ANNUAL REPORT 2016

WE CREATE MOMENTS OF GREAT ENJOYMENT FOR SMOKERS

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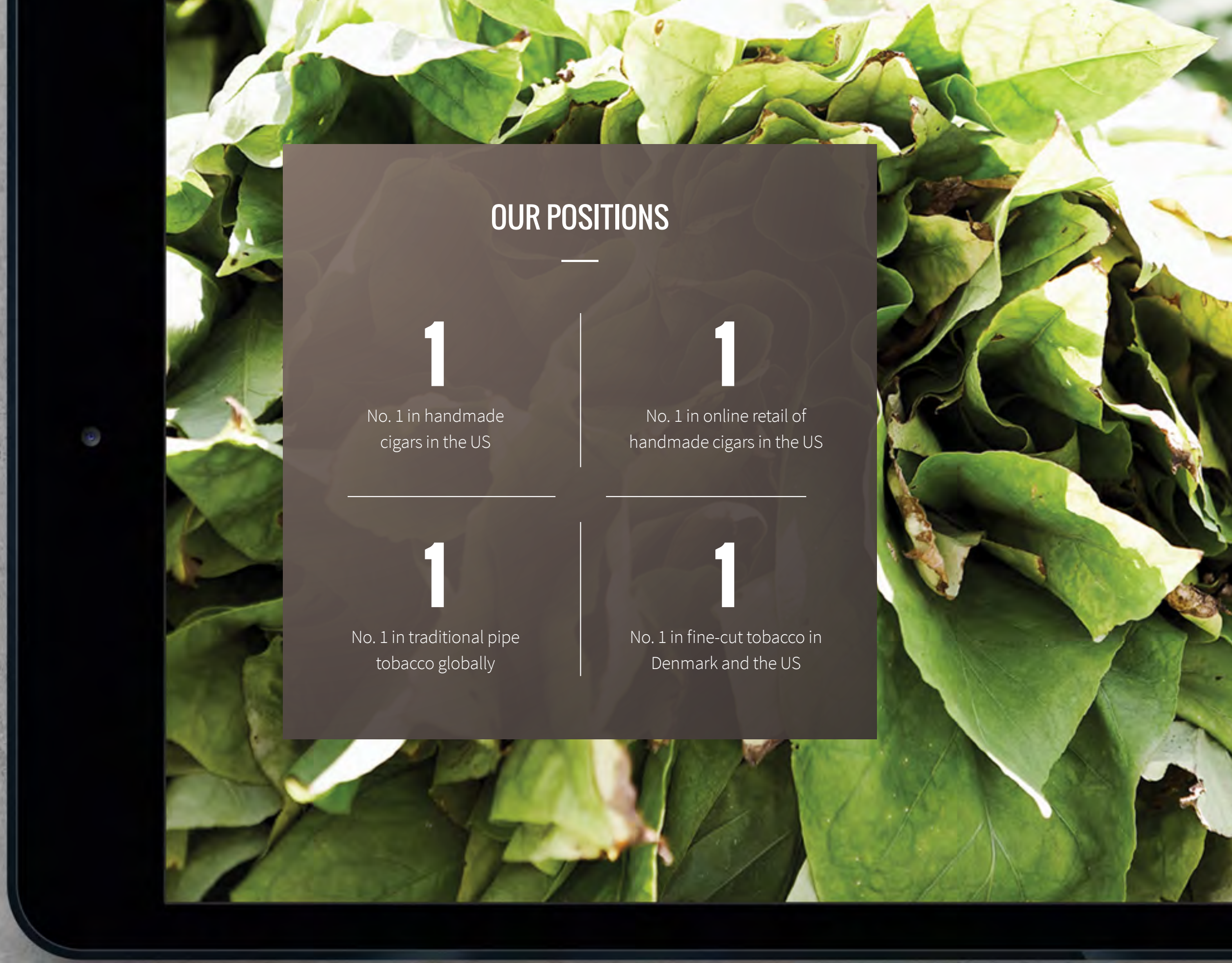
SCANDINAVIAN TOBACCO GROUP
IS A WORLD LEADING MANUFACTURER
OF CIGARS AND PIPE TOBACCO. OUR BUSINESS IS FOUNDED
ON EXTENSIVE TOBACCO EXPERTISE AND CONSUMER INSIGHTS
AIMED AT CREATING AND MAINTAINING OUR PORTFOLIO
OF LEADING, INTERNATIONAL AND REGIONAL BRANDS.

FUELLED BY CURIOSITY, WE SOURCE NATURE'S FINEST
AND PASSIONATELY NURTURE OUR TOBACCOS AND BRANDS
WITH THE PROMISE TO CREATE MOMENTS
OF GREAT ENJOYMENT FOR SMOKERS.

WE BELIEVE THAT THIS PROMISE
WILL MAKE US THE UNDISPUTED LEADER
IN CIGARS AND PIPE TOBACCO.



OUR POSITIONS

1
No. 1 in handmade cigars in the US

1
No. 1 in online retail of handmade cigars in the US

1
No. 1 in traditional pipe tobacco globally

1
No. 1 in fine-cut tobacco in Denmark and the US

NET SALES PER CATEGORY

(DKKm)

HANDMADE CIGARS	**2,067**
MACHINE-MADE CIGARS	**2,593**
PIPE TOBACCO	**569**
FINE-CUT TOBACCO	**652**
OTHER	**864**

EMPLOYEES WORLDWIDE

7,600

SALES ENTITIES

17

FACTORIES

14

CLUBS AND RETAIL STORES

7

NET SALES

(DKKm)

2016	**6,746** ▲ **0.2%**
2015	6,732
2014	6,126
2013	5,925
2012	5,978

INVENTORY REDUCTIONS

Inventory in DKKm

	3%	6%
3,099	2,998	**2,824**
2014	2015	**2016**

EBITDA

(DKKm)

2016

1,279

▲ **3%**

2012	2013	2014	2015
1,301	1,175	1,177	1,247

CASH FLOW FROM OPERATING ACTIVITIES

(DKKm)

2016

1,358

▲ **6%**

2012	2013	2014	2015
716	745	1,056	1,285

ANNUAL REPORT 2016

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Forward-looking Statements
Our Annual Report contains forward-looking statements. Such statements are subject to risk and uncertainties as various factors, many of which are beyond Scandinavian Tobacco Group's control, may cause actual development and results to differ materially from the expectations laid out in our Annual Report.

5-YEAR SUMMARY[1]

DKK MILLION	2016	2015	2014	2013	2012
INCOME STATEMENT					
Net sales	6,746	6,732	6,126	5,925	5,978
Gross profit	3,225	3,239	2,947	2,915	2,992
EBITDA	1,279	1,247	1,177	1,175	1,301
EBIT	957	941	908	775	931
Net financial items (excl. share of profit of ass. companies)	-72	-67	-68	-104	-101
Profit before tax	895	884	846	676	843
Income taxes	-213	-216	-206	-103	-224
Net profit	681	668	640	573	618
BALANCE SHEET					
Total assets	14,264	14,544	14,162	13,196	13,736
Equity	9,273	8,998	9,087	8,333	8,425
Net interest-bearing debt (NIBD)	2,469	3,011	2,698	2,808	2,908
Investment in property, plant and equipment	190	210	192	271	138
Total capital expenditures	235	236	215	302	392
CASH FLOW STATEMENT					
Cash flow from operating activities	1,358	1,285	1,056	745	716
Cash flow from investing activities	-219	-229	-471	-318	-388
Free cash flow	1,139	1,057	585	427	328
KEY RATIOS					
Net sales growth	0.2%	9.9%	3.4%	-0.9%	9.2%
Gross margin	47.8%	48.1%	48.1%	49.2%	50.0%
EBITDA margin	19.0%	18.5%	19.2%	19.8%	21.8%
Effective tax percentage	23.8%	24.5%	24.3%	15.2%	26.6%
Equity ratio	65.0%	61.9%	64.2%	63.1%	61.3%
Cash conversion	122.4%	119.0%	112.0%	85.0%	66.8%
Organic net sales growth[2]	0.4%	0.3%	2.9%	0.7%	-
Adjusted gross margin[3]	49.1%	48.7%	48.1%	49.2%	49.7%
Organic EBITDA growth[4]	4.0%	2.2%	4.8%	-5.6%	-
Adjusted EBITDA[5] (DKK million)	1,440	1,385	1,247	1,198	1,268
Adjusted EBITDA margin[6]	21.4%	20.5%	20.3%	20.2%	21.2%
NIBD / Adjusted EBITDA	1.7	2.2	2.2	2.3	2.3
ROIC	7.8%	7.4%	7.7%	6.5%	8.0%
ROIC ex. goodwill and trademarks from 2010 merger	14.2%	13.3%	13.7%	11.8%	15.1%
Basic earnings per share (DKK)	6.8	6.7	6.4	5.7	6.2
Diluted earnings per share (DKK)	6.8	6.7	6.4	5.7	6.2
Dividend per share (DKK)	5.5	14.0	4.3	3.8	4.1
Pay-out ratio	80.7%	209.7%	66.7%	66.7%	66.7%

1. See definition/explanation of financial ratios in note 5.7.
2. Organic net sales growth is defined as growth in net sales excluding non-recurring items and impact from currencies and acquisitions.
3. Adjusted gross margin is defined as gross profit excluding non-recurring items as a percentage of net sales excluding non-recurring items.
4. Organic EBITDA growth is defined as growth in EBITDA excluding non-recurring items and impact from currencies and acquisitions.
5. Adjusted EBITDA is defined as EBITDA excluding non-recurring items. Please refer to page 7.
6. Adjusted EBITDA margin is defined as adjusted EBITDA as a percentage of net sales, excluding non-recurring items.

LETTER FROM THE CHAIRMAN

A NEW ENDEAVOUR BEGINS

One event stood out in 2016. We passed a significant milestone when listing Scandinavian Tobacco Group on Nasdaq Copenhagen on 10 February. I wish all new investors a warm welcome.

You have taken part in a company that is dedicated to delivering shareholder value while also cherishing its promise to deliver great smoking enjoyment from some of nature's finest tobaccos. To me, this is something special. We carry a heritage that dates back centuries. We have an obligation and a strong commitment to both hone and renew this heritage.

THE PUBLIC LISTING completes the transformation of our Group that was initiated with the merger between Scandinavian Tobacco Group and the majority of Swedish Match's cigar and pipe tobacco activities in 2010. The merger made Scandinavian Tobacco Group a global leader in cigars and pipe tobacco.

Listing our Group also marked the beginning of our journey to become the undisputed leader in cigars and pipe tobacco. Today, we have strongholds in handmade cigars in the US, machine-made cigars in Europe and pipe tobacco globally. We aim at improving our leadership in markets where we operate and at expanding into geographies where we can gain from a stronger presence.

WHY DID WE LIST Scandinavian Tobacco Group? The short answer is that this was agreed at the 2010 merger. The listing offered the former owners the flexibility needed to pursue individual strategies. When releasing this annual report, Swedish Match held a share of 9.1% whereas Skandinavisk Holding held 33.1%.

Also, the listing improved our ability to consolidate our markets and become the undisputed leader. Being listed offers full flexibility to raise funding if needed for acquisitions.

MANY PEOPLE HAVE CONTRIBUTED to making Scandinavian Tobacco Group a successful industry leader. And many people have taken part in making our Group a publicly listed company. I want to thank every single one.

Your work has prepared Scandinavian Tobacco Group for becoming an undisputed leader. It is exciting and I am confident that our Group is better positioned to fulfil this potential than any other.
I will watch this closely from the sidelines. Turning 70 years of age this year, I will step down from the position as chairman and member of the Board of Directors at our Annual General Meeting in April 2017. It has been a pleasure working with gifted employees, a dedicated management team as well as current and former members of the Board of Directors. I have always enjoyed our relations with colleagues in our industry and I am grateful for the trust that our owners have placed in me over the years.

From a personal stand point, I will miss being part of this journey as there is so much more to look forward to for Scandinavian Tobacco Group. Our Group has a prosperous future.

Jørgen Tandrup
CHAIRMAN

LETTER FROM THE CEO

ON THE BACK OF SOLID PERFORMANCE

Solid performance characterised our 2016. We improved our adjusted EBITDA by 4% and delivered a strong free cash flow on the base of flat net sales.

It is a performance that we take pride in as it reflects our plans and efforts. We have invested in growing our North American businesses and, in particular, our handmade cigars category. In 2016, our business in Americas became our largest market, representing close to half of our business. We have invested in optimising our processes and becoming more efficient. In 2016, we accelerated our efficiency programme by one year and improved our adjusted gross margins and EBITDA margins by 0.4 and 0.9 percentage point, respectively.

In addition, 2016 was the year when the new EU Tobacco Products Directive took effect and FDA's deeming regulations was announced. These were challenges that created – and still create – uncertainties and fluctuations in the market place, also to our business. For us, it was also a test of our ability to use new regulation to enhance our competitive advantage. We have managed well, but also learned lessons.

WE STRIVE TO CONTINUOUSLY IMPROVE our efforts and results. We want to grow in every part of our business, spearheaded by our US handmade cigar category. In machine-made cigars, we work diligently to offset total market declines and improve profitability. Across our business, we still have opportunities to become leaner, faster and more efficient.

We want to unleash these business potentials fully. Therefore, we invest in creating a winning mindset that supports collaboration, accountability and global leadership.

WE ARE A TEAM OF CURIOUS, AMBITIOUS PEOPLE with a three-pronged approach for success: we want to create shareholder value; we want to create even greater smoking experiences; and we want to create a leading team as well as advanced competencies across sales, marketing and operations.

It will take an extra effort from all of us. It will be challenging, but also rewarding when we succeed.

TO EVERY EMPLOYEE, I thank you all for your efforts in 2016 and look forward to working with you in doing amazing things that set us apart and make us the undisputed global leader of cigars and pipe tobacco.

TO EVERY CUSTOMER, I guarantee that we will continue to deliver value-creating concepts and customer service.

TO EVERY CONSUMER, I promise that we strive to always deliver even greater moments of smoking enjoyment created by nature's finest tobaccos.

TO EVERY INVESTOR, I assure you that we are committed to delivering sustainable shareholder value.

Niels Frederiksen
CEO

FINANCIAL HIGHLIGHTS

2016 WAS A YEAR OF SOLID PERFORMANCE.
WE IMPROVED OUR EBITDA AND HAD A STRONG
FREE CASH FLOW ON THE BASE OF FLAT NET SALES.

Net sales for 2016 amounted to DKK 6,746 million (DKK 6,732 million), an increase of 0.2%. Organic growth was 0.4%.

Our handmade cigar and fine-cut tobacco categories continued to grow compensating for a weak volume development in machine-made cigars and pipe tobacco. Led by our strong net sales and volumes growth in handmade cigars, Americas were for the first time our largest market accounting for a 47% share of Group net sales. Europe and the Rest of the World accounted for 43% and 10%, respectively.

REPORTED AND ADJUSTED NET SALES AND GROSS MARGINS

DKK million	Net sales 2016	Net sales 2015	Gross margin 2016	Gross margin 2015
Handmade cigars	2,067	1,935	43.7%	43.6%
Machine-made cigars	2,593	2,702	49.3%	50.8%
Pipe tobacco	569	629	60.8%	60.1%
Fine-cut tobacco	652	583	57.9%	58.5%
Other	864	882	36.8%	34.5%
Total	**6,746**	**6,732**	**47.8%**	**48.1%**

DKK million	Net sales 2016	Net sales 2015	Gross margin 2016	Gross margin 2015
Machine-made cigars (adjusted)	2,593	2,709	52.6%	52.2%
Pipe tobacco (adjusted)	569	629	61.2%	60.1%
Fine-cut tobacco (adjusted)	652	583	58.3%	58.5%

Gross profit was DKK 3,225 million (DKK 3,239 million), a decrease of 0.4%. Gross profit was negatively impacted by the implementation of the new EU Tobacco Products Directive and the initiated reduction of manufacturing sites from 14 to 12. Adjusted for these, gross profit increased by 1.0%.

Adjusted gross margin increased by 0.4 percentage point to 49.1% (48.7%).

Operating expenses (OPEX) were DKK 1,951 million (DKK 1,993 million), a decrease of 2.1%. OPEX were impacted by changes made to our operating model, the implementation of the new EU Tobacco Products Directive, our optimisation and efficiency programme and the Initial Public Offering of DKK 73 million in 2016 (nonrecurring items were DKK 94 million in 2015). Adjusted OPEX were DKK 1,878 million (DKK 1,899 million), a decrease of 1.1%. Lower staff costs contributed significantly to the absorption of inflationary increases to our OPEX base and improved OPEX.

EBITDA increased by 2.5% to DKK 1,279 million (DKK 1,247 million) driven by a flat gross profit development and improvements in OPEX. Reported EBITDA margin ended at 19.0% (18.5%), an increase of 0.5 percentage point.

Adjusted EBITDA was DKK 1,440 million (DKK 1,385 million), an increase of 4.0%, improving our adjusted EBITDA margin to 21.4% (20.5%) driven by the delivery of our optimisation and efficiency programme.

EBIT was DKK 957 million (DKK 941 million). EBIT was negatively impacted by non-recurring costs primarily related to our optimisation and efficiency programme. Adjusted for these, EBIT increased by 6.0% to 1,157 million (DKK 1,092 million).

Net profit increased by 2.1% to DKK 681 million (DKK 668 million) as a result of higher operating earnings.

Basic earnings per share increased by 2.2% to DKK 6.83 (DKK 6.68).

PERFORMANCE IN LINE WITH OUR GUIDANCE FOR 2016

	GUIDANCE	ACTUAL
Scandinavian Tobacco Group expected the organic growth rate for 2016 to be approx. 0%.*	0%	0.4%
For adjusted EBITDA we expected the organic growth rate for 2016 to be in the range of 3 to 5%.	3-5%	4.0%
Capital expenditures were expected to be around DKK 250 million.	250	235

**Guidance for organic net sales was revised in November 2016.*

BALANCE SHEET

Total assets were DKK 14,264 million at year end 2016 (DKK 14,544 million).

Net working capital decreased to DKK 2,273 million (DKK 2,598 million), which equals 33.7% of net sales (38.6%). The improvement relates to our focus on bringing down inventory levels as part of our optimisation and efficiency programme as well as the transfer of selected trade receivables, having an impact of DKK 158.3 million. Trade payables ended in line with the previous year.

CASH FLOW

Cash flow from operating activities was DKK 1,358 million (DKK 1,285 million) as we have brought down working capital and have lower cash outflow to tax payments.

Cash flow from investing activities was DKK 219 million (DKK 229 million). Adjusted for investments related to the EU Tobacco Products Directive of DKK 108 million, maintenance CAPEX was DKK 127 million.

Free cash flow improved by 7.8% to DKK 1,139 million (DKK 1,057 million) as a result of increased cash from operating activities and reduced cash spent on net investing activities.

Cash flow from financing activities was negative at DKK 1,178 million (DKK 1,029 million) due to the repayment of our revolving credit facilities, purchase of treasury shares and dividend payments.

FINANCING

Net interest bearing debt (NIBD) amounted to DKK 2,469 million (DKK 3,011 million) at year end 2016. The decrease of DKK 542 million is primarily driven by a strong cash flow from operating activities, less net investments, share buy-backs of DKK 46 million and dividend payments of DKK 500 million.

NIBD/adjusted EBITDA was 1.7X (2.2X) at year end 2016. Our target leverage ratio is 2.5X.

Total bank loans were DKK 2,731 million (DKK 3,338 million) at year end 2016. Our bank debt is long term maturing in 2020 (1/3 of total debt) and 2021 (2/3 of total debt). During 2016, two thirds of the total debt was extended for one year to mature in 2021. 61% of the debt is denominated in EUR and 39% in USD. 100% of the debt has a fixed interest for the entire duration.

DIVIDEND

For the financial year 2016, the Board of Directors proposes an ordinary dividend of DKK 5.50 per share, corresponding to a total dividend of DKK 550 million which corresponds to a 10% increase versus last year and a pay-out ratio of 81% (75%).

The Board of Directors will continue to evaluate the distribution of excess cash to shareholders in relation to the third-quarter announcement in November 2017.

NON-RECURRING ITEMS

DKK million	2016		
	Reported	Non-recurring items	Adjusted
Net sales	6,746	-	6,746
Gross profit	3,225	89	3,314
Gross margin	47.8%		49.1%
EBITDA	1,279	162	1,440
EBITDA margin	19.0%		21.4%

DKK million	2015		
	Reported	Non-recurring items	Adjusted
Net sales	6,732	7	6,739
Gross profit	3,239	44	3,282
Gross margin	48.1%		48.7%
EBITDA	1,247	138	1,385
EBITDA margin	18.5%		20.5%

REPORTED EBITDA

DKK million	2016	2015
Reported EBITDA	**1,279**	**1,247**
TPD-related costs	29	42
Restructuring, 140/500 programme	77	42
Restructuring, changed operational model	45	-
Cost related to Initial Public Offering (IPO)	11	24
Other	-	30
Total non-recurring items	162	138
Adjusted EBITDA	**1,440**	**1,385**

OPTIMISATION AND EFFICIENCY PROGRAMME

Our optimisation and efficiency programme announced in 2015 continued to perform well delivering tangible EBITDA and working capital improvements.

