88.2	0.0
Disposals	-3.1	-7.2	-3.1	-0.4	0.0	-13.8
Accumulated cost at 31 December 2012	643.6	419.8	116.3	38.8	63.2	1,281.7
Accumulated depreciation and impairment at 1 January 2012	38.4	116.3	24.6	0.8	0.0	180.1
Exchange rate adjustment	-0.6	-4.8	-0.2	-0.1	0.0	-5.7
Depreciation and impairment	30.5	69.4	19.9	5.2	0.0	125.0
Reclassification	-3.5	-8.8	8.9	3.4	0.0	0.0
Depreciation on disposals	-0.9	-6.9	-1.3	0.0	0.0	-9.1
Accumulated depreciation and impairment at 31 December 2012	63.9	165.2	51.9	9.3	0.0	290.3
Carrying amount at 31 December 2012	**579.7**	**254.6**	**64.4**	**29.5**	**63.2**	**991.4**

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 as well as 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, depreciations 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 in general 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	2013	2012
Raw materials and consumables	1,467.0	1,417.6
Work in progress	475.7	449.7
Finished goods, goods for resale and excise stamps	984.2	913.4
	2,926.9	**2,780.7**

Provision for obsolete stock at year-end amounted to DKK 125.0 million (DKK 111.1 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 2,328.2 million (DKK 2,335.1 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	2013	2012
Trade receivables (net) at 31 December comprised the following:		
Trade receivables (gross)	834.9	996.7
Provision for bad debt	-17.8	-24.9
Trade receivables (net)	**817.1**	**971.8**
Movements in the Group provision for bad debt are as follows:		
Provision for bad debt at 1 January	-24.9	-27.6
Provision this year	-1.6	-1.2
Reversal of provision for possible losses	5.2	3.8
Confirmed losses	3.0	1.3
Effect of exchange rate adjustments	0.5	-1.2
Total provision at 31 December	**-17.8**	**-24.9**
Non-impaired trade receivables can be specified as follows:		
Current	662.1	801.0
Overdue < 30 days	126.4	129.4
Overdue 31 – 60 days	19.0	26.3
Overdue 61 – 90 days	3.5	8.2
Overdue 91 – 180 days	4.5	6.7
Overdue > 180 days	1.6	0.2
Total	**817.1**	**971.8**

NOTE 3.5
PREPAYMENTS

ACCOUNTING POLICIES

Prepayments are measured at cost and comprise prepaid costs concerning rent, licenses, insurance premiums, subscriptions, interest 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	2013	2012
Balance at 1 January	129.3	148.2
Exchange rate adjustment	1.1	0.1
Discounting cost	3.0	4.2
Addition during the period	0.2	1.1
Utilised during the period	-46.5	-24.0
Reversed provision unused	-0.4	-0.3
Carrying amount at 31 December	**86.7**	**129.3**
Non-current	45.5	96.6
Current	41.2	32.7
Total	**86.7**	**129.3**

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. The restructuring costs are primarily related to redundancy payments and the main part is expected to fall due within 1-5 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 the Netherlands, 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	2013	2012
Present value of funded obligations	585.4	593.9
Fair value of plan assets	-522.5	-518.6
Deficit (+) / surplus (-)	62.9	75.3
Present value of unfunded obligations	127.9	128.6
Unrecognised assets due to recoverability limit	18.7	13.1
Net asset (-) / liability (+) in the balance sheet	**209.5**	**217.0**
Amounts in the balance sheet (reported as non-current)		
Liabilities	209.5	217.0
Assets	0.0	0.0
Net asset (-) / liability (+) in the balance sheet	**209.5**	**217.0**

PENSION OBLIGATIONS (CONTINUED)