We expect to realise our cost optimisation target of DKK 140 million* in 2017, which is one year ahead of our original plan.

We have exceeded our expected working capital target for 2016 as our inventory initiatives continued to show good results. Our 2018 inventory reduction target is a reduction of DKK 500 million**. By year-end 2016, we have reduced our inventories by DKK 486 million on a like-for-like basis.

We expect to reach our target by the end of 2017, one year ahead of our original plan.

** Annual improvements on a like-for-like basis excluding currency impacts.*
***On a like-for-like basis excluding currency impacts.*

OPTIMISATION AND EFFICIENCY PILLARS AND PROGRESS ON OUR 140/500 PROGRAMME

Simplification
We reduce the number of SKUs and formats in machine-made cigars and smoking tobacco. The simplification of our product portfolio enables further process optimisation in our factories.

Initiated: 2015
Completed: 2017

LEAN transformation
We implement LEAN in operations to improve productivity and efficiency. Furthermore, our LEAN initiatives enable the consolidation of volumes in our remaining factories.

Initiated: 2016
Completed: 2017

Network optimisation
We optimise our production footprint and reduce the number of factories from 14 to 12. Production volumes will be transferred to our two remaining factories for machine-cigars in Europe.

Initiated: 2016
Completed: 2017

Integrated planning
We synchronise our end-to-end demand and supply to reduce lead times and inventory.

Initiated: 2016
Completed: 2017

Material cost reduction
Material cost reductions cover the design-to-value projects where we reduce material costs to improve margins on our products as well as new procurement processes.

Initiated: 2015
Completed: 2017

- *Project initiated.*
- *Project in progress and first financial effects realised.*
- *Project completed, but more financial effects to be realised.*
- *Full financial effect realised.*

Additional Cost Savings Emerged
In November 2016, we announced an additional optimisation potential of estimated DKK 60-65 million on an annual runrate basis. We improved our operating model by merging our supply chains for machine-made cigars, pipe tobacco and fine-cut tobacco into one supply chain and optimised our sales and support functions. The synergies include a head count reduction of up to 150 employees and emerge from simplified processes, elimination of double functions and a reduction of management layers.

The changes will be fully implemented during 2017 with a full-year financial effect in 2018.

Total Savings and Non-recurring Costs
Our 2016 results were impacted by about one third of the total expected gross savings of DKK 200 million from the two programmes. For 2017, the accumulated impact is expected to be slightly more than two thirds with the remaining savings to impact our 2018 results.

In 2016, we have recognised DKK 77 million in non-recurring costs and DKK 38 million in impairments in connection with the announced reduction of factories from 14 to 12. In addition, we have expensed non-recurring costs of DKK 45 million in relation to our additional cost programme announced in November 2016.
We expect to expense around DKK 50 million in non-recurring costs from the two programmes in 2017.

ABEL ALOSO-RANGEL

MACANUDO INSPIRADO

OUR STRATEGY

RELENTLESS FOCUS ON SMOKING ENJOYMENT AND ON BECOMING THE UNDISPUTED LEADER IN CIGARS AND PIPE TOBACCO. THIS IS KEY TO HOW WE ENSURE SUSTAINABLE SHAREHOLDER VALUE.

We are a world leader in the attractive tobacco categories of cigars and pipe tobacco. Our strongholds are in North America, Europe and Australia where our categories predominantly are sold. We carry a recognised and diversified brand portfolio and have an innovative and consumer-focused approach to our brand portfolio management. We benefit from having a global supply chain and plans for optimising our entire business.

Our strategy aims at leveraging our platform to maximise sales, cost and cash opportunities to deliver sustainable shareholder returns.

SHAREHOLDER VALUE

MODERATE ORGANIC GROWTH
Spearheaded by our handmade cigars category and with the objective to grow in every category

COST OPTIMISATION
In our entire business and in machine-made cigars in particular

CAPITAL DISCIPLINE
Focused on cash generation and optimal capital allocation

Our overall strategy aims at optimising our cost base and becoming more efficient while leveraging our growth opportunities enabled by a winning mindset across our organisation.

We focus on optimising our cost base and improving efficiency by reducing complexity through SKU and format rationalisation, designing products to value, leveraging our size when procuring materials, improving our factory footprint and implementing LEAN. In addition, we have changed our operating model by merging our supply chains for machine-made cigars and smoking tobacco into one and optimised our sales and support functions.

We have multiple avenues for growth. In North America, we have formed a cluster of our business units under one leadership. The North American Business Unit is designed to grasp business opportunities better, extract synergies and develop capabilities in this region which today is our largest. We focus increasingly on developing innovative new products and concepts in our cigar businesses. Having reduced complexity and improved efficiency, we have improved our ability to make value creating acquisitions.

Outperforming the overall market and simplifying for efficiency requires an organisation empowered for speed, accountability and motivation. We invest in creating a winning mindset by building stronger HR capabilities, installing global excellence centres and by an increased focus on accountability and achieving ambitious targets across the entire organisation.

Every category and every market have their characteristics. Based on our overall strategy and priorities, our strategy is tailored to extract value from every category and market.

1. In handmade cigars, we aim at growing our net sales and profits in our branded business and in online and catalogue retail business by winning market shares and optimising in every part of our value chain (see page 14-17).

2. In machine-made cigars, we aim at offsetting total market declines by managing prices effectively and by winning market shares with our current portfolio and new product developments. Furthermore, we drive efficiencies from our supply chain (see page 18-21).

3. In traditional pipe tobacco, we aim at offsetting total market declines by effectively managing prices, winning market shares and gaining efficiencies from our supply chain. In dual-usage pipe tobacco, we focus on winning market shares (see page 22-25).

4. In fine-cut tobacco, we aim at growing market shares and profits in markets where we operate by improving efficiencies and managing prices (see page 26-29).

Though we apply a market-by-market approach, our strategy is founded on four business priorities. See page 11.

OUR BUSINESS PRIORITIES

OUR STRATEGY FOCUSES ON FOUR BUSINESS PRIORITIES.
ACROSS CATEGORIES AND MARKETS THESE HELP US CREATE
VALUE FROM OUR RECOGNISED BRANDS, EXTENSIVE TOBACCO EXPERTISE,
GLOBAL SCALE MARKET FOOTPRINT AND SUPPLY CHAIN.

OUTPERFORM

We want to OUTPERFORM the overall market where we compete

Building brand equity
Optimising pricing strategies
Leveraging trade partnerships
Keep winning in direct-to-consumer

GLOBALISE

We want to GLOBALISE our geographical footprint

Using our platform for M&A
Expanding our geographical footprint

SIMPLIFY

We want to SIMPLIFY for efficiency

Simplifying
Optimising our network
Procuring strategically
Designing to value
Integrated planning
Next generation IT

EMPOWER

We want to EMPOWER for speed, accountability and motivation

Fostering talent and curiosity
Acting as a market leader

HOW WE PERFORM, OPERATE AND NURTURE OUR BRANDS

OUR CATEGORIES


LE TIRE - BOUCHON

HANDMADE CIGARS

2016 PERFORMANCE

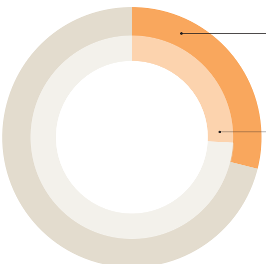
2/3

Two thirds of the global sales of handmade cigars take place in the US.

No.1

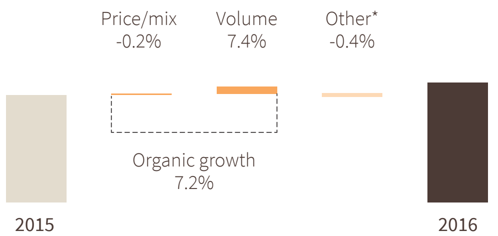
We have leading positions in sales to wholesalers and retailers through General Cigar and to consumers through Cigars International.

SHARE OF NET SALES & GROSS PROFIT



31% of net sales

28% of gross profit



DKK MILLION	2016	2015
Net sales	2,067	1,935
Gross profit	903	843
Gross margin, %	43.7%	43.6%

*Exchange rates etc.

Total market volumes were stable with approx. 300 million cigars sold in the US. The market continued its long-term trend with a shift in sales channels from brick and mortar to online and catalogue retail, which now accounts for approx. 65% of the handmade cigars market in the US.

We aim at growing our net sales and gross profit from both General Cigar and our online and catalogue retailer Cigars International by winning market shares and optimising in every part of our value chain.

For handmade cigars net sales grew by 7.2% organically. Pricing remained sound offsetting effects from the changing sales channels mix from brick and mortar to online and catalogue retail as well as from our key stone pricing initiative. Our initiative aims at growing our market shares in the brick and mortar channel by creating more value to retail customers. In total, the price/mix impact was -0.2%. Increased volumes impacted our net sales by 7.4% which, in particular, was driven by our market share expansion in the online and catalogue retail channel.

Cigars International continued to grow the number of active customers by a percentage in the high midsingle-digit area while average order value per customer increased in the lowsingle-digit area. In total, Cigars International increased its share of the online and catalogue retail channel to 36%.

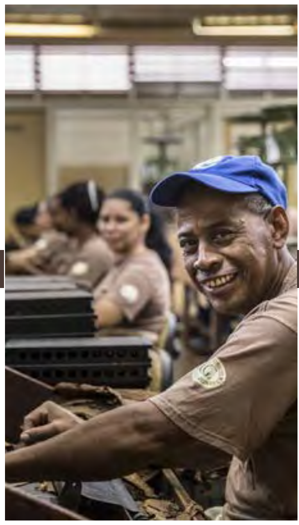
General Cigar increased its market shares across all sales channels. In the brick and mortar channel, General Cigar launched its key stone pricing initiative to improve its position and share of the channel. General Cigar's market share increased to almost 29% .

Outside the US, our net sales growth was double-digit, however from a low base.

Reported gross profit increased by 7.1% to DKK 903 million (DKK 843 million) with an improved gross margin of 43.7% (43.6%).

HANDMADE CIGARS

HOW WE OPERATE



SOURCE

WHAT WE DO

We purchase tobacco from numerous small and large third party growers in the US, the Caribbean, Central America, Brazil etc. In addition, General Cigar cultivates proprietary tobaccos used exclusively for its blends.

HOW WE OPTIMISE

- We have reduced leaf inventories significantly and aim at carrying tobacco to fulfil our needs for only 18-24 months.
- We leverage our size and have initiated Group-wide, strategic procurement of tobacco and non-tobacco materials.

MANUFACTURE

WHAT WE DO

Cigars are rolled at our sites located in three of the most significant tobacco-growing countries supplying the US handmade cigars market: the Dominican Republic, Honduras and Nicaragua. Access to a wide range of tobaccos and vast blending capacity enable the production of cigars with consistent quality and taste.

HOW WE OPTIMISE

- We have initiated LEAN and integrated planning activities.
- We continuously rationalise our number of SKUs.
- We improve the inventory turns in our retail business by managing stock levels tighter.

MARKET

WHAT WE DO

We nurture a full range of well-recognised and heritage brands covering all flavour formats, flavouring profiles and price points from luxury to value offerings available in the US. We possess innovative tobacco expertise, an extensive tobacco library and blends dating back up to half a century.

HOW WE OPTIMISE

- We build brand equity and fill gaps in our portfolio with innovative new products and concepts.
- We continuously optimise our pricing strategies.

DISTRIBUTE

WHAT WE DO

We distribute across almost every channel in the US, including wholesalers, brick and mortar shops and, in particular, online and catalogue sales direct to consumers. In addition, we have three Cigars International stores in Pennsylvania and two exclusive Club Macanudo smoking lounges in New York.

HOW WE OPTIMISE

- We continuously optimise our market coverage. In our branded business, we have initiated our key stone pricing project that aims at growing market shares in the brick and mortar channel by creating more value to retail customers.
- We keep investing in direct-marketing capabilities in our retail business.

HANDMADE CIGARS

HOW WE NURTURE OUR BRANDS

Every cigar smoker has a favourite cigar for special occasions and chooses specific cigars for different moments of enjoyment. We carry a brand portfolio and a product offering in every format, strength, flavour and price point for almost every occasion and moment that cigar smokers can imagine.

We nurture a comprehensive portfolio of leading brands. Among these are Cuban-heritage brands such as Cohiba, Partagas and Punch in the US, boutique brands such as CAO and Foundry, royalty brands such as Sons of Anarchy and many others.

While individual cigars are developed by artisans with vast blending expertise and passion for the individual cigar and smoking experience, every brand is tailored to fit occasions, consumer segments and preferences. In doing so, we utilise consumer research and insights from our immense customer base in our online and catalogue retail business.

Macanudo is the largest handmade cigar brand in the US. Building on its heritage as “the American cigar”, Macanudo leads the market and is carried by retailers because it is a trusted, well-known and approachable premium cigar that delivers consistency and quality in every smoke. We continuously introduce new blends ranging from vintage tobaccos and original heirloom seeds from the 1960’s to mild and alluring blends that always intrigues.

In recent years, Macanudo Inspirado has been developed to realise the brand’s potential outside the US. Based on consumer insights, unique blends and packaging have been developed to appeal to the European consumer.

In 2016, the iconic Macanudo brand evolved and adopted a modern look for the future.

AFFORDABLE LUXURY

A distinct social, reward and satisfaction element is attached to smoking a handmade cigar.

Handmade cigars are generally perceived as an affordable luxury product, whose quality is highly valued by the typical consumer. In recent years, handmade cigar smokers have become more experimental – increasingly trying different types and brands – and place greater importance on new experiences over the cigar’s price.

The primary consumers of handmade cigars are men over 35 years of age earning a medium to high income. Women form 15% of the consumer segment.

SELECTED KEY BRANDS

HANDMADE CIGARS

WINNING ONLINE

CIGARS INTERNATIONAL

Cigars International is the market leading online and catalogue retailer in the US. Online retail is the fastest growing channel in cigar sales. Cigars International continues to grow its share of the channel.

PENNSYLVANIA (US)

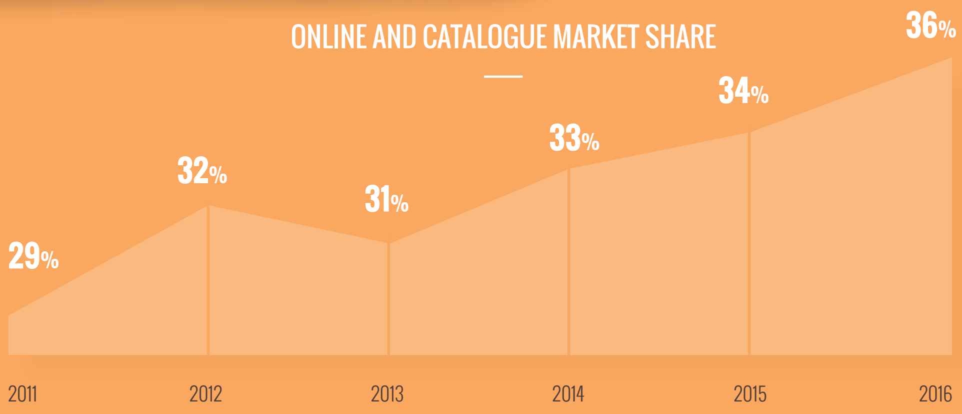
WORLD'S LARGEST HUMIDOR

50,000 ft² humidified and temperature controlled

3 retail and super stores

CARRIES **1,000** brands

ONLINE AND CATALOGUE MARKET SHARE



65% Online retail accounts for approx. 65% of the handmade cigar market in the US

NUMBER OF SHIPMENTS

PER DAY

~10,000

PURCHASE PLATFORM

35% COMPUTER

35% TABLET AND MOBILE

30% CALL CENTER

MOST POPULAR SALES DAYS

MONDAY BEFORE FATHER'S DAY

MONDAY BEFORE CHRISTMAS

CYBER MONDAY

MACHINE-MADE CIGARS

2016 PERFORMANCE

~50%

Approx. 50% of the global sales of machine-made cigars are in Europe.

No.1

We have a leading position in the European, Australian and Canadian markets for machine-made cigars.

Our total markets continued their long-term trend with volume declines of 3-5%. In our core markets, volumes declined even faster. The development is partly related to the overall market trend, as well as a tighter management of stock levels in a number of these markets following the implementation of new regulations.

We aim at offsetting total market decline by managing prices effectively and by winning market shares with our current portfolio and new product developments. Furthermore, we drive efficiencies from our supply chain.

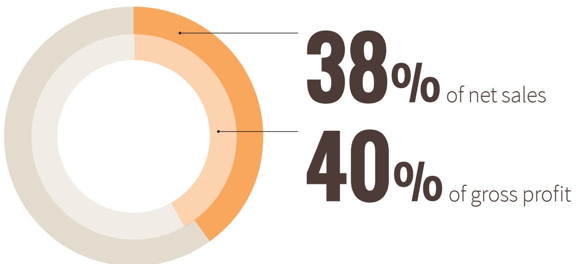
For machine-made cigars net sales decreased by -3.9% organically. Pricing contributed positively by 2.2% whereas volume impacted our net sales by -6.0%.

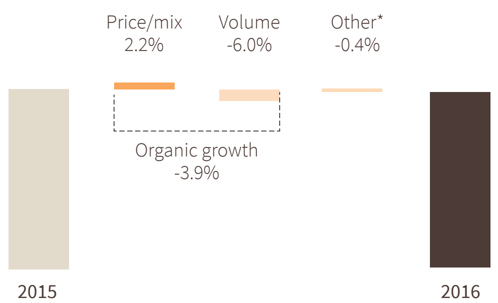
Our efficiency programme has performed well, improving our adjusted gross margin to 52.6% (52.2%). We have successfully reduced material costs and rationalised the number of SKUs and formats in machine-made cigars by 45% corresponding to net sales of approximately 4% in the category. The SKU and format rationalisation programme aims at reducing complexity and has been a cornerstone of sustaining our profitability in the category.

In several core markets, improved profitability came at the cost of slightly lower market shares whereas we grew our shares in other core markets. In total, our market shares were stable in the year.

Reported gross profit was DKK 1,280 million (DKK 1,372 million) with a gross margin of 49.3% (50.8%). Gross margins were negatively impacted by DKK 85 million from costs related to the new EU Tobacco Products Directive and the initiated close-down of two factories. Adjusted for these, gross margin improved by 0.4 percentage points to 52.6% (52.2%).

SHARE OF NET SALES & GROSS PROFIT



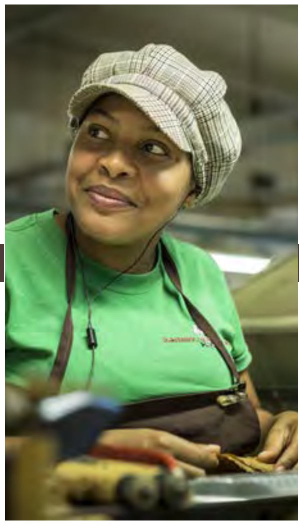


DKK MILLION	2016	2015
Net sales	2,593	2,702
Gross profit	1,280	1,372
Gross margin, %	49.3%	50.8%
Gross margin, % (adjusted)**	52.6%	52.2%

* Exchange rates etc. **Adjusted for non-recurring items

MACHINE-MADE CIGARS

HOW WE OPERATE



SOURCE

WHAT WE DO

We use a large number of tobaccos with distinct characteristics suitable for every blend and brand. The tobacco is grown in Indonesia, Brazil, Ecuador, Colombia, Central America, Africa, the US, Italy and elsewhere. We purchase from 10-12 suppliers, including wholesalers and tobacco growing enterprises.

HOW WE OPTIMISE

- We have reduced leaf inventories significantly and aim at carrying tobacco to fulfil our needs for only 18-24 months.
- We continue to implement design-to-value initiatives.
- We leverage our size and have initiated Group-wide, strategic procurement of tobacco and non-tobacco materials.

MANUFACTURE

WHAT WE DO

The labour intensive production of the inner and outer leaves for cigars is carried out in Indonesia and the Dominican Republic. The more automated cigar production process is completed in our factories in Belgium, the Netherlands, Denmark and the US, close to our most significant consumption markets.

HOW WE OPTIMISE

- We reduce complexity and have reduced our number of SKUs and formats by 45%.
- We optimise our production footprint and have announced a reduction of the number of factories for machine-made cigars from four to two in Europe.
- We have initiated LEAN and integrated planning initiatives.

MARKET

WHAT WE DO

We carry the widest portfolio of our industry with brands and blends that cater to almost every occasion, taste preference and price point. We continuously develop our portfolio based on consumer insights and with the purpose of launching new products to the market that appeal to cigar smokers and that convert cigarette smokers to our category.

HOW WE OPTIMISE

- We build brand equity by optimising our portfolio, in particular in the filter and flavour segment, and by focusing our resources on core cigar formats and core brands.
- We launch innovative new products based on consumer insights.
- We gain excellence in managing prices.

DISTRIBUTE

WHAT WE DO

We have sales forces covering all major European machine-made cigars markets, Australia and North America. Sales and distribution channels vary significantly between markets. We have tailored local sales companies to local market conditions and distribute through wholesalers, distributors, supermarkets, tobacconists, convenience stores, etc.