DKK million	2013	2012
Movement during the period in the net asset (-)/ liability (+)		
Balance at 1 January	217.0	161.0
Recognised in the income statement	31.6	24.3
Actuarial gain/loss recognised in comprehensive income, financial assumptions	-20.3	62.5
Actuarial gain/loss recognised in comprehensive income, demographic assumptions	-0.1	5.6
Asset limit	5.3	-14.7
Benefit payments to employees	-6.6	-8.4
Employer contributions	-13.5	-11.9
Past service costs not recognised	0.0	-0.2
Currency effect	-3.9	-1.2
Balance at 31 December	**209.5**	**217.0**

KEY ACCOUNTING ESTIMATES

Actuarial assumptions

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

Actuarial assumptions used for valuation (expressed as weighted averages and in %)	2013	2012
Discount rate	3.7	3.5
Future salary increases	3.3	3.2
Inflation	2.2	2.0

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

DKK million	1%-point increase	1%-point decrease
Discount rate	-50.6	65.5
Future salary increase	80.7	-55.2

PENSION OBLIGATIONS (CONTINUED)

DKK million	2013	2012
Change in the defined benefit obligations and plan assets		
Defined benefit obligations – movement		
Balance at 1 January	722.5	589.6
Current service costs	24.3	19.5
Interest cost	23.8	27.0
Recognised past service costs	-1.4	2.0
Actuarial losses (+)/gains (-)	-24.2	116.3
Benefits paid	-28.0	-27.5
Gains on curtailments	0.0	-3.5
Currency effect	-3.7	-0.9
Balance at 31 December	**713.3**	**722.5**
Plan assets – movement in fair value		
Balance at 1 January	518.6	456.2
Interest income	16.3	20.6
Actuarial losses (-)/gains (+)	-3.8	48.2
Employer contributions	20.1	19.1
Benefits paid	-27.9	-27.7
Currency effect	-0.1	2.2
Other	-0.7	0.0
Balance at 31 December	**522.5**	**518.6**

The actual return on plan assets in 2013 was a gain of DKK 12.5 million (DKK 68.7 million).

	2013		2012		2013	2012
DKK million	Quoted	Unquoted	Quoted	Unquoted	Total	Total
Categories of plan assets						
Equity securities	49.6	0.0	50.0	0.0	49.6	50.0
Bonds	257.4	0.0	153.3	0.0	257.4	153.3
Other	32.8	182.7	30.2	285.1	215.5	315.3
Total	**339.8**	**182.7**	**233.5**	**285.1**	**522.5**	**518.6**

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

The weighted average duration of the defined benefit obligation is 9.2 years (7.7 years).

PENSION OBLIGATIONS (CONTINUED)

DKK million	2013	2012
Post-employment benefit plans recognised in income statement		
Current service costs	24.3	19.5
Interest on obligation	23.8	27.0
Expected return on plan assets	-15.8	-20.6
Recognised past service costs	0.5	2.0
Gains on curtailments	-1.4	-3.6
Recognised net actuarial losses (+)/gains (-)	0.2	0.0
Net income (-)/expense (+) reported in the income statement	**31.6**	**24.3**
The income/costs for defined benefit plans are reported under the following headings in the income statement:		
Staff costs	22.6	16.8
Financial costs	9.0	7.5
Net income (-)/expense (+) reported in the income statement	**31.6**	**24.3**
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 (-)	-20.4	68.1
Effect of asset limit	5.3	-14.7
Cumulative net actuarial losses (+)/ gains (-)	71.3	96.4

Expected contribution next year

Expected contributions for post-employment benefit plans for the year ending 31 December 2013 amount to DKK 15.3 million (DKK 18.0 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 amount to DKK 42.1 million (DKK 33.0 million).

SECTION 4

CAPITAL STRUCTURE AND FINANCING ITEMS

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

NOTE 4.1

FINANCIAL INSTITUTIONS

ACCOUNTING POLICIES

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

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

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

DKK million	2013	2012
Financial institutions are recognised in the balance sheet as follows:		
Non-current liabilities	2,756.5	3,008.9
Current liabilities	221.9	232.0
Total	**2,978.4**	**3,240.9**

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

			Carrying amount		Fair value* Level 2	
Currency	Fixed/floating	Maturity date	2013	2012	2013	2012
EUR	Floating	31/05/16	578.2	1,156.4	578.2	1,156.4
EUR	Floating	31/05/18	578.2		578.2	
EUR	Floating	31/05/16	578.2	1,156.4	578.2	1,156.4
EUR	Floating	31/05/18	578.2		578.2	
USD	Floating	31/05/16	665.6	928.1	665.6	928.1
			2,978.4	**3,240.9**	**2,978.4**	**3,240.9**

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

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 'Approved Banks', the Group has the right to offset cash deposits in the counter party bank debt totaling DKK 198.0 million as of 31 December 2013 (DKK 271.6 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 qualify 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 4 million (DKK 14 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 and interest rate options.

As at the balance sheet date, the Group has interest swap agreements totalling a principal of EUR 310 million (EUR 310 million) and USD 123 million (USD 164 million), which relate to bank loans originally raised in 2011 and partly extented in 2013.

As the total interest rate risk of debt is hedged, a change in interest rate would only affect the equity. Assuming the current portfolio of swap contracts remains the same, an increase in the USD and EUR rate of interest by one percentage point would affect (before tax impact) equity positively by DKK 8.8 million (DKK 16.9 million) and DKK 77.2 million (DKK 78.3 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 2013 included trade receivables with a net book value of DKK 817.1 million (DKK 971.8 million), representing a gross receivable balance of DKK 834.9 million (DKK 996.7 million) and a bad debt provision of DKK 17.8 million (DKK 24.9 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 155.0 million (DKK 170.8 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 and regularly reviewing 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 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**

FINANCIAL RISKS AND INSTRUMENTS (CONTINUED)

Liquidity

Maturity at 31 December 2012	0-1 year	2-5 years	After 5 years	Total*	Fair value level 2**	Carrying amount
Recognised at amortised cost						
Financial institutions	266.5	3,079.0		3,345.5		3,240.9
Trade payables	352.6			352.6		352.6
Other liabilities	506.5			506.5		506.5
Total	**1,125.6**	**3,079.0**	**0.0**	**4,204.6**		**4,100.0**
Recognised at fair value						
Interest rate swaps	42.5	97.5		140.0	123.0	123.0
Currency swaps	10.9			10.9	10.9	10.9
Total	**53.4**	**97.5**	**0.0**	**150.9**		**133.9**
Total financial liabilities	**1,179.0**	**3,176.5**	**0.0**	**4,355.5**		**4,233.9**
Recognised at amortised cost						
Cash and cash equivalents	684.2			684.2		684.2
Trade receivables	971.8			971.8		971.8
Other receivables	156.8			156.8		156.8
Total	**1,812.8**	**0.0**	**0.0**	**1,812.8**		**1,812.8**
Recognised at fair value						
Forward contracts	0.3			0.3	0.3	0.3
Total	**0.3**	**0.0**	**0.0**	**0.3**		**0.3**
Total financial assets	**1,813.1**	**0.0**	**0.0**	**1,813.1**		**1,813.1**

* 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 currency 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 2013 of outstanding derivative contracts was negative by DKK 84.1 million (negative by DKK 122.7 million), of which DKK 3.2 million was attributable to forward contracts (positive 0.3 DKK million), while minus DKK 80.9 million related to interest rate swaps (negative by DKK 123.0 million).

Forward contracts have been used to hedge currency risk of future cash flows denominated in GBP, CAD, NOK, IDR, CHF, AUD and SEK by swapping the exchange rate exposure to fixed payments in DKK and EUR. The total notional amount of these outstanding forward contracts was DKK 223.0 million as at 31 December 2013 (DKK 398.8 million). All forward contracts expire within 9 months (within 12 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 3.0 million as at 31 December 2013 (DKK 2.7 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 million and USD 123 million (EUR 310 million and USD 164 million). Interest rate swaps follow the maturity date of the bank loans.