HOW WE OPTIMISE

- We focus our sales efforts on key markets. In Poland, we have transferred our sales to a third party distributor.
- We build in-store and in-market excellence. Market by market we improve our market coverage based on data and clear classifications.
- Our integrated planning reduces inventory and lead times.

MACHINE-MADE CIGARS

HOW WE NURTURE OUR BRANDS

Taste preferences vary significantly across geographies in our machine-made cigar category. We hold a comprehensive brand portfolio that caters to local and regional taste preferences, as well as targets every market segment and price point.

Our single most important brand is Café Crème, which has been the market and category leader since it was launched in 1963. The brand's popularity is due to the size and smooth smoking experience offered by the cigar, with or without filter and flavour, as well as its brightly-coloured, innovative packaging and bright coloured design which are all marketed under the recognised Café Crème brand name.

Being our flagship brand with sales in close to 100 markets, we focus our innovation and product development efforts on Café Crème and a selected number of core brands. Successful improvements are repurposed for the continuous development of our local brands.

In recent years, Café Crème has reclaimed its position as the smooth-tasting cigar that originally made it an innovative and disruptive cigar brand. The cigar blend has been refined to improve the smooth smoking experience. Line-extensions including filters, flavours and smaller sizes have been added and the packaging has been redesigned to maintain Café Crème's contemporary appeal.

In 2016, a new packaging format for cigars saw the light of day when Café Crème shell-and-slide packages were introduced to the market.

QUALITY AND CONSISTENCY

Comfort, retreat, reward, exploration or simply stimulating a given experience with others are needs often affiliated with smoking machine-made cigars.

Machine-made cigars have a wide audience as they are typically less expensive than handmade cigars. Consumers value quality and consistency. Taste is the determining factor when choosing a brand for the first time and most machine-made cigar smokers stay loyal to their initial choice.

The average age of consumers of machine-made cigars is 45 years. 25% of consumers are women.

SELECTED KEY BRANDS

Café Crème

La Paz

Mercator

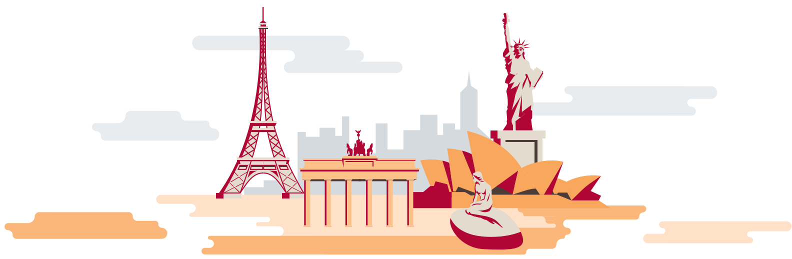
Henri Wintermans

STEFAN FREITAG

CAFÉ CRÈME

PIPE TOBACCO

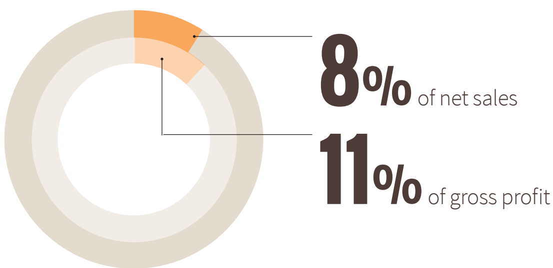
2016 PERFORMANCE

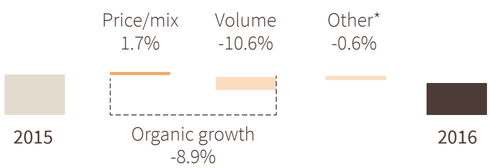


No.1

Traditional pipe tobacco is predominantly sold in Europe and the US. We have leading positions in traditional pipe tobacco with a market share of approx. 50% in Europe and the US.

SHARE OF NET SALES & GROSS PROFIT





DKK MILLION	2016	2015
Net sales	569	629
Gross profit	346	378
Gross margin, %	60.8%	60.1%
Gross margin, % (adjusted)**	61.2%	60.1%

* Exchange rates etc. **Adjusted for non-recurring items

Total markets for traditional pipe tobacco continued their long-term trend; consumers are loyal to the category and their brands, but volumes decline. In the US, dual-usage pipe tobacco volumes were flat.

We aim at offsetting total market decline in traditional pipe tobacco by effectively managing prices, winning market shares and gaining efficiencies from our supply chain. In dual-usage pipe tobacco, we focus on winning market shares.

In 2016, our net sales from pipe tobacco decreased by -8.9% organically. Pricing contributed positively by 1.7%, whereas the volumes development impacted our net sales by -10.6%.

Overall, we continued to grow our market shares in traditional and dual-usage pipe tobacco. In Germany, the termination of a third party distribution agreement impacted our market share negatively. In addition, the macro-economic development in Nigeria and the Middle East led to an adverse volume development.

Adjusted gross margins improved by 1.1 percentage point to 61.2% as a result of changes in our mix and our efficiency programme. Our efficiency programme has successfully reduced our material costs and rationalised our number of SKUs in pipe tobacco by approx. one quarter.

Reported gross profit was DKK 346 million (DKK 378 million) with a reported gross margin of 60.8% (60.1%).

PIPE TOBACCO

HOW WE OPERATE

SOURCE

WHAT WE DO

Tobacco is purchased from 18 countries, most notably Brazil, Malawi, Tanzania, Argentina and the Philippines. The bulk is purchased through multinational tobacco dealers.

HOW WE OPTIMISE

- We continue to implement design-to-value initiatives.
- We leverage our size and have initiated Group-wide, strategic procurement of tobacco and non-tobacco materials.

MANUFACTURE

WHAT WE DO

Pipe tobacco is produced at our sites in Assens in Denmark and in Tucker in the US. Both sites supply the global market. The Assens factory is one of the largest manufacturers of traditional pipe tobacco globally and has the capability to craft specialised cuts and tobaccos, including black cavendish.

HOW WE OPTIMISE

- We reduce complexity and have reduced our number of SKUs in smoking tobacco by one quarter.
- We have initiated LEAN and integrated planning initiatives.

MARKET

WHAT WE DO

We have a strong portfolio of global and local brands with products that cover the full range of flavours and pipe tobacco cuts, such as loose, flake, ready rubbed, mixture, spun cut, cross cut and rope. We develop our portfolio to meet consumers' curiosity and desire in experimenting with new tastes.

HOW WE OPTIMISE

- We continuously optimise our pricing strategies.
- We build brand equity by optimising our portfolio and by focusing our resources on core brands.
- We continuously launch innovative new products to meet consumers' curiosity.

DISTRIBUTE

WHAT WE DO

We have a sales organisation and partnerships that cover all major markets for traditional pipe tobacco. In core markets, such as North America and Europe, we have our own sales forces, while we work through partners outside our core markets. We distribute through wholesalers, distributors, supermarkets, tobacconists, convenience stores, etc.

HOW WE OPTIMISE

- We focus our sales efforts on key markets.
- We build in-store and in-market excellence. Market-by-market we improve our market coverage based data and clear classifications.

PIPE TOBACCO

HOW WE NURTURE OUR BRANDS

Craftsmanship is at the heart of developing pipe tobacco and acclaimed by consumers. We carry almost every tobacco, flavour and cut including traditional formats such as flake, spun cut and rope. We hold a wide range of brands with Erinmore, Borkum Riff, Captain Black and W.Ø. Larsen being the most significant.

Erinmore is the largest traditional pipe tobacco brand in terms of volumes. Borkum Riff is our widest distributed pipe tobacco brand and carries our most extensive offering of flavour variants.

The majority of pipe tobacco brands target the mainstream and premium market. W.Ø. Larsen continues to push the boundaries for the category in developing an entirely new luxury position for pipe tobacco.

Germany and Denmark are traditional strongholds for the brand, which is recognised for its Scandinavian-style tobacco blends with flavours including fruits and berries, vanilla and occasionally spiced tobaccos. In recent years, W.Ø. Larsen has developed exquisite blends in inspired packaging suited for gifts. These have built a noteworthy market position for the brand in Russia and Asia.

In 2016, W.Ø. Larsen set new standards for luxury when introducing a limited edition of hand-pressed tobaccos in handcrafted humidors at a retail price of DKK 7,000 per 100 g. In developing the W.Ø. Larsen Hand Pressed edition, master blender Lasse Berg used techniques largely forsaken a century ago and fused 21 unique, high quality tobaccos with wild aromas of handpicked sweet gale leaves. The W.Ø. Larsen Hand Pressed edition is one of the most expensive pipe tobacco brands sold to date.

A PERSONAL RETREAT

Inner peace and personal retreat are values often associated with pipe smoking. To many, the pipe itself is a specialised tool used for specific blends and smoking occasions as well as a symbol of their identity.

Traditional pipe tobacco smokers are loyal to their favourite brands. They enjoy experimenting with different tobacco blends and often own various pipes used for different blends and smoking occasions. Traditional pipe tobacco smokers rarely change brand due to price and expect high quality products as well as new and sometimes even personalised blends. Consumers of traditional pipe tobacco are typically men over 35 years of age.

SELECTED KEY BRANDS

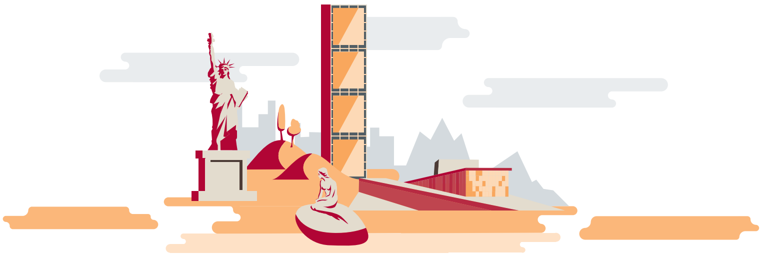
W.Ø.LARSEN · ERINMORE · BORKUM RIFF · Captain Black

ROLF MARTIN

SMOKING W.Ø. LARSEN ON
STANWELL – BLACK DIAMOND MODEL 29

FINE-CUT TOBACCO

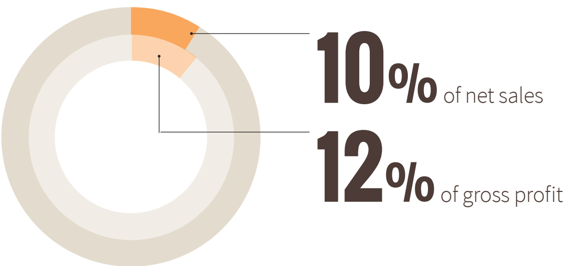
2016 PERFORMANCE

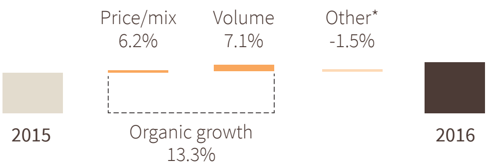


No.1

We are market leader in the US and Denmark and have significant positions in Norway, Switzerland and Israel. In Germany, we are building our position.

SHARE OF NET SALES & GROSS PROFIT





DKK MILLION	2016	2015
Net sales	652	583
Gross profit	378	342
Gross margin, %	57.9%	58.5%
Gross margin, % (adjusted)**	58.3%	58.5%

* Exchange rates etc. **Adjusted for non-recurring items

Total markets for fine-cut tobacco were fairly flat in Europe. In the US, the total market for fine-cut tobacco continued its decline as more consumers made the switch to dual-usage pipe tobacco.

We aim at growing market shares and profit in markets where we operate by improving efficiencies and managing prices.

Our net sales from fine-cut tobacco increased by 13.3% organically. Price/mix impact contributed positively by 6.2%, while the volume impact contributed by 7.1%.

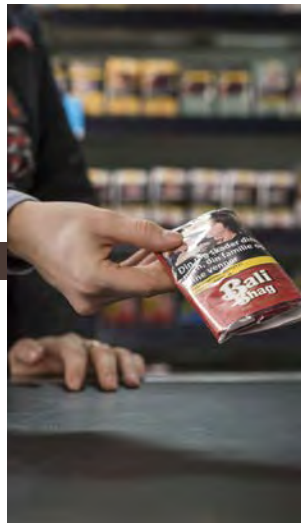
We grew our market shares across markets. Particularly strong market share performance in Germany resulted in significant volume increases and a slightly lower gross margin.

Our US sales company for fine-cut tobacco is focused on key account sales. In addition, we have entered into strategic partnerships with third party distributors that extend our supply to independent retailers. In 2016, we continued to grow our market share in the US fine-cut tobacco market significantly enhancing our leadership.

Reported gross profit increased to DKK 378 million (DKK 342 million) with a gross margin of 57.9% (58.5%). Adjusted for non-recurring costs related to the new EU Tobacco Products Directive, the gross margin stood at 58.3% (58.5%).

FINE-CUT TOBACCO

HOW WE OPERATE



SOURCE

WHAT WE DO
Approximately two thirds of our fine-cut tobacco is purchased through multinational tobacco dealers that also supply the cigarette industry. The tobacco is grown in established tobacco growing countries, including Malawi, Tanzania, Argentina and the Philippines.

HOW WE OPTIMISE
- We continue to implement design-to-value initiatives.
- We leverage our size and have initiated Group-wide, strategic procurement of tobacco and non-tobacco materials.

MANUFACTURE

WHAT WE DO
Fine-cut tobacco is manufactured at our factories in Holstebro in Denmark and in Tucker in the US. The tobacco is manufactured close to our consumption markets in the US and Northern Europe. Our Holstebro factory has the capacity to produce expanded tobacco which reduces costs of the final product.

HOW WE OPTIMISE
- We reduce complexity and have reduced our number of SKUs and formats in smoking tobacco by one fourth.
- We have initiated LEAN and integrated planning initiatives.

MARKET

WHAT WE DO
We hold a portfolio of strong local and regional brands in the geographies where we operate. In fine cut, we benefit from cross-category brand utilisation and our in-house production of expanded tobacco that caters to the price-sensitive consumer of fine-cut tobacco.

HOW WE OPTIMISE
- We build brand equity by optimising our portfolio and by focusing our resources on core brands.
- We launch innovative new products to meet consumers' demand.
- We continuously optimise our pricing strategies.

DISTRIBUTE

WHAT WE DO
We distribute through our own sales entities and partners. The major part of our fine-cut tobacco is distributed through key account customers and wholesalers, supermarkets, petrol stations and tobacconists.

HOW WE OPTIMISE
- We focus our sales efforts on key markets.
- We build in-store and in-market excellence. Market by market we improve our market coverage based data and clear classifications.

FINE-CUT TOBACCO

HOW WE NURTURE OUR BRANDS

Our fine-cut tobacco offering and brand portfolio cater to consumers who roll their own cigarettes as a personal, lifestyle statement and those who value good quality at a great price when choosing to make their own cigarettes.

The majority of our brands are tailored to these two consumer segments and local markets.

Tiedemanns and Bali Shag are established premium roll-your-own tobacco brands carrying various blends and variants. Tiedemanns and Bali Shag have a following of loyal consumers in Norway, Denmark and Israel.

Bugler, Escort and Break cover the price-sensitive value-for-money segment in the US, Denmark, Switzerland and Germany. We developed Break in 2013 as a cross-category brand for fine cut and little cigars in European markets, driving our success in Germany.

In 2016, Captain Black fine-cut tobacco was introduced in the first Middle Eastern market. Originally a pipe tobacco brand in the US, Captain Black has a heritage as a successful international, cross-category brand including pipe tobacco, cigars and little cigars. Its product offering and the strong masculine values connected with the brand have created traction, in particular, in the Middle East and Eastern Europe.

In recent years, the Captain Black brand has increased its presence from 7 to approximately 30 geographies making it our most successful geographical expansion of a cross-category brand.

A LIFE-STYLE STATEMENT OR VALUE FOR MONEY

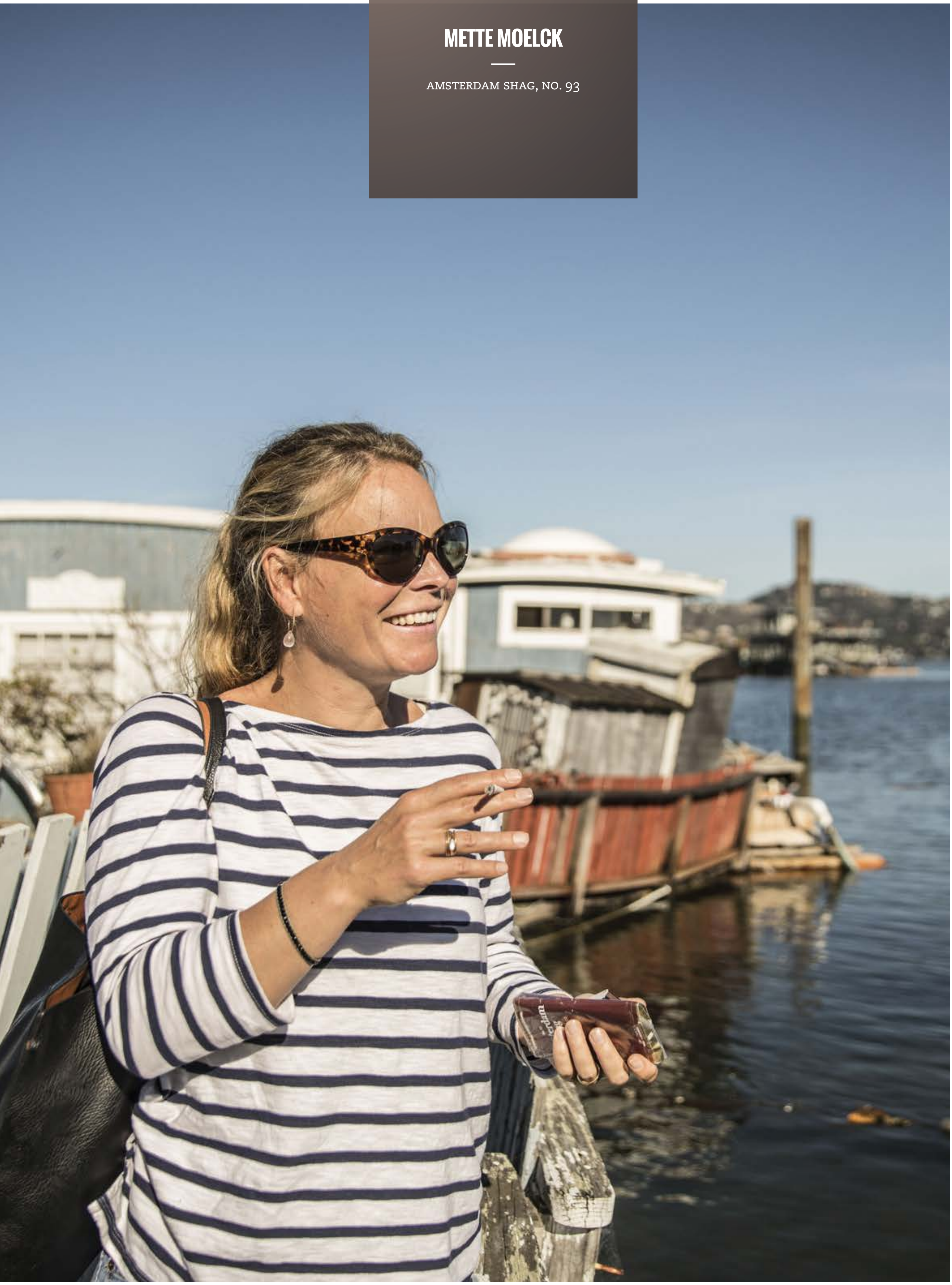
An exclusive lifestyle statement or a less-expensive substitute for cigarettes. These are the reasons for choosing to smoke fine-cut tobacco.

The roll-your-own smoker chooses high-quality tobaccos cut in long threads suitable for crafting their cigarettes in rolling paper. Roll-your-own smokers often state their lifestyle through the choice of brand and are less price-sensitive. Alternatively, make-your-own consumers are price sensitive and switch brands often. They tube their own cigarettes as an alternative to purchasing pre-packaged cigarettes to save money. The consumer of fine-cut tobacco has an average age of 30 years and 42% are women.

SELECTED KEY BRANDS

METTE MOELCK

AMSTERDAM SHAG, NO. 93



OTHER

2016 PERFORMANCE

Our 'Other' category comprises several activities including contract manufacturing, fire products, distribution of lighters and matches, licences etc.

In 2016, our net sales from the category were DKK 864 million (DKK 882 million), a decrease of 2.0%.

Gross profit increased by 4.6% to DKK 318 million (DKK 304 million) with an improved gross margin of 36.8% (34.5%).

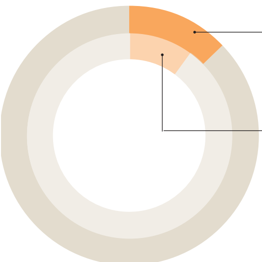
Market dynamics in the category are complex. In contract manufacturing, we are dependent on total market development and brand owners' market share performance which are beyond our control. As to distribution of lighters, matches, filters and papers, we operate in non-core businesses and markets where our influence is limited.