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

OTHER TRANSACTIONS

The Group uses financial transactions which do not qualify to hedge accounting according to IFRS. The net fair value at 31 December 2013 of outstanding currency swaps was negative by DKK 0.8 million (negative by DKK 10.9 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 396.5 million (DKK 588.7 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	2013	2012
Change in receivables	170.5	-120.6
Change in inventories	-230.4	-124.3
Change in liabilities	-94.5	-92.2
Change in balances with affiliated companies (trade)	35.9	-23.5
	-118.5	**-360.6**

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.

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	555.5	68.0	230.5	27.0	20

FINANCIAL FIXED ASSETS (CONTINUED)

2012

DKK million	Investments in associated companies	Other
Cost at 1 January 2012	92.6	4.6
Addition	0.0	0.0
Deduction	0.0	-3.8
Accumulated cost at 31 December 2012	92.6	0.8
Accumulated revaluation and impairment at 1 January 2012	5.6	0.0
Dividend	-3.9	0.0
Currency translation	-1.5	0.0
Profit after tax	11.9	0.0
Accumulated revaluation and impairment at 31 December 2012	12.1	0.0
Carrying amount at 31 December 2012	**104.7**	**0.8**

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	594.5	71.0	227.5	59.5	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	2013	2012
Interest on deposits in financial institutions etc.	2.7	4.1
Other financial income	3.0	1.3
	5.7	**5.4**

FINANCIAL COSTS

DKK million	2013	2012
Interest to financial institutions etc.	81.3	85.2
Interest part of pension cost	9.0	7.5
Exchange losses, net	11.0	1.9
Other financing costs	8.8	11.5
	110.1	**106.1**

Interest on debt to financial institutions etc. includes cost of interest rate swaps of DKK 35 million in 2013 (cost of DKK 37 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 2013, a cost of DKK 2.3 million is included in interest on debt to financial institutions etc. (cost of DKK 2.3 million).

Other financing costs include discounting effect of provisions of DKK 3.0 million (DKK 4.2 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	2013	2012
Financial items	104.4	100.7
Share of profit of associated companies, net of tax	-5.4	-11.9
Amortisation and impairment	271.1	244.9
Depreciation and impairment	128.8	125.0
Income taxes	102.9	224.4
	601.8	**683.1**

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	2013	2012
Lease expenditures charged to the income statement during the year	96.6	111.2
Future minimum lease payment under operating lease contracts and rent commitments amounts to:		
Within 1 year	102.4	112.6
Between 1 and 5 years	127.1	183.5
After 5 years	71.7	54.1
	301.2	**350.2**

CONTINGENT LIABILITIES (CONTINUED)

GUARANTEE OBLIGATIONS

The Group has guarantee obligations totalling DKK 497.5 million (DKK 493.9 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	2013	2012
Skandinavisk Holding A/S		
Services provided by Scandinavian Tobacco Group	3.1	2.8
Skandinavisk Holding II A/S		
Services provided by Scandinavian Tobacco Group	0.0	0.8
Dagrofa aps		
Sale of products from Scandinavian Tobacco Group (until 29.10.13)	74.5	100.1
Tivoli A/S		
Sale of products and sponsorship to Scandinavian Tobacco Group	-0.9	-0.9
Swedish Match AB		
Purchase of products by Scandinavian Tobacco Group	-119.1	-124.8
Sale of products from Scandinavian Tobacco Group	68.1	36.8
Caribbean Cigar Holdings (Associated company)		
Purchase of products by Scandinavian Tobacco Group	-45.0	-30.0
At 31 December the Group had the following outstanding balance with related parties receivable/payable (+/-):		
Skandinavisk Holding A/S	1.6	0.8
Skandinavisk Holding II A/S	0.0	16.7
Dagrofa aps (until 29.10.13)	0.0	20.0
Total	**1.6**	**37.5**

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 2013 or 2012.

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 Cigar 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 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 2013 which have an impact on the annual report.