We focus on improving profitability contract by contract in the category.

In 2016, we have worked with our contract manufacturing customers to improve profitability of their portfolios as well as reviewed and renegotiated trade terms with a significant part of our partners. One contract was terminated during the year.

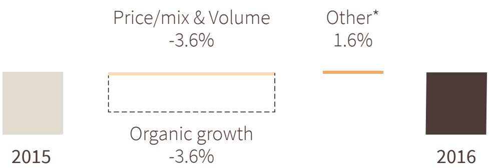
Furthermore, we benefit from improved profitability from the sales of fire products in Australia which were outsourced to a third party manufacturer in 2015.

SHARE OF NET SALES & GROSS PROFIT



13% of net sales

10% of gross profit



DKK MILLION	2016	2015
Net sales	864	882
Gross profit	318	304
Gross margin, %	36.8%	34.5%

*Exchange rates etc.

DEFINITION OF PRICE/MIX AND VOLUMEN IMPACT

Price/mix impact for net sales is calculated as the difference in average sales prices between two periods multiplied by the sales volumes of the later period.

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

EVENTS OF THE YEAR

2016 10 FEB

PUBLIC LISTING COMPLETED

We completed the Initial Public Offering of Scandinavian Tobacco Group at a final offer price of DKK 100 per share. The final offer price gave the Group a market capitalisation of DKK 10 billion. The listing was announced on 14 January and a prospectus was published on 28 January.

2016 20 MAY

EU TOBACCO PRODUCTS DIRECTIVE TOOK EFFECT

National adoption of the EU Tobacco Products Directive was extremely late and somewhat chaotic. On 20 May 2016, the Directive took effect in the majority of EU countries. The date marked the beginning of a transition year that has led to significant fluctuations in the market place.

2016 08 AUG

FDA DEEMING REGULATIONS TOOK EFFECT IN THE US

New US regulations of cigars and pipe tobacco took effect leaving manufacturers and retailers with up to two years to sell cigars and pipe tobacco not grandfathered before 2007 to consumers. The US Food and Drug Administration's (FDA) extension of its tobacco regulation to cigars, pipe tobacco and other tobacco products not previously regulated was announced in May 2016 and is being challenged in court by the Cigar Association of America, International Premium Cigar and Pipe Retailers Association and Cigar Rights of America. Scandinavian Tobacco Group supports all three associations. FDA user fees were introduced on 1 October 2016. We estimate FDA user fees will increase our annual Group cost of goods sold by approximately 1%. We intend to compensate this cost impact through price increases.

2016 22 SEP

OPIMISATION AND EFFICIENCY PROGRAMME ACCELERATED BY ONE YEAR

We completed our SKU and format rationalisation programme and progressed on our material cost reduction initiatives. In September, we initiated the next step of our production footprint optimisation when we announced our intent to reduce the number of production sites from 14 to 12. Production will be transferred from the machine-made cigars factories in Nykøbing and Wuustwezel to our remaining factories. The initiative facilitates the completion of our DKK 140 million cost reduction programme by the end of 2017, which is one year ahead of our original plan.

2016 03 NOV

OPERATING MODEL IMPROVED

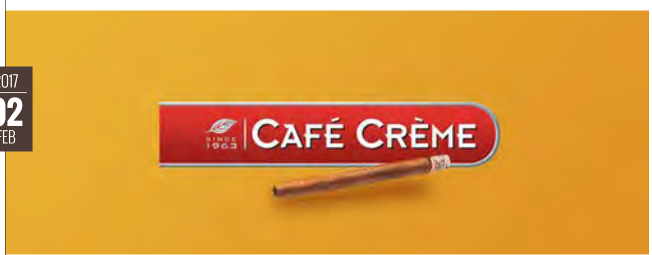
Additional opportunities for improving our operating model were identified. In November, we merged our supply chains for machine-made cigars, pipe tobacco and fine-cut tobacco. The improved operating model allowed further optimisation potential of estimated DKK 60-65 million on an annual run rate basis.

EVENTS AFTER 31 DECEMBER 2016

2017 02 FEB

TWO BRAND NAMES PROHIBITED IN FRANCE

The French Ministry of Health and Ministry of Budget published the results of their review of all tobacco products in the French market. The authorities consider the brand names Café Crème and Paradise a violation of the French Public Health Code, leaving our Group one year to change the brand names for our products. Cigars, packaging and design can still be sold in France during that year. Scandinavian Tobacco Group intends to appeal the administrative ban to the French courts.



SOCIAL RESPONSIBILITY

RESPONSIBILITY IS ONE OF OUR FIVE CORE VALUES
AND EMBEDDED IN HOW WE CONDUCT OUR BUSINESS.

We want to conduct our business to the highest standards. We are committed to honest and ethical behaviour and want to be regarded as trustworthy and transparent by those we engage with, be it commercial partners, employees, civil society or regulators.

In our Code of Conduct we describe the behaviour we expect from every one of our employees in order to ensure compliance and continued high ethical standards in our business. The Code of Conduct also comprises our fundamental beliefs and overall policies in the area of Social Responsibility, including our commitment to respect human rights and labour rights, to limit our impact on the environment and our will to provide safe and healthy working conditions for our employees. Based on the Code we will continue to develop internal policies, guidelines and projects to support us in continuously improving in terms of sustainability. Our Code of Conduct is available online on www.st-group.com.

A fundamental pillar for the way we operate our business is the fact that smoking comes with a health risk and our strong belief that no one below the age of 18 – or such higher age as the law may prescribe – should smoke. We have developed our own Marketing Principles that ensure that we not only comply with the law but employ responsible marketing and sales practices across all markets in which we operate. A close cooperation between Group Marketing and Group Legal is in place to ensure compliance with our Marketing Principles.

Late 2016, we implemented a global whistleblower scheme which facilitates reporting by employees of wrongdoings and breaches of law and sends a signal to everyone in the organisation that we prioritise transparency and compliance and urge employees to assist us in succeeding with that task. No issues were reported under the scheme in 2016.

OUR VIEW ON SMOKING

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

Learn about our view on smoking on www.st-group.com/en/about/our-view-on

OUR ENVIRONMENTAL IMPACTS

OUR POLICY

We acknowledge the importance of protecting the environment and strive to reduce the impact of our activities on the environment. We seek to reduce the use of resources like water and energy in our production facilities, and we manage and seek to reduce the amount of waste as well as emissions of air and water. By these initiatives to protect the environment, we aim to also reduce our impact on the climate.

ACTIONS

The greatest risk for our company having a negative impact on the environment arises in our production facilities around the world. These vary between very large, modern plants and facilities where there is only little automation and few machines.

We have a structured approach to the environmental review of our production plants through our Group's Environment, Health and Safety (EHS) Programme. Every second year every production plant undergoes a comprehensive on-site review which in regards to the environmental part focuses on energy and water consumption, emissions and waste. The EHS programme ensures application of best practice across our Group.

We focus on energy saving and aim to limit, reuse and recycle waste where possible. In 2016, the audit cycle included six factories in the Dominican Republic, Indonesia, Nicaragua and Honduras. The ambition set in 2011 is that all facilities in

The pages 32-35 are our statutory report on CSR for the financial year 2016 cf. Section 99a of the Danish Financial Statements Act ("Lovpligtig redegørelse for samfundsansvar, jf. årsregnskabslovens §99a").

the EHS programme shall achieve an overall score of at least 80% in 2017 (originally 2016). With the results of the last cycle in 2016 included, the average score for the 12 production facilities is 81% (up from 79% in 2015), with scores for the individual facilities ranging from 75% to 91% and five facilities scoring below the target 80%.

On an ongoing basis we install energy-saving equipment, and 2016 was no exception. New machinery and installation of LED lighting in some of the production facilities contributed to the reduction of the energy consumption. In 2016, the energy consumption in our Group's production facilities was reduced by 1.4% compared to 2015. The energy consumption was affected by the fact that the produced volume in some of the manufacturing facilities was lower in 2016 than in 2015.

In 2016, the total water consumption in our production facilities was reduced by 4.5% compared to 2015. Following an almost unbroken downward trend in the amount of water used in various parts of the production over the past five years, the water consumption in 2016 was 17.4% lower than that recorded in 2012.

The amount of tobacco waste generated by our Group in 2016 was at the same level as in 2015, but the share of the tobacco waste which was recycled increased by one seventh to 23% (20%) while the share that was used for landfill continued the downward trend achieved over the past five years and dropped slightly to 18% (19%). We did not manage to reduce the amount of general waste (non-tobacco) generated in 2016 but saw an increase of 12% compared to 2015. However, the share thereof which was recycled was 65% compared to 52% in 2015.

Wood is used as fuel in the curing of certain types of tobacco that we buy, and we also use wood for cigar boxes for certain of our cigars. In the Dominican Republic we have for several years been actively involved in a reforestation project. In 2016, employees in the country planted 4,000 trees thus again making a valuable contribution to the reforestation in the local area. Our employees have since 2009 planted a total of more than 21,000 mahogany, oak and acacia trees of which approx. 60%, i.e. 13,000 trees, are still growing.

Also in Honduras we are engaged in a reforestation project which started in 2010 with the involvement of other stakeholders. In 2016, 600 pines were re-planted by our dedicated employees as part of the continued maintenance of one of the areas where the planting was carried out in connection with the project. In Indonesia, our local company in 2016 sponsored the planting of 500 trees in the local area as a contribution to a government project aimed at preventing landslide and erosion resulting from deforestation.

Going forward we will continue to apply the high standards of our EHS programme in the continuous effort to improve and reduce our impact on local communities and the environment. We intend to continue to optimise and reduce energy consumption. Further, the amount of waste should go down, and the management of waste through recycling and environmentally optimal disposal will also be in focus in the coming years. In 2017, five of our factories in the US, Denmark, the Netherlands and Belgium will undergo their regular audit under the EHS programme.

OUR PEOPLE AND COMMUNITIES

OUR POLICY

Our employees are the foundation for the success of our business and their well-being is critical to us. We want all our employees to enjoy safe and healthy working conditions and seek to reduce the risk of accidents and work-related illnesses. We treat everyone with respect, trust and dignity. No form of discrimination is tolerated as we embrace everyone irrespective of gender, nationality, age, religion, race, ethnicity, political opinion, union membership, sexual orientation, disability, health status or any other characteristic. We value the dialogue and collaboration with our employees and aim to apply good labour practices in all our operations.

We respect that our employees have a freedom of association, the right to be represented by a union and the right to bargain collectively. Terms of employment and working conditions as a minimum comply with the law, including any law on minimum wage.

OUR ACTIONS

In 2016, we continued to have a good and constructive dialogue with our employees and their representatives, including on the re-structuring announced for our supply chain which includes the closure of production facilities in Belgium and Denmark. We expect to continue the constructive and respectful dialogue with our employees.

In 2017, we plan to repeat the Group-wide engagement survey which was most recently conducted in 2014 to capture the general level of engagement and satisfaction among all our employees. We aim to see a generally continued high level of engagement and empowerment as reflected in the prior survey.

As part of the general audit cycle of our EHS (Environment, Health and Safety) Programme, audits were conducted in six facilities in the Dominican Republic, Nicaragua, Honduras and Indonesia in 2016. All facilities undergo audits every two years. The audits include the identification of work processes and equipment which may imply a risk to our employees, and the audits are followed up by action plans and controls to ensure a continuous improvement in terms of health and safety. The audits in 2016 showed a continued high level of compliance with our requirement for healthy and safe working conditions.

In 2016, the number of work-related accidents (i.e. Lost Time Accidents defined as injuries leading to more than one working day's absence) in our factories was 80, compared to 71 in 2015. The accident rate (number of accidents per 200,000 hours worked) increased from 1.05 in 2015 to 1.18 in 2016. This development is not satisfactory, and initiatives are taken locally and in the EHS programme to turn it around, for instance by an analysis of the root cause of any accident that happens in our facilities.

In several of our production facilities and offices, the employees are offered regular health checks. This is of particular value in communities where health services are not readily available to everybody. In the Dominican Republic and Honduras we continued to provide education to our employees on general health issues for the benefit of them and their families. We have also for many years in the Dominican Republic run educational programmes to increase the literacy of our employees, and in more countries we provide scholarships for the education of employees' children. Examples of our support to employees further include access to basic household needs, food and medicine. We plan to continue these activities focusing on the well-being, development and education of our employees.

Because of the employment they offer, our production entities are often important for the well-being of their local community. Our engagement in the local communities goes beyond that. Also in 2016, our entities contributed to their local communities, for instance by sponsoring equipment to local institutions, schools and fire stations and by charitable contributions to people in need.

ANTI-CORRUPTION AND BRIBERY

HUMAN RIGHTS

OUR POLICY

We respect internationally recognised human rights as described in the International Bill of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the UN Guiding Principles on Business and Human Rights and conventions describing the rights of children.*

We do not accept and do not use child labour. We respect children's rights, including their right to development and education, rest and play. No child should be subject to forced labour or to child labour, such as work for which the child is too young (below the applicable minimum age), or work which is mentally, physically, socially or morally dangerous to children or work that interferes with their schooling.

Our aim is to avoid causing or contributing to adverse impacts on human rights, including children's rights and to address and mitigate such impacts if they occur.

OUR ACTIONS

We are concerned about the fact that tobacco growing like other types of agriculture can involve great risk of child labour and working conditions below standard. It is a challenge to address this issue efficiently. We have numerous third party suppliers who only in some cases are in direct contact with the farmers or are farmers themselves.

We currently conduct relatively simple reviews in this field of some of our tobacco suppliers and only with irregular intervals. As we have recently established a global tobacco procurement function across our product categories we have a good basis for implementing a uniform, systematic and risk-based approach to the due diligence related in particular to child labour. We plan to make this improvement gradually in the coming 1-2 years strengthening our capabilities in the assessment and influencing of the working and social conditions where we source tobacco applying a risk-based approach focusing on where we are best able to make a real difference.

We have continued our long-term engagement with the Eliminating Child Labour in Tobacco Growing Foundation in 2016 and will continue to do so in 2017. The Foundation, which has the involvement of several other members of the tobacco industry and the ILO, is involved in advocacy and research in the area of child labour and works with national and local governments to influence public policy on child labour. The Foundation also runs long-term projects in tobacco-growing communities to address some of the root causes of child labour and provide education. More information can be found on www.eclt.org

** Please see our Code of Conduct at our website for the full list.*

OUR POLICY

Scandinavian Tobacco Group has a zero-tolerance approach to corruption and all forms of bribery, including facilitating payments.

OUR ACTIONS

Scandinavian Tobacco Group operates internationally, including in parts of the world where corruption and bribery are affluent and prevent societies from developing and overcoming other fundamental societal challenges. We will take measures to ensure that our Group has no part in any such activities, irrespective of how common they may be in a particular country where we operate or our products are sold.

In 2016, we informed Group-wide about our anti-corruption policy which contains examples of non-acceptable conduct, describes principles for gifts and hospitality and describes how to report incidents. We plan in 2017 to ensure that all relevant stakeholders receive more elaborate training in the practical application of the policy.

With the recently implemented whistleblower scheme, all employees in the Group can easily report any suspected breaches of the non-tolerance policy.

RISK MANAGEMENT

FOUR WELL-KNOWN ISSUES CONTINUE
BEING AT THE CENTRE OF HOW WE MANAGE RISK.

We seek to identify and assess potential risks to our business in order to monitor and, as relevant, mitigate such risks whether they are at Group or local level. Particular attention is given to risks that have a high likelihood of materialising and/or may have a potential high impact on our business performance and operating income.

GOVERNANCE STRUCTURE

The oversight responsibility for risk management lies with the Board of Directors. The Board of Directors has appointed the Audit Committee to assist on its behalf in monitoring the effectiveness of our Group's risk management and internal control systems. The Audit Committee reviews significant risks related to our business, as well as risks related to the financial reporting. The Executive Management is responsible for identifying, assessing and reviewing the overall risk exposure associated with our activities.

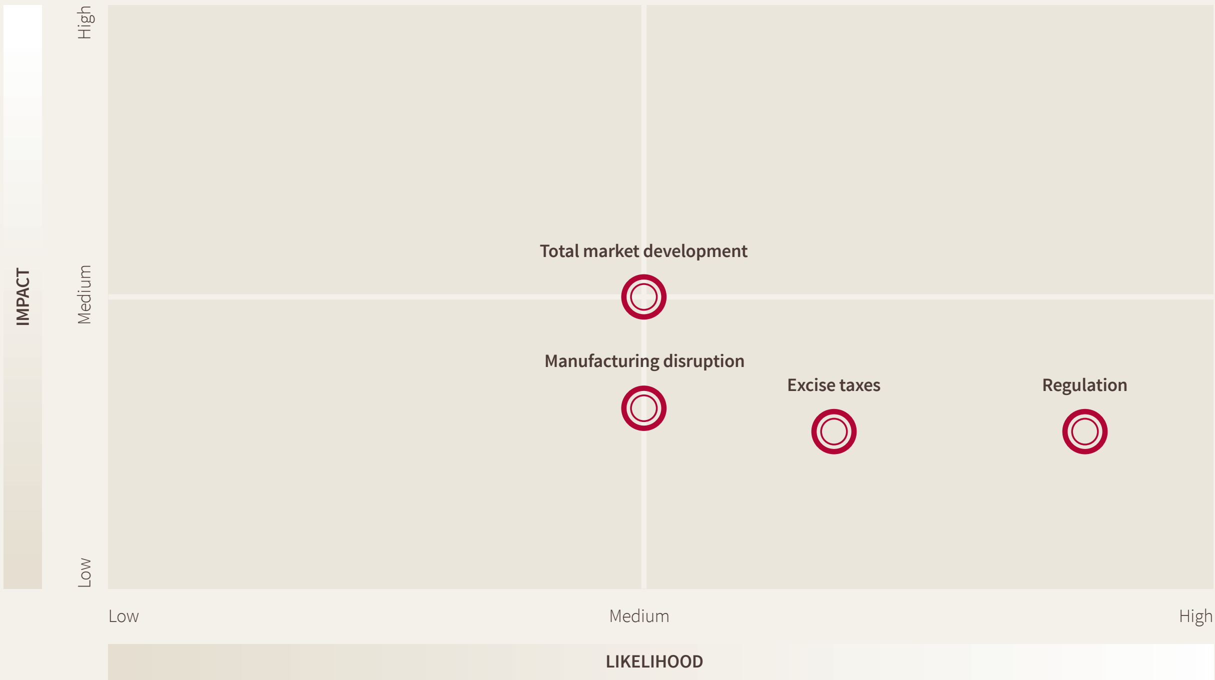
PROCESS

Facilitated and supported by our Group's corporate functions, key risks are identified and assessed by the Executive Management. The identified risks are assessed according to a heat map rating system that estimates the impact of the risk on operating income and the likelihood of the risk materialising. The Executive Management identifies the main material risks for the coming year. These are reported and discussed with the Audit Committee and, subsequently, the Board of Directors.

In 2016, the Audit Committee has reviewed our assessment of identified risks and shared these with the Board of Directors.

The main business risks identified for 2016, which are not significantly different compared to previous years, are regulation, excise taxes, total market development and manufacturing disruption. The identified financial risks, including foreign exchange, interest rate, credit and liquidity risks, can be found in note 4.2 on page 89.

RISK MANAGEMENT MAP



REGULATION

For decades, governments and health officials have taken regulatory measures due to the health risks associated with smoking. The regulations related to the tobacco industry continue to increase. The vast majority of the countries in which we operate have implemented regulations on tobacco products. The most recent regulatory initiatives in selected markets include required neutral packaging without branding, a ban on certain flavourings, significant reporting obligations in respect of ingredients and a ban on display of tobacco products at the point of sale.

Mitigating actions
Tobacco regulation may impact our industry's ability to compete and differentiate its products, entail substantial costs for our Group, adversely affect our results of operations and increase complexity in our operations.

We identify and monitor ongoing regulatory initiatives. In collaboration with US, European and national trade organisations, we engage with regulators and stakeholders, as necessary, to ensure reasonable and balanced regulations that meet their objective. We have dedicated and continue to spend significant resources on the preparation for and implementation of increasing regulations.

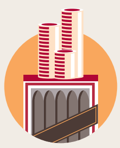
TOTAL MARKET DEVELOPMENT

Though cigar volumes have demonstrated higher resilience than cigarettes in the markets where we operate, total market volumes have declined for decades.

In our machine-made cigars and pipe tobacco categories, particularly, total markets continue to decline and this decline may continue in the future. Though we have sales to more than 100 countries, a significant decrease in demand for tobacco products in one or more core markets or categories would impact our Group net sales and earnings negatively.

Mitigating actions
We monitor the market trends on a monthly basis, collect market research data and conduct quarterly forecast projections in order to ascertain market development.

The financial reporting, production development and market forecast are assessed on a monthly basis in order to promptly address adverse market conditions.



EXCISE TAXES

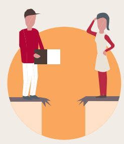
Excise taxes are a major component of the retail price of tobacco products. Governments may decide to increase the excise tax on our products to increase tax revenue or as a means to limit tobacco consumption.

Increases in the tobacco excise tax rates – in particular an alignment of excise tax rates across tobacco product categories – could significantly impact the consumer price of and potentially the demand for our products.

Our ability to adjust to an increase in excise taxes on our products could be limited if such an increase is implemented at a time or frequency we did not expect, where change was by a larger amount than we expected or in a particular market or jurisdiction that we did not anticipate.

Mitigating actions
We actively monitor potential changes to the excise taxes imposed on our products and, together with trade industry partners, we engage in dialogue with regulators to limit the risk of disruption in the market.

We aim to pass on excise tax increases to consumers wherever possible in light of the market conditions.



MANUFACTURING DISRUPTION

We are dependent on our ability to supply products to our customers. Political and economic unrest, variations in weather patterns in tobacco growing areas and labour instability may arise in countries and regions in which we manufacture our products.

Crop quality and supply may be at risk for our Group if natural disasters occur in tobacco growing regions.

Interruptions in our Group's supply of products to the market could have a material adverse effect on our business.

Mitigating actions
Our operations setup is global with production facilities on four continents. We monitor geopolitical and economic policy developments where it is relevant and avoid overdependence on specific manufacturing sites.

Our Group carries inventory to safeguard against bad crops and promotes the efficient use of materials by continuously reviewing the manufacturing process to minimise the impact of such disasters. Finally, we assess on an ongoing basis the adequacy of our insurance coverage.

CORPORATE GOVERNANCE

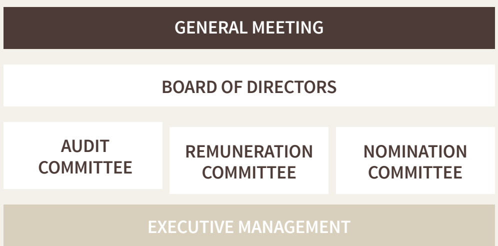
SCANDINAVIAN TOBACCO GROUP A/S IS INCORPORATED IN DENMARK UNDER DANISH LAW. ON 10 FEBRUARY 2016, OUR SHARES WERE PUBLICLY LISTED ON NASDAQ COPENHAGEN.

Our Group's corporate governance is based on the Danish Companies Act, the Danish Financial Statement Act, the International Financial Reporting Standards (IFRS), the Danish Securities Trading Act, Nasdaq Copenhagen A/S' Rules for Issuers of Shares and our articles of association.

GOVERNANCE STRUCTURE AND ACTIVITIES

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

OUR GOVERNANCE STRUCTURE



RECOMMENDATIONS AND PRACTICE

Being a publicly listed company Scandinavian Tobacco Group is required by law to report on its compliance with the Danish Recommendations on Corporate Governance, which are available at www.corporate-governance.dk. We are required to report whether we comply with the Recommendations, and if we do not comply, an explanation must be provided ("comply-or-explain principle").

We comply with all but one of the corporate governance recommendations. Our statutory 2016 report on corporate governance can be found online on www.st-group.com/statutory-corporate-governance-report-2016

Our Group has a two-tier management structure consisting of the Board of Directors and the Executive Management. The two governing bodies are independent of one another and have no overlapping members. The Board of Directors is responsible for the overall strategic direction and supervises the Group's activities, management and organisation. The Board of Directors appoints the Executive Management which is responsible for the day-to-day management of our Group.

BOARD OF DIRECTORS

The Board of Directors oversees that the Executive Management carries out its tasks in the appropriate way and in accordance with the guidance of the Board of Directors. The primary tasks of the Board of Directors further include ensuring that the Group has the right organisational structure, efficient business processes, including bookkeeping processes and practices, and a sound capital structure and liquidity. The Board of Directors also oversees our Group's financial development as well as the financial planning and reporting systems.

Members

The Board of Directors currently has eight members elected by the General Meeting and four employee-elected members. All members of the Board of Directors hold the same rights and obligations. Members elected at the Annual General Meeting are up for election at the next Annual General Meeting whereas employee-elected members are elected for four years. Only persons who are younger than 70 years at the time of the election may be elected by the General Meeting. Seven of the eight shareholder-elected members of the Board of Directors are considered independent while none of the employee-elected members are independent as defined by the Danish Recommendations on Corporate Governance.

Committees

The Board of Directors has established three committees. All committees report to the Board of Directors and have Rules of Procedure adopted by the Board of Directors. Terms of reference which set out the authority, duties and procedural matters for each of the committees are available at our Group's website.

The **Audit Committee**'s tasks include review, assessment and supervision of the financial reporting, the audit process and the internal control and risk management systems. The Audit Committee also assesses the independence of the external auditor, supervises the work of the external auditor and assesses the need for an internal audit function. The CFO participates in meetings of

BOARD ACTIVITIES DURING 2016

During 2016, the Board of Directors held nine meetings with an average attendance rate of 89%. The activities included:

Preparations for public listing
Continued preparations for and completion of the Initial Public Offering of shares in Scandinavian Tobacco Group on Nasdaq Copenhagen in February 2016, including
- review, verification and approval of the offering circular
- review and discussion of recommended price range for the contemplated offering
- resolution to proceed with Initial Public Offering

Strategy
- monitoring progress of the DKK 140/500 million cost optimisation and efficiency programme
- approval of a strategy review for our machine-made cigars business
- optimisation of the production footprint by adoption of our plan to reduce the number of factories from 14 to 12
- approval of new operating model with an integrated mass-market supply chain and optimisation of sales and support functions
- discussion on M&A and other strategic projects
- decision on extension of the termination date for two thirds of our Group's external financing
- insurance review

Governance and Compliance
- discuss composition of Board of Directors in light of the public offering
- review and approval of candidates for the Board of Directors for election by General Meeting
- adoption of renewed Investor Relations Policy
- approval of Code of Conduct which includes our Group's CSR policy
- adoption of an Anti-corruption Policy and implementation of whistleblower scheme
- adoption of revised internal rules related to being publicly listed as a consequence of the EU Market Abuse Regulation

the Audit Committee and the CEO and the external auditor may participate in meetings of the Audit Committee if so requested by the Audit Committee.

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

During 2016, the Audit Committee has held five meetings and the attendance rate was 100%. The external auditor and the CFO participated in all of the meetings of the Audit Committee.

In 2016, the main activities were:
- review of the annual report and the quarterly financial statements
- review of the main accounting principles and significant accounting estimates
- review of the adequacy and effectiveness of the Group's internal control and risk management systems
- review of the Executive Management's risk assessment of the Group
- re-assessment of the need for an internal audit function
- recommendation for the selection of external auditors, including evaluation of independence, competencies and compensation
- review of the implementation of a whistleblower scheme
- self-assessment of the Audit Committee's work

The **Remuneration Committee** provides recommendations to the Board of Directors in regard to the remuneration policy applicable to the Board of Directors and the Executive Management. The remuneration policy adopted by the Board of Directors is presented to the General Meeting for approval. The Remuneration Committee further submits proposals for the remuneration of the Board of Directors and the Executive Management to the Board of Directors. The Remuneration Committee consists of Jørgen Tandrup (chairman), Nigel Northridge and Conny Karlsson.

The Remuneration Committee generally has three annual meetings. In 2016, the committee met twice and the attendance rate was

BOARD OF DIRECTORS' MEETINGS IN 2016

Jørgen Tandrup	100%
Nigel Northridge	100%
Conny Karlsson	100%
Dianne Neal Blixt	100%
Henning Kruse Petersen	89%
Luc Missorten	80%
Marlene Forsell	89%
Søren Bjerre-Nielsen	100%
Charlotte Lückstadt Nielsen	100%
Hanne Malling	100%
Kurt Asmussen	100%
Lindy Larsen	100%
FORMER BOARD MEMBERS	
Anders C. Obel	100%
Fredrik Lagercrantz	100%
Hermod Hvid	0%
Lars Dahlgren	100%
Tommy Pedersen	100%
Average attendance rate	89%

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

100%. The main activities included assessment of the remuneration of the Executive Management, amendments to the Long-term Incentive Programme and approval of the key performance indicators related to the Long-term and Short-term incentive programmes.

The **Nomination Committee** supports the Board of Directors' decisions with respect to the nomination and appointment of members of the Board of Directors and of the Executive Management. The Nomination Committee assesses the structure, size and composition of the Board of Directors and the qualifications, experience and know-how of each member of the Board of Directors and the Executive Management. The committee reports its assessments to the Board of Directors.

The Nomination Committee consists of Jørgen Tandrup (chairman), Nigel Northridge and Conny Karlsson.

The Nomination Committee generally has three yearly meetings. In 2016, the Nomination Committee had two meetings with a 100% attendance rate. A central activity of the Nomination Committee in 2016 was the identification of suitable candidates for the Board of Directors up to and following the public listing of Scandinavian Tobacco Group. Dianne Neal Blixt, Luc Missorten, Søren Bjerre-Nielsen and Nigel Northridge all joined the Board of Directors in 2016. The Nomination Committee further assessed the composition, qualifications and performance of the Executive Management and reported its findings to the Board of Directors.

DIVERSITY AND INCLUSION

The Board of Directors believes that members of the Board should be elected based on their professional experience and qualifications but also that diversity improves the quality of its discussions and decision-making not only in the Board of Directors but in the Group as a whole. Diversity brings strength to our Group. The Board of Directors has adopted our Group's Diversity and Inclusion Policy which can be found on our Group's website.

Five out of the eight shareholder-elected members of the Board of Directors are of another nationality than Danish, and a total of five nationalities are represented on the Board of Directors. Two out of the eight shareholder-elected members of the Board are women. The share of shareholder-elected women on the Board of Directors (25%) reached in 2016 meets the goal which the Board of Directors had aimed to reach by 2017. The Board of Directors continues to consider the 25% share ambitious and realistic and therefore, it has the ambition that at least 25% of the shareholder-elected members of the Board of Directors should be women by 2020. Other Danish companies of our Group subject to the reporting requirement in section 99b of the Danish Financial Statements Act have an equal representation of men and women at the supervisory board level.

We wish to get a better representation of women at senior management level as women are currently the under-represented gender. By specific measures we aim to identify all talents with leadership potential in our Group, irrespective of gender. We have a particular focus on identifying and developing women who can grow into leaders and take on more responsibility or advance in their existing leadership roles.

In 2015, 22% of our top 200 senior managers were women. In 2016, the Senior Executive Management was redefined and focused to include the top 60 leaders in the Group, including the Executive Management. Currently, 20% of our Senior Executive Managers are women. Our target is that women account for one third of this group by 2020.

Our Group's performance tracking process covers more than 2,000 employees across functions and geographies evaluating the individuals' performance and potential. This process ensures that a gender diverse talent base is identified each year. As part of the ongoing, structured appraisal process, individual plans are made to strengthen the development and performance of talents with equal opportunities for all, irrespective of gender.

In addition, we have a tradition for channelling young university graduates with international profiles into key roles via our International Graduate Programme within marketing and sales. The share of women recruited in the programme is approx. 60% from its inception to today.

In 2017, we will continue to leverage the performance measurement and tracking processes to more efficiently identify and develop talent. Further, a kick-off is planned of a talent acceleration programme designed to build competencies for individuals who have the ability to grow into senior managerial roles. We will focus on performance and potential, irrespective of gender and other demographic background, in the selection of individuals for this new programme. We aim at ensuring a representation of women in the programme which supports our overall target of having one third of our senior managers being women.

EXECUTIVE MANAGEMENT

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

RISK MANAGEMENT IN RELATION TO FINANCIAL REPORTING

Internal Controls Relating to Financial Reporting

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

The foundation for the assurance and internal control systems related to the financial reporting is a set of policies and procedures in key areas including our Code of Conduct, Finance Manual, Internal Control Policy, Guidelines for Internal Control, Delegation of Authority Guidelines, etc. The policies and procedures apply to all subsidiaries within our Group.

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

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

Audit

The Financial Statements are audited by an external auditor.

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

The Audit Committee assesses the independence, objectivity and competence of the external auditor and presents its recommendation to the Board of Directors in order for the Board of Directors to make its recommendation to the General Meeting on the election of the external auditor.

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

Whistleblower Scheme

In December 2016, we implemented a whistleblower scheme. The scheme, which is accessible to all employees, enables reporting of for instance criminal activities and violations of Group policies, and employees are encouraged to report any suspected wrong-doings.

REMUNERATION REPORT

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

The overall objective of the remuneration policy is to attract, motivate and retain qualified members of the Board of Directors and Executive Management. The policy aims at aligning the interests of shareholders, Board of Directors and Executive Management and rewards both short-term and long-term contributions and results. The remuneration policy can be found on our corporate website: investor.st-group.com.

Board of Directors

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

Based on the proposal from the Remuneration Committee, the Board of Directors annually submits a proposal for the remuneration of the Board of Directors for approval by the shareholders at the Annual General Meeting. In 2016, members of the Board of Directors and the board committees received fixed annual fees in the aggregate amount of DKK 7.2 million.

Executive Management

The Executive Management's remuneration is assessed annually and compared to the remuneration level of similar international companies in terms of size and complexity. Once a year, the Remuneration Committee presents a proposal for the remuneration of the members of the Executive Management to the Board of Directors, including the performance criteria applicable to any variable components of the remuneration.

The members of the Executive Management are subject to our Group's long-term incentive programme (LTIP) and a transition share programme (TSP) according to which the participants receive an annual grant of performance share units (PSUs). The CEO receives an annual grant of PSUs corresponding in value to 40% of his current annual base salary, whereas other members of the Executive Management receive a grant of PSUs corresponding to 30% of their annual base salary. The value of the PSUs follows the trading value of the Scandinavian Tobacco Group share during a 3-year performance period. For the TSP the performance period is the 2016 and 2017 financial years, respectively. The shares, if any, to be allocated to each participant under the LTIP and TSP following the respective performance periods will be determined on the basis of the initial PSUs granted on the Grant Date, with the addition of any dividend PSUs granted, adjusted by the performance in the performance period against the pre-defined KPI multiplier (between 0.0 and 2.0).

Members of the Executive Management are also subject to a short-term incentive programme (STIP) according to which they may receive an annual target bonus of 20% with a potential bonus of up to 40% of the annual base salary for the CEO and a 25% target bonus with a potential bonus of up to 50% for the other members of the Executive Management. The Executive Management's bonus is based on the parameters EBITDA growth and inventory reduction. The individual employment contracts for members of the Executive Management may be terminated with 6-24 months' notice.

For the year 2016, the total compensation of the Executive Management, including salary, bonuses and pension aggregated DKK 29.5 million. In addition, the Group has expensed DKK 7.1 million related to stay-on bonuses and loyalty payments accumulation over time, which will become payable for certain members of the Executive Management, if they continue to be employed in their current positions. The Group has also expensed DKK 7.6 million in IPO bonus related to the listing of the Group on Nasdaq Copenhagen on 10 February 2016. Further the Group has expensed DKK 6.7 million related to the long-term incentive programme and transition share programme mentioned above, whereby total costs of remuneration for the Executive Management in 2016 amount to DKK 50.9 million.

More information regarding the remuneration of our Board of Directors and Executive Management can be found in note 2.2 and 2.3 in the Financial Statements on pages 70-73.

FINANCIAL GUIDANCE 2017

FINANCIAL GUIDANCE 2017

↔ Flat organic net sales

▲1-3% organic EBITDA growth

For 2017, we expect a flat development in organic net sales and 1-3% organic growth in EBITDA.

Our EBITDA growth level reflects the impact of the implementation of new IT systems at Cigars International and adverse developments in the total market for machine-made cigars.

During the first months of 2017, our online and catalogue retail business in the US implemented new IT infrastructure and warehouse management systems. The implementation has caused significant interruptions in our sales, invoicing and customer service of a temporary nature during the first quarter that will affect our full-year 2017 performance.

We expect to have resolved the challenges encountered by the end of Q1 and remain confident that the new IT systems will improve the long-term competitiveness of Cigars International which remains in a very healthy state.

In machine-made cigars, we estimate the total market decline to have accelerated somewhat, but overall visibility remains low due to the implementation of the new EU Tobacco Products Directive. We expect that fluctuations and tighter management of stock levels following the implementation of the directive will continue into some point in 2017.

Quarterly distribution and first quarter 2017
Year on year, our business is relatively stable reflecting the consumption pattern by the end consumer, but net sales are distributed unevenly over the quarters with the first quarter being lowest. During the first quarter of 2017, these effects are deepened by the IT implementation at Cigars International, increased price competition in Canada and current total market development in machine-made cigars in Europe. As a consequence, we expect organic growth in net sales and adjusted EBITDA to be negative in the quarter.

Cost optimisation and efficiency progress
We expect to progress further in our cost optimisation and efficiency programmes throughout the year. We estimate that slightly more than one third of the total DKK 200 million in costs savings from the two programmes will materialise in 2017 on top of the approx. one third that was realised in 2015 and 2016.

The expectation of a 1-3% increase in organic EBITDA growth includes the above-mentioned cost savings, FDA user fees of approx.1% of our Group's costs of goods sold, general cost inflation and investments in developing innovative new products and concepts and strengthening of global excellence centres.

Other financial expectations
- Financial expenses, excluding currency losses or gains, are expected to be in the range of DKK 70-80 million
- The effective tax rate is expected to be in the range of 24-25%
- Maintenance CAPEX is expected to be approx. DKK 150 million
- We expect remaining non-recurring costs from our ongoing cost optimisation and efficiency programmes of approx. DKK 50 million

ORDINARY DIVIDEND AND EVALUATION OF POSSIBLE EXCESS CASH

For the financial year 2016, the Board of Directors proposes a 10% increase of the ordinary dividend to DKK 5.50 per share, corresponding to a total dividend of DKK 550 million and a pay-out ratio of 81% (75%) of net profit.

The Board of Directors will continue to evaluate the distribution of possible excess cash to shareholders in relation to the third quarter announcement in November 2017.

BOARD OF DIRECTORS

				
	JØRGEN TANDRUP Chairman Master of Science degree from Copenhagen Business School and ISMP Degree 1 from Harvard Business School	**NIGEL NORTHRIDGE** Vice-Chairman HND in Business Studies from Northern Ireland Polytechnic, Sullivan Upper School, Belfast	**SØREN BJERRE-NIELSEN** State-Authorised Public Accountant and Master's degree in Economics and Business Administration from Copenhagen Business School	**DIANNE NEAL BLIXT** Master's degree in Business Administration and Finance from University of North Carolina at Greensboro
COMPETENCIES	• Extensive general management experience • Experience in sale and marketing and fast-moving consumer goods businesses • Long executive experience in the tobacco industry	• Long professional experience as an executive director in the international tobacco industry • Experience as executive and non-executive director in managing publicly listed companies • Sales and marketing of fast-moving consumer goods	• Long professional experience in general and international management, including of listed companies • Expertise in economic and financial management • Risk management • Strategic business development	• Significant experience in business analysis • Financial management and reporting expertise • Considerable insight into the US tobacco industry
SELECTED FORMER POSITIONS	• Various management positions at Skandinavisk Tobakskompagni A/S 1975-1992 • CEO of Skandinavisk Tobakskompagni A/S 1992-2006 • Chairman of the Board of Directors of Skandinavisk Tobakskompagni A/S 2006-2010	• CEO of Gallaher Group PLC 2000-2007 • Held a number of sales, marketing and then general management positions within the group of Gallaher Tobacco Ltd. (subsequently Gallaher Group PLC) in the UK and overseas, before being appointed to the board of directors in 1993, a position held 1993-2000	• Executive Officer and Chief Financial Officer of Danisco A/S (now Dupont Nutrition Biosciences ApS). 1995-2011 • Managing Director at Deloitte 1986-1995 • Partner at Deloitte State-Authorised Public Accountants 1981-1995	• Various positions in Reynolds American and its subsidiaries 1988 until 2003 • Executive Vice President and Chief Financial Officer of R. J. Reynolds Tobacco Holdings, Inc. 2003-2004 • Executive Vice President and Chief Financial Officer of Reynolds American, Inc. 2004-2007 • Member of the board of directors of Lorillard, Inc. 2011-2015
BOARD POSITIONS	Chairman of the boards of Chr. Augustinus Fabrikker, Caf Invest A/S, Skandinavisk Holding A/S, Skandinavisk Holding II A/S, Tivoli A/S, Fritz Hansen A/S, Kurhotel Skodsborg A/S, Skodsborg Sundhedscenter A/S and Jeudan A/S. Member of board of directors of The Augustinus Foundation, Skodsborg Sundpark A/S, Rungsted Sundpark A/S.	Chairman of the board of Hogg Robinson Group PLC. Senior Independent Director at Inchcape PLC.	Chairman of the board of Danmarks Nationalbank, MT Højgaard A/S, Højgaard Holding A/S, Højgaard Industri A/S and VKR Holding A/S.	Member of the board of directors of Ameriprise Financial Services, Inc. Member of the board of managers of NatureWorks Organics LLC.