NOTE 5.5
FEE TO STATUTORY AUDITOR

DKK million	2013	2012
Statutory audit	4.5	4.4
Audit-related services	0.3	0.6
Tax advisory services	2.0	4.3
Other services	2.8	0.2
Total fee to statutory auditors	**9.6**	**9.5**

NOTE 5.6
ENTITIES IN SCANDINAVIAN TOBACCO GROUP

Company name	Country	Ownership	Activity: Production	Activity: Sale and Marketing	Activity: Administration	Activity: Finance
Parent company						
Scandinavian Tobacco Group A/S	Denmark	-		•	•	•
Subsidiaries by region						
Europe						
Bogaert Cigars N.V.	Belgium	100%		•		
Scandinavian Tobacco Group Belux N.V.	Belgium	100%		•		
Scandinavian Tobacco Group Lummen N.V.	Belgium	100%	•			
Scandinavian Tobacco Group Belgium Services N.V.	Belgium	100%			•	
Scandinavian Tobacco Group 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%		•		
Swedish Match Fosforos Portugal S.A.	Portugal	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 United Kingdom Limited	United Kingdom	100%		•		

ENTITIES IN SCANDINAVIAN TOBACCO GROUP (CONTINUED)

			Activity			
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%		•		
America						
Scandinavian Tobacco Group Canada Holding Inc.	Canada	100%			•	
Scandinavian Tobacco Group Canada Inc.	Canada	100%		•		
General Cigar Dominicana SA	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%			•	
Cigars International, Inc.	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%		•		

Scandinavian Tobacco Group Belgium Services N.V. is a new company in 2013 providing services.

NOTE 5.7
EXPLANATION OF FINANCIAL RATIOS

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

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

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

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

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

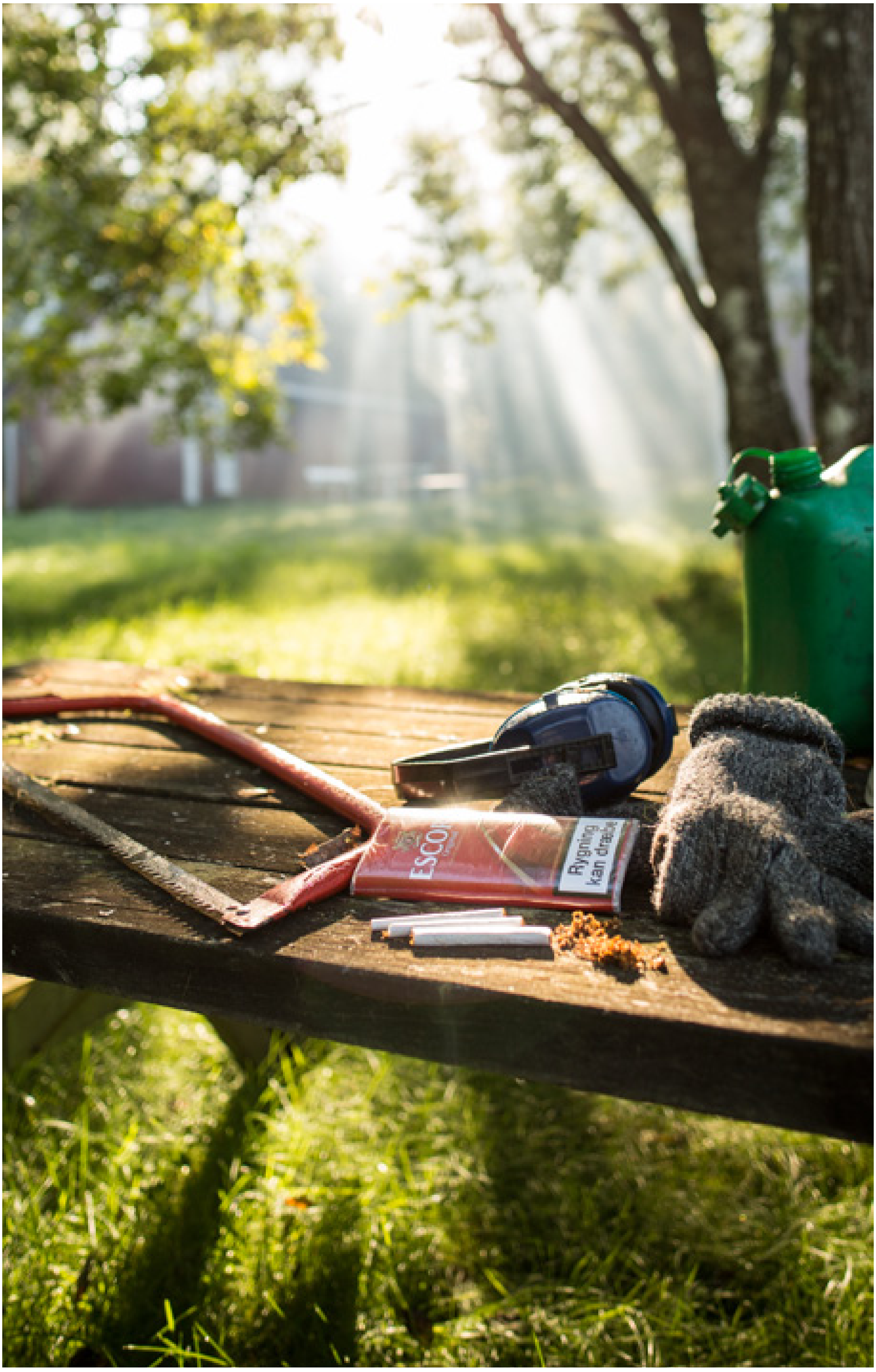
$$\text{Equity ratio} = \frac{\text{Equity}}{\text{Total assets}}$$