BOARD MEMBER SINCE	2010 (Chairman, 2010)	2016 (Vice-Chairman, 2016)	2016	2016
ELECTION PERIOD	2016-2017	2016-2017	2016-2017	2016-2017
CONSIDERED INDEPENDENT	No*	Yes	Yes	Yes
NATIONALITY	Danish	Irish	Danish	American
BIRTH YEAR	1947	1956	1952	1959
AUDIT COMMITTEE			**C**	**M**
NOMINATION COMMITTEE	**C**	**M**		
REMUNERATION COMMITTEE	**C**	**M**		

* Based on the Recommendations on Corporate Governance of the Danish Committee on Corporate Governance last issued on 6 May 2013 and amended in November 2014, Jørgen Tandrup is not independent due to his long affiliation with the Company as an executive.

C = Chairman
M = Member

			
MARLENE FORSELL	**CONNY KARLSSON**	**LUC MISSORTEN**	**HENNING KRUSE PETERSEN**
Master of Science degree in Business Administration and Economics from Stockholm School of Economics	Bachelor's degree in Business from Stockholm School of Economics	Law degree from the Catholic University of Leuven. Certificate of Advanced European Studies from the College of Europe, Bruges. Master of Laws from the University of California, Berkeley	Master's degree in Law from Aarhus University
• Extensive experience in and insight into financial matters • Enterprise performance management • Reporting processes in listed companies	• Extensive experience in the management of international businesses • Sales and marketing and fast-moving consumer goods businesses	• Executive and non-executive general management experience • Substantial experience in financial management of international corporations	• Extensive management experience as CEO and board member of large private, public and state-owned entities • Considerable experience in economics and financing matters
• Various positions in the Swedish Match Group, including Vice President Group Reporting and Vice President Business Control, 2004-2013 • Analyst Ernst & Young, 2001-2004	• Vice-Chairman of the board of directors of Scandinavian Tobacco Group A/S 2010-2016 • CEO of Duni AB 1990-2000 • Various management positions in Procter & Gamble 1978-1990	• CEO of Corelio NV 2007-2014 • Group CFO and Executive Vice President for Finance at UCB S.A. 2004-2007 • Executive Vice President and CFO at Inbev S.A. (now ABI) 1995-2003	• Group Managing Director of Nykredit 1995-2007
Senior Vice President and CFO of Swedish Match AB. Chairperson, member of the board of directors or member of the executive management of thirteen subsidiaries of Swedish Match AB and member of the board of directors of Arnold André GmbH & Co. KG.	Chairman of the boards of Swedish Match AB, YA Invest AB, Zeres Capital AB, EuroFlorist Holding AB, Euroflorist Aktiebolag, Filius Luna Invest AB, Kungsåra Bildemontering AB. Member of the board of directors of YA Holding AB, Åkestam Holst Group AB, ArcbyNoA AB, Bold Stockholm AB, Anfri AB, Fornwij AB, Studion Åkestam Holst AB, Karelia Timber Intressenter AB, Promenad Intressenter AB, Malte Månson Holding AB and Åkestam.Holst Intressenter AB.	Chairman of the board of Ontex Group NV. Member of the board of directors of Barco NV, Recitel NV/SA, GIMV NV and Corelio NV.	Chairman of the boards of C.W Obel A/S, Erhvervsinvest Management A/S, Santa Fe Group A/S, Den Danske Forskningsfond, Scandinavian Private Equity A/S, Midgard Denmark K/S, Howart University A/S, Lunar Holding ApS, Lunar Way A/S, Firstaiders A/S and The Financial Compliance Group A/S. Deputy Chairman of the boards of Skandinavisk Holding A/S, Skandinavisk Holding II A/S, Fritz Hansen A/S and Asgard Ltd. Member of the board of directors of Proactive A/S, Det Østasiatiske Kompagnis Almennyttige Fond, Midgard Group Inc. and Dekka Holdings Ltd.
2014	2010	2016	2010
2016-2017	2016-2017	2016-2017	2016-2017
Yes	Yes	Yes	Yes
Swedish	Swedish	Belgian	Danish
1976	1955	1955	1947
M			
	M		
	M		

BOARD OF DIRECTORS




	KURT ASMUSSEN	LINDY LARSEN	HANNE MALLING	CHARLOTTE LÜCKSTADT NIELSEN
	Technician Machinist degree from Teknisk Skole, Odense	Finance Manager MSc. Business Administration & Auditing from Copenhagen Business School	Trademark Manager Bi-lingual Commercial Correspondent degree from Aarhus School of Business	Machine Operator GCSE
COMPETENCIES	Elected by the employees	Elected by the employees	Elected by the employees	Elected by the employees
SELECTED FORMER POSITIONS	–	–	–	–
BOARD POSITIONS	–	Member of the board of directors and Management of STG Holme Real Estate ApS and management of Ejendomme af 1. Januar 2012 ApS.	–	Member of the board of directors of Scandinavian Tobacco Group Nykøbing ApS.
BOARD MEMEBER SINCE	2011	2016	2010	2011
ELECTION PERIOD	2015-2019	2015-2019	2015-2019	2015-2019
CONSIDERED INDEPENDENT	No	No	No	No
NATIONALITY	Danish	Danish	Danish	Danish
BIRTH YEAR	1963	1955	1960	1963
AUDIT COMMITTEE				
NOMINATION COMMITTEE				
REMUNERATION COMMITTEE				

EXECUTIVE MANAGEMENT

NIELS FREDERIKSEN
CEO

Niels Frederiksen (1964) became CEO of Scandinavian Tobacco Group in March 2015 and has held various positions in the Group since 1999, including as Senior Vice President and Executive Vice President.

Niels Frederiksen is currently also the chairman of the board of directors of Boman A/S and on the board of directors of Ingeniør Kaptajn Aage Nielsens Familiefond.

SISSE FJELSTED RASMUSSEN
CFO

Sisse Fjelsted Rasmussen (1967) has been with Scandinavian Tobacco Group since 2008. She serves as Executive Vice President and Chief Financial Officer responsible for Group Finance, Group IT and Group Communications.

Sisse Fjelsted Rasmussen is on the board of directors of Inwido AB.

VINCENT CREPY
EXECUTIVE VICE PRESIDENT, SUPPLY CHAIN

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

CHRISTIAN HOTHER SØRENSEN
EXECUTIVE VICE PRESIDENT, SALES & MARKETING

Christian Hother Sørensen (1964) 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 2006.

Christian Hother Sørensen serves as deputy chairman of the board of directors of Toms Gruppen A/S.

CRAIG REYNOLDS
EXECUTIVE VICE PRESIDENT, HANDMADE CIGARS AND NORTH AMERICA

Craig Reynolds (1955) joined Cigars International in 2009 and was Executive Vice President from 2009 to 2010. In 2011, he became President of Cigars International. Since 2015, he has been Executive Vice President for the global handmade cigar business of Scandinavian Tobacco Group. In January 2017, Craig Reynolds further took responsibility for the whole North American business unit, i.e. our Group's US and Canadian businesses.

Craig Reynolds is not a registered member of the Executive Management.

ROB ZWARTS
EXECUTIVE VICE PRESIDENT, SPECIAL PROJECTS

Rob Zwarts (1955) joined the Group in 2002 and was responsible for our Group's cigar business from 2002 to 2008 and Executive Vice President of Operations from 2008 to 2014. Rob Zwarts is Executive Vice President Special Projects and was responsible for managing our Group's implementation project in relation to the revised EU Tobacco Products Directive.

Rob Zwarts serves as a member of the advisory board of NDF Special Lightning B.V.

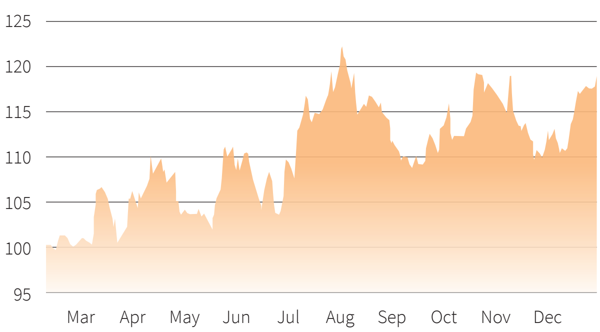
SHAREHOLDER INFORMATION

WE ARE COMMITTED TO MAINTAINING A CONSTRUCTIVE AND TRANSPARENT COMMUNICATION WITH SHAREHOLDERS

HIGHLIGHTS 2016

Scandinavian Tobacco Group was listed on the Nasdaq Copenhagen Stock Exchange on 10 February 2016 at DKK 100 per share. From the listing in February to the end of 2016, the share price increased by 19%. In the same period the Nasdaq OMXC20 index increased by 2%. Including dividend payments, the total return for Scandinavian Tobacco Group shareholders was 24% in the period ending 31 December 2016.

SHARE PRICE DEVELOPMENT



SHAREHOLDERS

Scandinavian Tobacco Group had almost 4,000 shareholders by the end of 2016. The company owns 0.4% of the share capital. As of 1 March 2017, the following investors have reported holdings of more than 5% of Scandinavian Tobacco Group's share capital/ voting rights.

Skandinavisk Holding II A/S	33.1%
Swedish Match Treasury Switzerland AG	9.1%
FMR LLC	6.4%
FIL Limited	5.0%

SHARE DATA

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

DIVIDENDS

Scandinavian Tobacco Group's shareholder return policy includes a dividend policy with a payout ratio of at least 70% of consolidated net profit for the year. In addition to ordinary dividends, the Board of Directors may decide on special dividends and/or share buybacks.

On 26 April 2016, the shareholders approved an ordinary dividend of DKK 5.00 per share to be paid out for the financial year 2015. This was equivalent to a payout ratio of 75% of net profit.

For the financial year 2016, the Board of Directors proposes that the Annual General Meeting approves that a dividend of DKK 5.50 per share is paid to the shareholders. This will be equivalent to a total payment of DKK 550 million and a payout ratio of 81%. The proposed dividend of DKK 5.50 per share corresponds to a 10% increase versus last year.

ANNUAL GENERAL MEETING

Scandinavian Tobacco Group's Annual General Meeting will be held

2017 26 APR

AT 16.30, BOJESEN AXELBORG
VESTERBROGADE 4A
1620 COPENHAGEN V

Doors to the Annual General Meeting open at 15.30. Notices convening General Meetings will be published on our Group's website at www.st-group.com and sent by e-mail to all shareholders registered with an e-mail address in the register of shareholders.

ST-GROUP.COM FOR FAST AND TIMELY INFORMATION

We strive to ensure that relevant, accurate, balanced and timely information is made available to investors. Our website investor.st-group.com is the hub for information about Scandinavian Tobacco Group. All company announcements are published through Nasdaq Copenhagen and, when required, the Financial Supervisory Authority.

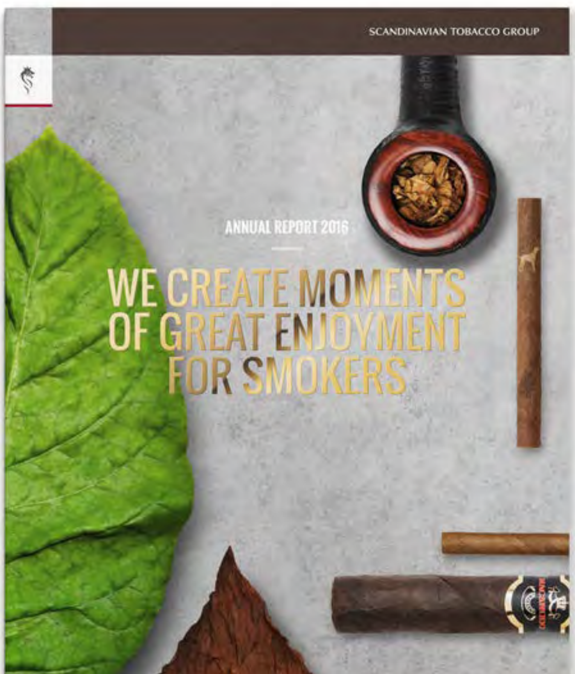
Our Investor Relation Policy contains the main principles for the communication with our investors, analysts and other stakeholders in the capital market. The policy is available in the Governance section at investor.st-group.com.

FINANCIAL INFORMATION

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

Shareholders interested in printed versions of the annual reports can request a hardcopy via investor@st-group.com.

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



FINANCIAL CALENDAR

2017 18 MAY	**Interim Report Q1**
2017 24 AUG	**Interim Report Q2**
2017 08 NOV	**Interim Report Q3**

IR silence periods start four weeks prior to release dates.

SELL-SIDE ANALYSTS

As of 1 March 2017, Scandinavian Tobacco Group is covered by 6 sell-side analysts:

ABG Sundal Collier	Andreas Lundberg
Carnegie	Niklas Ekman
Danske Bank	Tobias Björklund
Deutsche Bank	Gerry Gallagher
JP Morgan Cazenove	Alberto Lopez Rueda
Nordea	Hans Gregersen
SEB Enskilda	Søren Samsøe

CONTACT

For additional information, investors may contact:

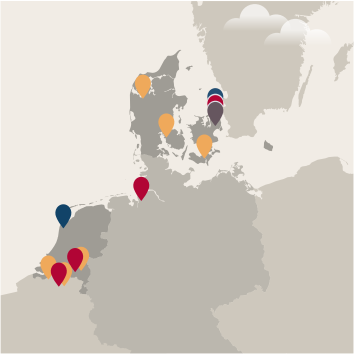
TORBEN SAND
Head of Investor Relations
Tel: +45 72 20 71 26
investor@st-group.com

OUR PRESENCE

SCANDINAVIAN TOBACCO GROUP IS THE PARENT COMPANY OF GENERAL CIGAR CO. AND CIGARS INTERNATIONAL. OUR GROUP HAS 17 SALES COMPANIES, 7 CLUBS AND RETAIL STORES AND 14 MANUFACTURING SITES. OUR GROUP IS HEADQUARTERED IN COPENHAGEN, DENMARK.

1. USA, EAST COAST

2. BENELUX, GERMANY & DENMARK



LOCATIONS

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

MAIN OFFICES

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

SCANDINAVIAN TOBACCO GROUP

GENERAL CIGAR CO., INC.
10900 Nuckols Road, Suite 100
Glen Allen, VA 23060, U.S.A.
Tel: +1 804 935 2800
www.generalcigar.com

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

CLUBS & RETAIL STORES

UNITED STATES
Club Macanudo
26 E 63rd St
New York, NY 10065-8030
Tel: +1 212 752 8200

UNITED STATES
Club Macanudo
6 Times Square
New York, NY 10036
Tel: +1 855 865 6425

UNITED STATES
CI Hamburg Super-Store
1635 Mountain Road
Hamburg, PA 19526
Tel: +1 610 562 0500

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

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

THE NETHERLANDS
P.G.C. Hajenius BV
Rokin 96
1012 KZ Amsterdam
Tel: +31 20 623 74 94

DENMARK
Cigar Shop Macanudo
Silkegade 23
1113 Copenhagen K
Tel: +45 3314 0922

SALES COMPANIES

AUSTRALIA
Scandinavian Tobacco Group
Australia Pty Ltd.
Level 1, 35 Dalmore Drive
Caribbean Park, Scoresby, Vic., 3179
Tel: +61 3 8736 0700

BELGIUM/LUXEMBOURG
Scandinavian Tobacco Group Belux N.V.
Dellestraat 12A
3560 Lummen
Tel: +32 1361 3280

CANADA
Scandinavian Tobacco Group
Canada Inc.
1000 Rue de Sérigny, Suite 600
Longueuil (Quebec), J4K 5B1
Tel: +1 450 677 1807

DENMARK
Scandinavian Tobacco Group
Denmark A/S
Sydmarken 42
2860 Soeborg
Tel: +45 4345 6766

FRANCE
Scandinavian Tobacco Group
France S.A.S.
Le Capitole
55 avenue des Champs Pierreux
92012 Nanterre Cedex
Tel: +33 1 55 17 72 50

GERMANY
Scandinavian Tobacco Group
Deutschland GmbH
An der Reeperbahn 6
28217 Bremen
Tel: +49 421 244 16 0

ITALY
Scandinavian Tobacco Group Italy S.R.L
Via Paolo di Dono 149
00142 Rome
Tel: +39 06 515 30412

THE NETHERLANDS
Scandinavian Tobacco Group
Nederland B.V.
Nieuwstraat 75-77
5521 CB Eersel
Tel: +31 88 2085603

NEW ZEALAND
Scandinavian Tobacco Group
New Zealand Ltd.
Level 1/18-26 Amelia Earhart Avenue
P.O. Box 201230, Airport Oaks
Auckland Airport 2151
Tel: +64 800 442 866

PORTUGAL
STG Portugal S.A
Parque Suécia
Suécia IV – Piso 0, sala 0.10
2794-038 Carnaxide
Tel: +35 191 332 0900

SLOVENIA
Scandinavian Tobacco Group d.o.o.
Vojkova 50
1000 Ljubljana
Tel: +386 1589 7080

SPAIN
Scandinavian Tobacco Group
Spain S.A.U.
Calle Ribera del Loira 4-6, planta 3ª
28042 Madrid
Tel: +34 91 3816400

UNITED STATES
Scandinavian Tobacco Group Lane Ltd.
2280 Mountain Industrial Boulevard
Tucker, GA 30084
Tel: +1 770 934 8540

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

MANUFACTURING SITES

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

—

BELGIUM
Scandinavian Tobacco Group
Wuustwezel N.V.
Bredabaan 853
2990 Wuustwezel
Tel: +32 36 33 96 30

—

DENMARK
Scandinavian Tobacco Group Assens A/S
Assens Factory:
Tobaksvej 1
5610 Assens
Tel: +45 6471 1032

—

DENMARK
Scandinavian Tobacco Group Assens A/S
Holstebro Factory:
Herningvej 2
7500 Holstebro
Tel:+45 9611 9611

—

DENMARK
Scandinavian Tobacco Group
Nykøbing ApS
Ndr. Ringvej 25
4800 Nykøbing Falster
Tel: +45 5485 3644

—

THE DOMINICAN REPUBLIC
General Cigar Dominicana S.A.
Zona Franca Industrial, Etapa I
Calle La Paloma, Esq. Villa González
Santiago
Tel: +1 809 226 2500

—

THE DOMINICAN REPUBLIC
Scandinavian Tobacco Group Moca, S.A.
Zona Franca Industrial
Apartado Postal 178
Moca
Tel: +1 809 578 7201

—

HONDURAS
Honduras American Tabaco,
SA de C.V. (HATSA)
Barrio el Quiquisque, Carretera a El Paraíso
Contiguo a la Escuela Normal España y frente al Instituto Pedro Nufio
Danli, El Paraíso
Tel: +504 763 6674

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INDONESIA
P.T. Scandinavian Tobacco Group
Indonesia
Jl. Stadion 28
Pandaan 67156
East Java
Tel: +62 343 631336

—

INDONESIA
P.T. Scandinavian Tobacco Group
Indonesia
Jl. Rembang Industri II/16
Export Processing Zone
Pasuruan 6715
East Java
Tel: +62 343 740274

—

THE NETHERLANDS
Scandinavian Tobacco Group Eersel B.V.
Nieuwstraat 75-77
5521 CB Eersel
Tel: +31 497 58 1911

—

NICARAGUA
Scandinavian Tobacco Group Esteli, S.A.
Km 145 Carretera Panamericana
Esteli
Tel: +505 2713 6228

—

UNITED STATES
Scandinavian Tobacco Group Lane Ltd.
2280 Mountain Industrial Boulevard
Tucker, GA 30084
Tel: +1 770 934-8540

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FINANCIAL STATEMENTS

SCANDINAVIAN TOBACCO GROUP A/S

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY – 31 DECEMBER

CONSOLIDATED INCOME STATEMENT

DKK Million	Note	2016	2015
Net sales	2.1	**6,745.6**	**6,732.3**
Cost of goods sold	2.1	-3,520.7	-3,493.6
Gross profit	2.1	**3,224.9**	**3,238.7**
Other external costs		-1,137.6	-1,130.1
Staff costs	2.2	-813.4	-862.9
Other income		4.6	1.3
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**1,278.5**	**1,247.0**
Depreciation and impairment	3.2	-154.5	-121.5
Earnings before interest, tax and amortisation (EBITA)		**1,124.0**	**1,125.5**
Amortisation and impairment	3.1	-167.2	-184.4
Earnings before interest and tax (EBIT)		**956.8**	**941.1**
Share of profit of associated companies, net of tax	4.4	10.4	10.2
Financial income	4.5	30.0	37.9
Financial costs	4.5	-102.3	-105.3
Profit before tax		**894.9**	**883.9**
Income taxes	2.5	-213.4	-216.3
Net profit for the year		**681.5**	**667.6**
Earnings per share			
Basic earnings per share (DKK)	4.6	6.8	6.7
Diluted earnings per share (DKK)	4.6	6.8	6.7
OTHER COMPREHENSIVE INCOME			
Items that will not be recycled subsequently to the Consolidated Income Statement:			
Actuarial gains and losses on pension obligations		-32.6	11.4
Tax of actuarial gains and losses on pension obligations		10.1	-4.8
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		41.3	34.9
Cash flow hedges, realisation of previously deferred (gains)/losses to net sales and cost of goods sold		-25.5	16.4
Cash flow hedges, deferred gains/(losses) incurred during the year		-12.2	-2.5
Tax of hedging instruments		-0.8	-11.5
Foreign exchange rate adjustments		149.3	526.4
Other comprehensive income for the year, net of tax		**129.6**	**570.3**
Total comprehensive income for the year		**811.1**	**1,237.9**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