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

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

ROLLING
SOLUTIONS

Everybody knows Conny. He is always busy helping people in the local community in Småland, Sweden, where he lives. Småland is a secluded area, where supplies are limited, so you have to be ingenious to get by. No one does this better than Conny. So it's no surprise that the locals come to him when they encounter problems. He always has the solution to a challenge, whether it's starting an old car or felling a neighbour's enormous tree. But all Conny's ideas have one thing in common: they all start with Conny rolling a cigarette.


Rygning
kan dræbe

CONNY, 64
CRAFTSMAN

FINANCIAL STATEMENTS
THE PARENT COMPANY

INCOME STATEMENT – PARENT COMPANY

1 JANUARY – 31 DECEMBER

DKK million	Note	2013	2012
Other income		**222.0**	**197.0**
Other external costs		-106.7	-102.3
Staff costs	2	-95.7	-92.9
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**19.6**	**1.8**
Depreciation	3	-1.0	-1.0
Earnings before interest, tax and amortisation (EBITA)		**18.6**	**0.8**
Amortisation	3	-10.0	-8.9
Earnings before interest and tax (EBIT)		**8.6**	**-8.1**
Result of investments in affiliated companies, net of tax	4	335.6	371.2
Financial income	5	98.2	132.1
Financial costs	6	-90.7	-92.6
Profit before tax		**351.7**	**402.6**
Income taxes	7	-8.4	-16.9
Net profit for the year		**343.3**	**385.7**
DISTRIBUTION OF PROFIT			
Proposed distribution of profit:			
Proposed dividend		382.0	412.0
Reserve for retained earnings – equity method		0.0	-33.2
Retained earnings		-38.7	6.9
		343.3	**385.7**

BALANCE SHEET AT 31 DECEMBER – PARENT COMPANY

ASSETS

DKK million	Note	2013	2012
Other intangible assets		20.4	30.0
Intangible assets	8	**20.4**	**30.0**
Equipment, tools and fixtures		0.1	0.3
Leasehold improvements		4.4	5.2
Property, plant and equipment	9	**4.5**	**5.5**
Investments in affiliated companies		9,449.5	9,149.2
Financial fixed assets	10	**9,449.5**	**9,149.2**
Fixed assets		**9,474.4**	**9,184.7**
Receivables from affiliated companies		2,553.8	3,447.1
Other receivables		1.7	3.7
Prepayments	11	12.8	16.6
Total receivables		**2,568.3**	**3,467.4**
Cash and cash equivalents		**244.7**	**319.5**
Current Assets		**2,813.0**	**3,786.9**
Assets		**12,287.4**	**12,971.6**