ASSETS

DKK Million	Note	2016	2015
NON-CURRENT ASSETS			
INTANGIBLE ASSETS			
Goodwill		4,592.0	4,504.2
Trademarks		3,259.6	3,331.5
IT software		85.5	69.5
Other intangible assets		204.5	230.7
Total intangible assets	3.1	**8,141.6**	**8,135.9**
PROPERTY, PLANT AND EQUIPMENT			
Land and buildings		622.1	672.0
Plant and machinery		555.6	356.6
Equipment, tools and fixtures		83.5	92.2
Leasehold improvements		46.7	46.7
Construction in progress		48.5	152.3
Total property, plant and equipment	3.2	**1,356.4**	**1,319.8**
OTHER NON-CURRENT ASSETS			
Investments in associated companies	4.4	134.6	126.1
Deferred income tax assets	2.5	137.2	135.4
Other financial fixed assets	4.4	0.0	0.6
Total other non-current assets		**271.8**	**262.1**
Total non-current assets		**9,769.8**	**9,717.8**
CURRENT ASSETS			
Inventories	3.3	**2,824.1**	**2,998.5**
RECEIVABLES			
Trade receivables	3.4	700.4	828.8
Other receivables		116.9	101.6
Corporate tax	2.5	210.4	226.0
Prepayments	3.5	71.8	62.4
Total receivables		**1,099.5**	**1,218.8**
Cash and cash equivalents		**570.3**	**608.8**
Total current assets		**4,493.9**	**4,826.1**
Total assets		**14,263.7**	**14,543.9**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

EQUITY AND LIABILITIES

DKK Million	Note	2016	2015
Share capital	4.6	100.0	100.0
Reserve for hedging		-27.5	-30.3
Reserve for currency translation		1,160.7	1,011.4
Treasury shares		-45.5	0.0
Retained earnings		8,085.2	7,916.8
Total equity		**9,272.9**	**8,997.9**
Bank loans	4.1	2,730.7	3,337.9
Deferred income tax liabilities	2.5	637.1	735.0
Pension obligations	3.7	263.8	241.0
Other provisions	3.6	36.3	41.7
Other liabilities		64.8	37.1
Total non-current liabilities		**3,732.7**	**4,392.7**
Trade payables		385.5	385.9
Corporate tax	2.5	183.0	79.5
Other provisions	3.6	113.9	21.1
Other liabilities		575.7	666.8
Total current liabilities		**1,258.1**	**1,153.3**
Total liabilities		**4,990.8**	**5,546.0**
Total equity and liabilities		**14,263.7**	**14,543.9**

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY – 31 DECEMBER

DKK Million	Note	2016	2015
Net profit for the year		681.5	667.6
Adjustments	5.1	607.5	641.6
Change in working capital	4.3	323.3	284.3
Cash flow from operating activities before financial items		**1,612.3**	**1,593.5**
Financial income received	4.5	30.0	37.9
Financial costs paid	4.5	-102.3	-105.3
Cash flow from operating activities before tax		**1,540.0**	**1,526.1**
Tax payments	2.5	-182.2	-240.7
Cash flow from operating activities		**1,357.8**	**1,285.4**
Investment in intangible assets	3.1	-44.6	-26.4
Investment in property, plant and equipment	3.2	-190.4	-209.5
Sale of property, plant and equipment		10.1	1.5
Dividend from associated companies	4.4	6.3	5.6
Cash flow from investing activities		**-218.6**	**-228.8**
Free cash flow		**1,139.2**	**1,056.6**
New funding from financial institutions		0.0	3,311.4
Instalment and repayment bank loans		-632.2	-3,013.2
Dividend payments		-500.0	-1,327.0
Purchase of treasury shares		-45.5	0.0
Cash flow from financing activities		**-1,177.7**	**-1,028.8**
Net cash flow for the year		**-38.5**	**27.8**
Cash and cash equivalents, net at 1 January		608.8	581.0
Net cash flow for the year		-38.5	27.8
Cash and cash equivalents, net at 31 December		**570.3**	**608.8**

At 31 December 2016 the Group had the following unused credit facilities:

Committed	1,152.3
Uncommitted	274.3
Total	**1,426.6**

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 31 DECEMBER 2016

DKK Million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
Equity at 1 January 2016	**100.0**	**-30.3**	**1,011.4**	**0.0**	**7,916.8**	**8,997.9**
COMPREHENSIVE INCOME FOR THE YEAR						
Net profit for the year	**0.0**	**0.0**	**0.0**	**0.0**	**681.5**	**681.5**
OTHER COMPREHENSIVE INCOME						
Cash flow hedges		3.6				3.6
Tax of cash flow hedges		-0.8				-0.8
Foreign exchange adjustments on net investments in foreign operations			149.3			149.3
Actuarial gains and losses on pension obligations					-32.6	-32.6
Tax of actuarial gains and losses on pension obligations					10.1	10.1
Total other comprehensive income	**0.0**	**2.8**	**149.3**	**0.0**	**-22.5**	**129.6**
Total comprehensive income for the year	**0.0**	**2.8**	**149.3**	**0.0**	**659.0**	**811.1**
TRANSACTIONS WITH SHAREHOLDERS						
Purchase of treasury shares				-45.5		-45.5
Share-based payments					9.4	9.4
Dividend paid (note 4.6)					-500.0	-500.0
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**-45.5**	**-490.6**	**-536.1**
Equity at 31 December 2016	**100.0**	**-27.5**	**1,160.7**	**-45.5**	**8,085.2**	**9,272.9**

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY – 31 DECEMBER 2015

DKK Million	Share capital	Reserve for hedging	Reserve for currency translation	Retained earnings	Total
Equity at 1 January 2015	**100.0**	**-67.6**	**485.0**	**8,569.6**	**9,087.0**
COMPREHENSIVE INCOME FOR THE YEAR					
Net profit for the year	**0.0**	**0.0**	**0.0**	**667.6**	**667.6**
OTHER COMPREHENSIVE INCOME					
Cash flow hedges		48.8			48.8
Tax of cash flow hedges		-11.5			-11.5
Foreign exchange adjustments on net investments in foreign operations			526.4		526.4
Actuarial gains and losses on pension obligations				11.4	11.4
Tax of actuarial gains and losses on pension obligations				-4.8	-4.8
Total other comprehensive income	**0.0**	**37.3**	**526.4**	**6.6**	**570.3**
Total comprehensive income for the year	**0.0**	**37.3**	**526.4**	**674.2**	**1,237.9**
TRANSACTIONS WITH SHAREHOLDERS					
Dividend paid (note 4.6)				-1,327.0	-1,327.0
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**-1,327.0**	**-1,327.0**
Equity at 31 December 2015	**100.0**	**-30.3**	**1,011.4**	**7,916.8**	**8,997.9**

NOTES

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

SECTION 1
BASIS OF PREPARATION

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

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. 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 for listed companies and further requirements in the Danish Financial Statements Act.

RECOGNITION AND MEASUREMENT

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

Danish kroner is the Group's presentation currency.

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

PRINCIPAL ACCOUNTING POLICIES

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

- Net sales (note 2.1)
- Income and deferred taxes (note 2.5)
- Intangible assets and property, plant and equipment including impairment (notes 3.1 and 3.2)
- Inventories (note 3.3)
- 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:

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

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

NOTE 1.1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFINING MATERIALITY

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

NOTE 1.2

OTHER ACCOUNTING POLICIES

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

IMPACT OF NEW ACCOUNTING STANDARDS

Based on an assessment of new or amended and revised accounting standards and interpretations ('IFRS') issued by IASB and IFRS endorsed by the European Union effective on or after 1 January 2016, it has been assessed that the application of these new IFRS have not had a material impact on the Consolidated Financial Statements in 2016, and the Group does not anticipate any significant impact on future periods from the adoption of these new IFRS.

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

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

- IASB has issued IFRS 9 'Financial Instruments', with effective date 1 January 2018. This was endorsed by the EU in 2016, and Scandinavian Tobacco Group have early adopted IFRS 9 as of 1 January 2017. IFRS 9 is part of the IASB's project to replace IAS 39, and the new standard will substantially change the classification and measurement of certain financial instruments and hedging requirements. The Group has assessed the impact of the standard and determined that it will not have any significant impact on the Consolidated Financial Statements.

- IASB has issued IFRS 15 'Revenue from contracts with customers' with effective date 1 January 2018. The standard was endorsed by the EU in 2016, and Scandinavian Tobacco Group plans to adopt it on the effective date. IFRS 15 is part of the convergence project with FASB to replace IAS 18 and other standards. The new standard will establish a single, comprehensive framework for revenue recognition. The Group has assessed the impact of the standard and determined that it will not have any significant impact on the Consolidated Financial Statements. However implementation is expected to result in extended revenue disclosures.

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

NOTE 1.3
OTHER GENERAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

Cash flow from operating activities is 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 comprises 'Cash at bank and in hand'.

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

SECTION 2

RESULTS FOR THE YEAR

This section comprises notes in relation to the results for the year, including disclosure on product segments. The Financial Highlights on page 6 gives a detailed description of the results for the year.

NOTE 2.1

GROSS PROFIT (NET SALES AND COST OF GOODS SOLD)

ACCOUNTING POLICIES

NET SALES

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

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).

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

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

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

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

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

The segment allocation has been based on internal management reporting.

There have been no material transactions between the different segments.

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

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

NOTE 2.1

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

SEGMENT INFORMATION

2016

DKK Million	Hand-made cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allocated	Total
Net sales	2,066.8	2,593.3	569.4	652.1	864.0	0.0	6,745.6
Cost of goods sold	-1,163.6	-1,313.7	-223.2	-274.5	-545.7	0.0	-3,520.7
Gross profit	**903.2**	**1,279.6**	**346.2**	**377.6**	**318.3**	**0.0**	**3,224.9**
Other external costs						-1,137.6	-1,137.6
Staff costs						-813.4	-813.4
Other income						4.6	4.6
EBITDA						**-1,946.4**	**1,278.5**
Depreciation and impairment						-154.5	-154.5
Amortisation and impairment						-167.2	-167.2
EBIT						**-2,268.1**	**956.8**
Share of profit of associated companies, net of tax						10.4	10.4
Financial income						30.0	30.0
Financial costs						-102.3	-102.3
Profit before tax						**-2,330.0**	**894.9**
Goodwill allocated to segments	**1,989.0**	**1,496.9**	**646.4**	**272.1**	**187.6**	**0.0**	**4,592.0**

2015

DKK Million	Hand-made cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allocated	Total
Net sales	1,935.3	2,702.2	629.4	583.4	882.0	0.0	6,732.3
Cost of goods sold	-1,091.9	-1,330.7	-251.3	-241.9	-577.8	0.0	-3,493.6
Gross profit	**843.4**	**1,371.5**	**378.1**	**341.5**	**304.2**	**0.0**	**3,238.7**
Other external costs						-1,130.1	-1,130.1
Staff costs						-862.9	-862.9
Other income						1.3	1.3
EBITDA						**-1,991.7**	**1,247.0**
Depreciation and impairment						-121.5	-121.5
Amortisation						-184.4	-184.4
EBIT						**-2,297.6**	**941.1**
Share of profit of associated companies, net of tax						10.2	10.2
Financial income						37.9	37.9
Financial costs						-105.3	-105.3
Profit before tax						**-2,354.8**	**883.9**
Goodwill allocated to segments	**1,906.5**	**1,496.7**	**642.9**	**272.1**	**186.0**	**0.0**	**4,504.2**

NOTE 2.1

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

SEGMENT INFORMATION (CONTINUED)

DKK Million	2016	2015
GEOGRAPHIC INFORMATION		
In the table below, sales to external customers are attributable to the country of the customers' domicile and non-current assets are based on the country of the entities' domicile. External sales and non-current assets are distributed by geographic region as follows:		
Americas	3,143.3	2,993.6
Europe	2,912.9	3,015.3
Rest of world	689.4	723.4
Total net sales	**6,745.6**	**6,732.3**

The Group is domiciled in Denmark. Net sales from external customers in Denmark amount to DKK 203.2 million (DKK 216.7 million), and net sales from external customers outside Denmark amount to DKK 6,542.4 million (DKK 6,515.6 million). Individual, material countries (>10% of total net sales) are the US DKK 2,842.1 million (DKK 2,721.2 million) and France DKK 620.9 million (DKK 717.8 million).

INFORMATION ABOUT MAJOR CUSTOMERS

Net sales of DKK 587.7 million (DKK 682.8 million) are derived from a single external customer and are attributable to different product segments, but primarily the machine-made cigar segment with 97% (97%).

Licence income and other sales of DKK 28.8 million (DKK 31.5 million) are included in the total net sales.

DKK Million	2016	2015
Non-current assets [1]		
Americas	4,374.0	4,267.3
Europe	5,223.7	5,278.3
Rest of world	34.9	36.2
Total non-current assets	**9,632.6**	**9,581.8**

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

Total non-current assets in Denmark amount to DKK 2,037.2 milion (DKK 2,021.2 million).

Individual, material countries (>10% of total non-current assets) are the US DKK 4,309.6 million (DKK 4,201.5 million) and the Netherlands DKK 2,370.7 million (DKK 2,432.5 million).

NOTE 2.2

STAFF COSTS

ACCOUNTING POLICIES

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

DKK Million	2016	2015
Wages and salaries	1,328.8	1,295.0
Pensions – defined contribution plans	46.3	49.9
Pensions – defined benefit plans*	-8.4	19.5
Social security costs	166.8	170.0
Total staff costs for the year	**1,533.5**	**1,534.4**
Staff costs included in intangible assets and property, plant and equipment	-21.7	-19.0
Change in employee costs included in inventories	11.2	2.8
Total staff costs expensed to the income statement	**1,523.0**	**1,518.2**
Included in the income statement:		
Cost of goods sold	709.6	655.3
Staff costs	813.4	862.9
Total included in the income statement	**1,523.0**	**1,518.2**
Average number of employees in the Group	**7,944**	**8,245**

REMUNERATION OF THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

Total fees to the Board of Directors and Executive Management amounted to DKK 58.1 million (DKK 77.3 million).

2016

Executive management	Salary	Bonus	Pension	IPO incentive bonus**	Shared based incentive programme**	Total
Niels Frederiksen	6.4	1.8	0.0	1.5	2.5	12.2
Christian Hother Sørensen	4.6	1.6	0.0	1.5	1.4	9.1
Sisse Fjelsted Rasmussen	3.8	1.3	0.0	1.5	1.1	7.7
Rob Zwarts	3.9	1.0	0.2	1.5	0.8	7.4
Vincent Crepy	3.7	1.2	0.0	1.6	0.9	7.4
Total 2016	**22.4**	**6.9**	**0.2**	**7.6**	**6.7**	**43.8**

In addition to the above, the Group has expensed DKK 7.1 million in 2016 (DKK 8.9 million) related to stay-on bonus and loyalty programme which are due after 1-2 years and which replace previous retirement plans for selected executives.

2015

Executive management	Salary	Bonus	Pension	IPO incentive bonus**	Shared based incentive programme**	Total
Niels Frederiksen***	5.7	5.8	0.0	5.5	0.0	17.0
Christian Hother Sørensen	4.5	4.6	0.0	5.5	0.0	14.6
Sisse Fjelsted Rasmussen	3.6	3.7	0.0	5.5	0.0	12.8
Rob Zwarts	3.5	2.8	0.2	5.5	0.0	12.0
Vincent Crepy***	1.1	1.1	0.0	2.5	0.0	4.7
Anders Colding Friis***	1.2	1.2	0.0	0.0	0.0	2.4
Total 2015	**19.6**	**19.2**	**0.2**	**24.5**	**0.0**	**63.5**

NOTE 2.2
STAFF COSTS (CONTINUED)

* Gains on curtailments are offset against the service cost for defined benefit pension plans (note 3.7). Main part of the curtailments relates to close-down of pension schemes primarily for Executive Management which have been converted into a stay-on bonus programme and recognised within salaries.

** Comparison numbers for 2015 in relation to the IPO incentive bonus represent amounts expensed in 2015 based on estimated total value, probability and expected timing. The programme was subsequently triggered in connection with the listing of the Group on Nasdaq Copenhagen on 10 February 2016 where Executive Management received a total payment of DKK 36.9 million. 2016 numbers (share-based incentive programme) relate to the new Performance Share Units programme (PSU) established during 2016. Refer to note 2.3 for further description of the programme.

*** Niels Frederiksen was appointed CEO on 1 March 2015. Vincent Crepy joined the Group as Executive Vice President of supply chain on 1 September 2015. Anders Colding Friis left his position as CEO on 28 February 2015.

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

For a more detailed description of remuneration of the Board of Directors and Executive Management please refer to the Remuneration Report on page 42.

DKK Thousand	Position	Joined the board	Left the board	Board	Committees	Total
BOARD OF DIRECTORS						
Jørgen Tandrup	Chairman	October 2010		1,200	200	1,400
Nigel Northridge	Vice-chairman	April 2016		525	75	600
Conny Karlsson	Board member	October 2010		500	100	600
Søren Bjerre-Nielsen	Board member	February 2016		367	275	642
Marlene Forsell	Board member	June 2014		400	150	550
Tommy Pedersen	Board member	October 2010	April 2016	100	50	150
Lars Dahlgren	Board member	October 2010	February 2016	117		117
Dianne Neal Blixt	Board member	February 2016		367	137	504
Luc Missorten	Board member	February 2016		367		367
Henning Kruse Petersen	Board member	October 2010		450	33	483
Fredrik Lagercrantz	Board member	January 2015	February 2016	67	25	92
Anders C. Obel	Board member	October 2010	February 2016	67	25	92
Kurt Asmussen	Employee representative	October 2010		400		400
Charlotte Lückstadt Nielsen	Employee representative	October 2010		400		400
Hermod Hvid	Employee representative	April 2015	July 2016	233		233
Hanne Malling	Employee representative	October 2010		400		400
Lindy Larsen	Employee representative	July 2016		200		200
Total 2016				**6,160**	**1,070**	**7,230**
Total 2015				**4,491**	**450**	**4,941**

NOTE 2.3

SHARE-BASED PAYMENTS

ACCOUNTING POLICIES

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

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

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

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

SHARE-BASED INCENTIVE PROGRAMMES

On 27 June 2016 Scandinavian Tobacco Group implemented two equity-settled, share-based incentive programmes;

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

ii) a transition share programme (TSP) for members of the Executive Management and certain members of senior management.

The two programmes comprise a total of 207,578 performance share units (PSUs). The number of PSUs granted to each participant in the programme has been based on the average share price of the 10 trading days following the listing of the company on 10 February 2016 on Nasdaq Copenhagen. Further, most of the participants have received PSUs corresponding to the dividend paid by the company in April 2016.

Upon vesting, each PSU entitles the holder to receive one share in Scandinavian Tobacco Group at no cost. The actual number of shares vesting may range between 0 and 200% of the grant and is determined by a service period (TSP: 2 years; LTIP: 3 years) and the achievement of certain performance indicators in the financial years 2016, 2017 and 2018 for the LTIP and the financial years 2016 and 2017 for the TSP. The maximum total number of vested shares under the programmes is 415,156 shares based on an achieved full performance (200%).

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

For a further description of the programme, please refer to 'Remuneration Report' in Corporate Governance, p 42.

VALUE OF THE PROGRAMMES AND IMPACT ON THE INCOME STATEMENT

DKK Million	TSP	LTIP
Total PSU' granted	96,427	111,151
Fair value of PSU's expected to vest at grant date, DKK million	10.7	11.6
Recognised in the income statement in 2016, DKK million*	7.2	2.2
Not yet recognised in respect of PSU's expected to vest, DKK million	3.5	9.4

*DKK 8.6 million was recognised in Staff costs and DKK 0.8m was capitalised under property, plant and equipment.

TRANSITION SHARE PROGRAMME - OUTSTANDING PSUS

	Executive Management						
TSP (number of PSUs)	Niels Frederiksen	Christian Hother Sørensen	Sisse Fjelsted Rasmussen	Rob Zwarts	Vincent Crepy	Senior Management	Total
Outstanding at 1 January 2016	-	-	-	-	-	-	-
Granted	26,336	14,266	11,726	8,775	10,411	24,913	96,427
Outstanding at 31 December 2016	**26,336**	**14,266**	**11,726**	**8,775**	**10,411**	**24,913**	**96,427**
Expected to vest at 31 December 2016 **	**26,336**	**14,266**	**11,726**	**8,775**	**10,411**	**24,913**	**96,427**

NOTE 2.3

SHARE-BASED PAYMENTS (CONTINUED)

LONG-TERM INCENTIVE PROGRAMME - OUTSTANDING PSUS

	Executive Management						
LTIP (number of PSUs)	**Niels Frederiksen**	**Christian Hother Sørensen**	**Sisse Fjelsted Rasmussen**	**Rob Zwarts**	**Vincent Crepy**	**Senior Management**	**Total**
Outstanding at 1 January 2016	-	-	-	-	-	-	-
Granted	26,336	14,266	11,726	8,775	10,411	39,637	111,151
Outstanding at 31 December 2016	**26,336**	**14,266**	**11,726**	**8,775**	**10,411**	**39,637**	**111,151**
Expected to vest at 31 December 2016**	**26,336**	**14,266**	**11,726**	**8,775**	**10,411**	**39,637**	**111,151**

**Reflects the number of PSUs expected to vest based on the expected achievement of vesting conditions.

All outstanding PSUs are hedged by treasury shares.
At 31 December 2016 no PSUs had vested.