BALANCE SHEET AT 31 DECEMBER – PARENT COMPANY

EQUITY, PROVISIONS AND LIABILITIES

DKK million	Note	2013	2012
Share capital		100.0	100.0
Retained earnings		7,157.8	7,449.4
Proposed dividend		382.0	412.0
Equity		**7,639.8**	**7,961.4**
Deferred income tax liabilities	7	6.4	8.2
Pension obligations	12	17.1	13.3
Other provisions	12	4.0	4.0
Provisions		**27.5**	**25.5**
Bank loans		2,756.5	3,008.9
Long-term liabilities		**2,756.5**	**3,008.9**
Bank loans		221.9	232.0
Liabilities to affiliated companies		1,488.1	1,539.7
Income tax payable		19.2	7.6
Trade creditors		12.9	16.5
Other liabilities		121.5	180.0
Current liabilities		**1,863.6**	**1,975.8**
Liabilities		**4,620.1**	**4,984.7**
Equity, provisions and liabilities		**12,287.4**	**12,971.6**
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	Reserve for retained earnings – equity method	Retained earnings	Proposed dividends	Total
Equity at 1 January 2013	100.0	0.0	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**	**0.0**	**7,157.8**	**382.0**	**7,639.8**
Equity at 1 January 2012	100.0	102.7	7,490.6	350.0	8,043.3
Fair value adjustments of hedging instruments			-64.1		-64.1
Tax of hedging instruments			16.0		16.0
Equity movement in subsidiaries		-39.2			-39.2
Foreign exchange adjustments of net investments in foreign subsidiaries		-30.3			-30.3
Dividend paid				-350.0	-350.0
Profit / loss for the year		-33.2	6.9	412.0	385.7
Equity at 31 December 2012	**100.0**	**0.0**	**7,449.4**	**412.0**	**7,961.4**

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 are regarding recognition and measurement also 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 items 'Investments in affiliated companies' in the balance sheet include 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 unrealized 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 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	2013	2012
Salaries	86.9	85.2
Pensions	8.8	8.1
Other social security costs	0.0	-0.4
	95.7	**92.9**
Salaries and fees to the Supervisory and Executive Boards:		
Supervisory Board	4.9	4.4
Executive Board	30.9	30.2
	35.8	**34.6**
Average number of employees	**82**	**74**

NOTE 3
DEPRECIATION AND AMORTISATION

DKK million	2013	2012
Depreciation		
Equipment, tools and fixtures	0.2	0.3
Leasehold improvements	0.8	0.7
	1.0	**1.0**
Amortisation		
Other intangible assets	10.0	8.9
	10.0	**8.9**

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

DKK million	2013	2012
Result of investments in affiliated companies, net of tax	335.6	371.2
	335.6	**371.2**

NOTE 5
FINANCIAL INCOME

DKK million	2013	2012
Interest on deposits in financial institutions etc.	0.4	1.5
Interest on balances with affiliated companies	90.1	120.1
Exchange gains, net	7.7	10.5
	98.2	**132.1**

NOTE 6
FINANCIAL COSTS

DKK million	2013	2012
Interest on debt to financial institutions etc.	80.5	84.6
Interest on balances with affiliated companies	9.2	7.2
Other financing costs	1.0	0.8
	90.7	**92.6**

NOTE 7
INCOME TAXES

DKK million	2013	2012
Current income tax	16.6	23.3
Deferred income tax	-12.3	-15.4
Adjustment regarding prior years, current income tax	-6.4	-7.3
Adjustment regarding prior years, deferred income tax	10.5	16.3
	8.4	**16.9**

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 for the jointly taxed companies and settles corporate taxes with the tax authorities.

Breakdown of deferred income tax:		
Intangible assets	5.1	7.5
Property, plant and equipment	0.1	-1.7
Receivables	4.4	2.4
Other liabilities	-3.2	0.0
	6.4	**8.2**

Breakdown of income taxes:		
Tax calculated at 25% of profit before tax	87.9	100.7
Tax effect of:		
Adjustment regarding prior years	4.1	9.0
Non-deductable costs	0.3	0.1
Result of investments in affiliated companies	-83.9	-92.9
	8.4	**16.9**

NOTE 8
INTANGIBLE ASSETS

DKK million	Other intangible assets
Accumulated cost at 1 January 2013	44.6
Addition	0.4
Disposal	0.0
Accumulated cost at 31 December 2013	45.0
Accumulated amortisation at 1 January 2013	14.6
Amortisation	10.0
Accumulated amortisation at 31 December 2013	24.6
Carrying amount at 31 December 2013	**20.4**

NOTE 9
PROPERTY, PLANT AND EQUIPMENT

DKK million	Equipment, tools and fixtures	Leasehold improvements	Total
Accumulated cost at 1 January 2013	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 2013	0.9	6.7	7.6
Accumulated depreciation at 1 January 2013	0.6	1.5	2.1
Depreciation	0.2	0.8	1.0
Depreciation on disposals	0.0	0.0	0.0
Accumulated depreciation at 31 December 2013	0.8	2.3	3.1
Carrying amount at 31 December 2013	**0.1**	**4.4**	**4.5**

NOTE 10
INVESTMENTS IN AFFILIATED COMPANIES

DKK million	2013	2012
Accumulated cost at 1 January	9,695.1	8,134.7
Addition	1,033.6	1,560.4
Disposal	0.0	0.0
Accumulated cost at 31 December	10,728.7	9,695.1
Accumulated revaluation and impairment at 1 January	-545.9	102.7
Dividends	-786.8	-950.3
Currency translation	-291.2	-30.3
Equity adjustments	9.1	-39.2
Profit after tax	335.6	371.2
Accumulated revaluation and impairment at 31 December	-1,279.2	-545.9
Carrying amount at 31 December	**9,449.5**	**9,149.2**

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%
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)	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%

NOTE 11
PREPAYMENTS

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

NOTE 12
PENSION OBLIGATIONS AND OTHER PROVISIONS

DKK million	Pension obligations	Other
Balance at 1 January	13.3	4.0
Additions during the period	3.8	0.0
Utilised during the period	0.0	0.0
	17.1	**4.0**
Expected due:		
Within 1 year	0.0	0.0
Between 1 and 5 years	0.0	4.0
After 5 years	17.1	0.0
	17.1	**4.0**

NOTE 13
CONTINGENT LIABILITIES

GUARANTEE OBLIGATIONS

The Company has guarantee obligations totalling DKK 491 million at 31 December 2013 (DKK 484 million).

LEASE OBLIGATIONS

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

DKK million	2013	2012
Within 1 year	49.8	50.4
Between 1 and 5 years	5.0	41.6
After 5 years	0.0	0.0
	54.8	**92.0**

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 at 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 Cigar Holding AB, Stockholm, Sweden (49%)

The ultimative 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 2013.

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 2013 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 2013.

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 2014

EXECUTIVE BOARD

Anders Colding Friis

Christian Hother Sørensen

Niels Frederiksen

Rob Zwarts

Sisse Fjelsted Rasmussen

SUPERVISORY BOARD

Jørgen Tandrup
Chairman

Anders Obel

Charlotte Lückstadt Nielsen

Conny Karlsson

Fredrik Peyron

Hanne Malling

Henning Kruse Petersen

Joakim Tilly

Kurt Asmussen

Lars Dahlgren

Lindy Larsen

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 2013, 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 2013 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2013 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 2013 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2013 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 2014

PricewaterhouseCoopers
Stasautoriseret Revisionspartnerselskab

Kim Füchsel
State Authorised Public Accountant

Thomas Wraae Holm
State Authorised Public Accountant


GRAPE
Captain Black

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