APPLIED ASSUMPTIONS AT THE TIME OF GRANT

	TSP	LTIP
	2016	2016
Share price (DKK)	103.50 / 108.97	103.50 / 108.97
Risk-free interest rate	0.5%	0.5%

NOTE 2.4

MANAGEMENT'S HOLDINGS OF STG SHARES

MANAGEMENT'S HOLDINGS OF SHARES	At the beginning of the year	Additions during the year	Disposals during the year	At the end of the year
Jørgen Tandrup	0	30,000	0	30,000
Nigel Northridge	0	5,000	0	5,000
Conny Karlsson	0	10,000	0	10,000
Marlene Forsell	0	3,250	0	3,250
Søren Bjerre-Nielsen	0	2,000	0	2,000
Henning Kruse Petersen	0	30,000	0	30,000
Luc Missorten	0	0	0	0
Dianne Neal Blixt	0	1,700	0	1,700
Charlotte Lückstadt Nielsen	0	250	0	250
Kurt Asmussen	0	500	0	500
Lindy Larsen	0	242	0	242
Hanne Malling	0	250	0	250
Board of Directors in total	**0**	**83,192**	**0**	**83,192**
Niels Frederiksen	0	25,000	0	25,000
Christian Hother Sørensen	0	20,000	0	20,000
Sisse Fjelsted Rasmussen	0	15,000	0	15,000
Rob Zwarts	0	0	0	0
Vincent Crepy	0	2,250	0	2,250
Executive Management in total	**0**	**62,250**	**0**	**62,250**
Total Board of Directors and Executive Management	**0**	**145,442**	**0**	**145,442**

NOTE 2.5

INCOME AND DEFERRED INCOME TAXES

ACCOUNTING POLICIES

INCOME TAXES

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

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

DEFERRED TAX ASSETS AND LIABILITIES

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

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. In cases where the computation of the tax base may be made according to alternative tax rules, deferred tax is measured on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carryforwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities.

CURRENT TAX RECEIVABLES AND LIABILITIES

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

KEY ACCOUNTING ESTIMATES

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

DKK Million	2016	2015
Tax expense		
Current income tax	-165.2	-147.6
Deferred income tax	-38.9	-85.0
	-204.1	**-232.6**
Tax is allocated as follows:		
Income taxes	-213.4	-216.3
Tax on other comprehensive income related to:		
Hedging instruments	-0.8	-11.5
Actuarial gains and losses on pension obligations	10.1	-4.8
	-204.1	**-232.6**
Income tax receivable (net) – in the balance sheet		
Corporate tax receivables	210.4	226.0
Corporate tax payables	183.0	79.5
	-27.4	**-146.5**
Income tax receivable (net):		
Balance at 1 January	-146.5	-49.3
Currency adjustments	-2.9	-4.1
Prior-year tax adjustment	1.9	-28.3
Tax paid on account in current year	-312.3	-289.2
Received regarding previous years	161.9	131.6
Paid regarding previous years	-31.8	-83.1
Current income tax	163.3	175.9
Reclassification of provision for uncertain tax positions from deferred tax	139.0	0.0
Balance at 31 December	**-27.4**	**-146.5**

NOTE 2.5

INCOME AND DEFERRED INCOME TAXES (CONTINUED)

DKK Million	2016	2015
Deferred tax (net) – in the balance sheet		
Deferred income tax assets	137.2	135.4
Deferred income tax liabilities	637.1	735.0
Deferred income tax liabilities (net)	**499.9**	**599.6**
Deferred tax (net)		
Balance 1 January	599.6	522.0
Currency adjustments	0.4	-2.1
Acquisition of entities	0.0	-5.3
Change in deferred tax charge	38.9	85.0
Reclassification of provision for uncertain tax positions to income tax	-139.0	0.0
Balance at 31 December	**499.9**	**599.6**
Breakdown of deferred income tax liabilities (net):		
Intangible assets	637.8	601.6
Property, plant and equipment	54.5	52.0
Inventories	-60.6	-62.2
Receivables	-1.7	-1.6
Pensions	-60.1	-58.7
Other liabilities	-58.4	-30.2
Tax losses to be carried forward	-7.1	-9.8
Other	-4.5	108.5
	499.9	**599.6**
Breakdown of tax on profit for the year:		
Tax calculated at 22.0% (23.5%) of profit before tax	-196.9	-207.7
Tax according to income statement	-213.4	-216.3
	-16.5	**-8.6**
Tax effect of:		
Non-deductable costs	-9.2	-18.5
Income from associated companies	2.3	2.4
Non-taxable income	4.4	2.7
Prior-year adjustments	-2.9	18.5
Other tax percentages	3.2	14.4
Effect of enacted change of tax rate	0.0	5.3
Other	-14.3	-33.4
	-16.5	**-8.6**

At 31 December 2016 the Group has no unrecognised tax assets (DKK 0.0 million).

UNCERTAIN TAX POSITIONS

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

Provisions arising from uncertain tax positions reflected in the calculation of tax assets and liabilities are included in current corporate tax liabilities. Prior years the provisions relating to uncertain tax positions were included in deferred tax liabilities, but are now classified as current corporate tax liabilities, in accordance with IFRIC's Interpretation. The reclassification amounts to DKK 139.0 million. It is possible that amounts paid will be different from the amounts provided.

SECTION 3
OPERATING ASSETS AND LIABILITIES

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

NOTE 3.1
INTANGIBLE ASSETS

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

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

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

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

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

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

Goodwill and trademarks with indefinite useful lives
In the annual impairment test of goodwill and trademarks with indefinite useful lives, an estimate is made to determine how the enterprise/trademarks will be able to generate sufficient positive net cash flow in the future to support the value of goodwill, trademarks and other net assets of the enterprise/trademark in question. For the purpose of the annual impairment test of goodwill, the costs and income in segment note (2.1) have been allocated to each cash generating unit based on relevant allocation keys. The estimates of the anticipated future net cash flow are based on Management's projections for the coming years. Contribution expectations are based upon projections made on the development in volume, average sales and cost prices for each market in each of the defined cash generating units. The carrying value of goodwill amounted to DKK 4,592.0 million (DKK 4,504.2 million). The carrying value of trademarks with indefinite useful lives amounted to DKK 1,855.0 (DKK 1,833.4 million).

Other trademarks
Acquired trademarks have been deemed to have definite useful lives which are in general amortised over a period of 10–25 years. Trademarks are tested for impairment when circumstances indicate that the value of a trademark is impaired. The carrying value of other trademarks amounted to DKK 1,404.6 million (DKK 1,498.1 million). Amortisation amounted to DKK 111.9 million (DKK 121.8 million). During 2016, Management did not identify any indications of impairment.

NOTE 3.1

INTANGIBLE ASSETS (CONTINUED)

2016

DKK Million	Goodwill	Trademarks	It software	Other intangible assets	Total
Accumulated cost at 1 January	4,505.1	4,214.7	271.4	321.3	9,312.5
Exchange rate adjustment	87.8	47.8	1.3	0.7	137.6
Addition	0.0	0.0	44.6	0.0	44.6
Disposal	0.0	0.0	-0.1	0.0	-0.1
Accumulated cost at 31 December	4,592.9	4,262.5	317.2	322.0	9,494.6
Accumulated amortisation and impairment at 1 January	0.9	883.2	201.9	90.6	1,176.6
Exchange rate adjustment	0.0	7.8	0.2	1.3	9.3
Amortisation and impairment	0.0	111.9	29.7	25.6	167.2
Disposal	0.0	0.0	-0.1	0.0	-0.1
Accumulated amortisation and impairment at 31 December	0.9	1,002.9	231.7	117.5	1,353.0
Carrying amount at 31 December	**4,592.0**	**3,259.6**	**85.5**	**204.5**	**8,141.6**

2015

DKK Million	Goodwill	Trademarks	It software	Other intangible assets	Total
Accumulated cost at 1 January	4,206.2	4,086.7	243.6	315.4	8,851.9
Exchange rate adjustment	288.5	141.4	1.7	5.9	437.5
Reclassification	10.4	-13.4	0.0	0.0	-3.0
Addition	0.0	0.0	26.4	0.0	26.4
Disposal	0.0	0.0	-0.3	0.0	-0.3
Accumulated cost at 31 December	4,505.1	4,214.7	271.4	321.3	9,312.5
Accumulated amortisation and impairment at 1 January	0.9	734.6	160.7	65.6	961.8
Exchange rate adjustment	0.0	26.8	0.7	3.2	30.7
Amortisation	0.0	121.8	40.8	21.8	184.4
Disposal	0.0	0.0	-0.3	0.0	-0.3
Accumulated amortisation and impairment at 31 December	0.9	883.2	201.9	90.6	1,176.6
Carrying amount at 31 December	**4,504.2**	**3,331.5**	**69.5**	**230.7**	**8,135.9**

NOTE 3.1

INTANGIBLE ASSETS (CONTINUED)

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

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

The values in use are calculated using a valuation model based on discounted expected future cash flows (DCF-model covering a 5-year budget period) based on Management's projections as described above. Management has used an overall expectation of moderate growth in EBITDA in the budget period (also in 2015).

The terminal growth is based on adjusted historical development taking into account the general level of inflation. Discount rates are based on the risk-free rate adjusted for the inherent risk and industry comparisons for each individual cash generating unit. The applied assumptions for each individual cash generating unit are illustrated in the table below. For trademarks Management has used a discount rate (WACC after tax) between 6.4% and 11.5% (pre-tax WACC between 8.0% and 14.9%) and the terminal growth in EBITDA is set between 0% and 1.0%. The discount rates are based on the risk inherent in the related activity's current business model and industry comparisons.

2016

DKK Million	Hand-made cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	Other	Total
Allocated goodwill	1,989.0	1,496.9	646.4	272.1	187.6	4,592.0
WACC after-tax (%)	6.4	6.4	6.5	6.4	6.4	n.a.
WACC pre-tax (%)	8.0	8.0	8.1	8.0	8.0	n.a.
Terminal growth (%)	1.0	1.0	1.0	1.0	1.0	n.a.

2015

Allocated goodwill	1,906.5	1,496.7	642.9	272.1	186.0	4,504.2
WACC after-tax (%)	8.0	8.0	8.3	8.0	8.0	n.a.
WACC pre-tax (%)	10.0	10.0	10.3	10.0	10.0	n.a.
Terminal growth (%)	1.0	1.0	1.0	1.0	1.0	n.a.

When goodwill and trademarks with indefinite useful lives were tested for impairment in 2016 (and 2015), the value in use exceeded the carrying value for the individual cash generating units and no basis for impairment was found. When performing sensitivity analysis by increasing the discount rate by 1 percentage point, the value in use still exceeded the carrying value per segment.

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

NOTE 3.1
INTANGIBLE ASSETS (CONTINUED)

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

DKK Million	Remaining amortisation period	Carrying amount 2016	2015
Captain Black, Bugler and Kite	Indefinite / 14 years	830.4	825.3
Café Crème	Indefinite	482.4	482.4
Tiedemanns	19 years	223.4	225.9
Mercator, Cubero and Schimmelpenninck	11 years	186.1	194.9
La Paz	Indefinite	215.2	215.2
Other trademarks	1-19 years / Indefinite	1,322.1	1,387.8
Total		**3,259.6**	**3,331.5**

Other intangible assets

Other intangible assets mainly comprise acquired distribution rights.

NOTE 3.2
PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

NOTE 3.2

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2016

DKK Million	Land and buildings	Plant and machinery	Equipment, tools and fixtures	Leasehold improve-ments	Construction in progress	Total
Accumulated cost at 1 January	826.9	545.5	208.5	69.1	152.3	1,802.3
Exchange rate adjustment	3.4	7.6	4.0	2.0	-0.5	16.5
Addition	0.0	0.0	5.5	2.7	182.2	190.4
Transfers	13.2	252.9	14.8	2.8	-283.7	0.0
Disposals	-0.5	-14.2	-6.0	0.0	-1.8	-22.5
Accumulated cost at 31 December	843.0	791.8	226.8	76.6	48.5	1,986.7
Accumulated depreciation and impairment at 1 January	154.9	188.9	116.3	22.4	0.0	482.5
Exchange rate adjustment	1.2	3.0	2.6	0.8	0.0	7.6
Depreciation	35.0	47.6	25.6	5.2	0.0	113.4
Depreciation on disposals	0.0	-9.0	-5.3	0.0	0.0	-14.3
Impairment	29.8	5.7	4.1	1.5	0.0	41.1
Accumulated depreciation and impairment at 31 December	220.9	236.2	143.3	29.9	0.0	630.3
Carrying amount at 31 December	**622.1**	**555.6**	**83.5**	**46.7**	**48.5**	**1,356.4**

2015

DKK Million	Land and buildings	Plant and machinery	Equipment, tools and fixtures	Leasehold improve-ments	Construction in progress	Total
Accumulated cost at 1 January	795.9	526.4	198.5	61.2	58.1	1,640.1
Exchange rate adjustment	15.5	14.7	6.2	6.0	1.5	43.9
Addition	0.4	0.3	7.6	1.7	199.5	209.5
Transfers	15.7	64.6	22.5	1.4	-104.2	0.0
Disposals	-0.6	-60.5	-26.3	-1.2	-2.6	-91.2
Accumulated cost at 31 December	826.9	545.5	208.5	69.1	152.3	1,802.3
Accumulated depreciation and impairment at 1 January	117.3	187.3	114.6	18.0	0.0	437.2
Exchange rate adjustment	2.6	4.4	2.0	2.0	0.0	11.0
Depreciation	35.4	42.9	24.8	3.6	0.0	106.7
Depreciation on disposals	-0.4	-60.5	-25.1	-1.2	0.0	-87.2
Impairment	0.0	14.8	0.0	0.0	0.0	14.8
Accumulated depreciation and impairment at 31 December	154.9	188.9	116.3	22.4	0.0	482.5
Carrying amount at 31 December	**672.0**	**356.6**	**92.2**	**46.7**	**152.3**	**1,319.8**

NOTE 3.3

INVENTORIES

ACCOUNTING POLICIES

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

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

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

KEY ACCOUNTING ESTIMATES

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

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

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

DKK MILLION	2016	2015
Raw materials and consumables	1,414.5	1,543.8
Work in progress	394.3	447.4
Finished goods, goods for resale and excise stamps	1,015.3	1,007.3
Total	**2,824.1**	**2,998.5**
Movements in the Group provision for obsolete stock are as follows:		
Provision for obsolete stock at 1 January	-173.9	-144.8
Additions for the year	-24.3	-63.4
Reversals for the year	4.9	2.6
Write-downs for the year	60.8	36.5
Effect of exchange rate adjustments	-1.2	-4.8
Total provision at 31 December	**-133.7**	**-173.9**

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 2,811.1 million (DKK 2,838.3 million).

NOTE 3.4
TRADE RECEIVABLES

ACCOUNTING POLICIES

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

DKK Million	2016	2015
Trade receivables (net) at 31 December comprised the following:		
Trade receivables (gross)	722.5	849.7
Provision for bad debt	-22.1	-20.9
Trade receivables (net)	**700.4**	**828.8**
Movements in the Group provision for bad debt are as follows:		
Provision for bad debt at 1 January	-20.9	-27.4
Additions for the year	-4.0	-3.2
Reversals for the year	1.2	6.8
Confirmed losses	1.7	3.2
Effect of exchange rate adjustments	-0.1	-0.3
Total provision at 31 December	**-22.1**	**-20.9**
Non-impaired trade receivables can be specified as follows:		
Current	506.4	663.5
Overdue < 30 days	129.4	115.0
Overdue 31 – 60 days	58.6	40.4
Overdue 61 – 90 days	3.9	3.1
Overdue 91 – 180 days	0.2	1.2
Overdue > 180 days	1.9	5.6
Total	**700.4**	**828.8**

NOTE 3.5
PREPAYMENTS

ACCOUNTING POLICIES

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

NOTE 3.6

OTHER PROVISIONS

ACCOUNTING POLICIES

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

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

DKK Million	2016	2015
Balance at 1 January	62.8	83.0
Exchange rate adjustment	0.3	0.2
Discounting cost	1.0	1.5
Addition during the period	103.6	19.4
Utilised during the period	-16.7	-41.1
Reversed provision unused	-0.8	-0.2
Carrying amount at 31 December	**150.2**	**62.8**
Non-current	36.3	41.7
Current	113.9	21.1
Total	**150.2**	**62.8**

Other provisions mainly consist of restructuring costs in relation to the close-down of factories in Nykøbing and Wuustwezel and restructuring expenses related to the new operating model in the Group. The restructuring costs are primarily related to redundancy payments.

NOTE 3.7

PENSION OBLIGATIONS

ACCOUNTING POLICIES

The Group operates a number of defined contribution plans throughout the world. In a few countries, the Group operates defined benefit plans; these are primarily located in Belgium, Germany, France, Indonesia, the Dominican Republic and the US. The defined benefit plans for Belgium total six different step-rate plans and cover both blue and white collar employees. New employees will be included in defined contribution plans. The defined benefit plans for Germany cover employees who entered service before August 1991 and have since then been closed for new employees. The defined benefit plan in France is mandatory for all employees and has no minimum requirements for years of service with the company. The defined benefit plans for Indonesia cover all employees in the form of severance and gratuity in accordance with labour regulation (Labour Law 13/2013). The defined benefit plans for the Dominican Republic are enacted by law and cover all employees with at least three months of service. The defined benefit plans in the US are non-qualified plans that cover a small group of inactive employees where benefits are paid out of corporate assets.

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

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

Past service costs are recognised immediately in the income statement.

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

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

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

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

Post-employment employee benefits

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

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

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

Post-employment defined benefit – recognised in the balance sheet

DKK Million	2016	2015
Present value of funded obligations	216.6	221.5
Fair value of plan assets	-111.6	-115.6
Deficit (+) / surplus (-)	105.0	105.9
Present value of unfunded obligations	158.8	135.1
Net asset (-) / liability (+) in the balance sheet	**263.8**	**241.0**
Amounts in the balance sheet		
Liabilities	263.8	241.0
Assets	0.0	0.0
Net asset (-) / liability (+) in the balance sheet	**263.8**	**241.0**

NOTE 3.7

PENSION OBLIGATIONS (CONTINUED)

DKK Million	2016	2015
Movement during the period in the net asset (-) / liability (+)		
Balance at 1 January	241.0	233.0
Recognised in the income statement	1.8	28.4
Actuarial gain/loss recognised in comprehensive income, financial assumptions	33.0	-11.4
Actuarial gain/loss recognised in comprehensive income, demographic assumptions	-0.4	0.0
Benefit payments to employees	-10.3	-10.1
Employer contributions	-4.8	-5.1
Currency effect	3.5	6.2
Balance at 31 December	**263.8**	**241.0**

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 %)	2016	2015
Discount rate	3.4	4.3
Future salary increases	4.2	4.0

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

	2016		2015	
DKK Million	1%-point increase	1%-point decrease	1%-point increase	1%-point decrease
Discount rate	-44.4	52.4	-40.9	49.3
Future salary increase	30.8	-25.6	44.5	-29.6

NOTE 3.7

PENSION OBLIGATIONS (CONTINUED)

DKK Million	2016	2015
CHANGE IN THE DEFINED BENEFIT OBLIGATIONS AND PLAN ASSETS		
Defined benefit obligations – movement		
Balance at 1 January	356.6	342.5
Current service costs	16.1	19.1
Interest cost	12.8	10.9
Recognised past-service costs	0.0	0.4
Actuarial losses (+)/gains (-)	34.6	-10.7
Benefits paid	-23.3	-16.4
Curtailments	-24.5	0.0
Currency effect	3.1	5.7
Other	0.0	5.1
Balance at 31 December	**375.4**	**356.6**
Plan assets - movement in fair value		
Balance at 1 January	115.6	109.5
Interest income	2.6	2.0
Actuarial losses (-)/gains (+)	2.0	0.7
Employer contributions	8.3	13.0
Benefits paid	-16.5	-14.2
Currency effect	-0.4	0.3
Other	0.0	4.3
Balance at 31 December	**111.6**	**115.6**

Curtailments relates to conversion/termination of pension schemes.

The actual return on plan assets in 2016 was a gain of DKK 4.7 million (DKK 2.7 million).

	2016		2015		2016	2015
DKK Million	Quoted	Unquoted	Quoted	Unquoted	Total	Total
CATEGORIES OF PLAN ASSETS						
Equity securities	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	23.9	86.7	25.2	89.4	110.6	114.6
Other	1.0	0.0	1.0	0.0	1.0	1.0
Total	**24.9**	**86.7**	**26.2**	**89.4**	**111.6**	**115.6**

The weighted average duration of the defined benefit obligation is 12.2 years (12.3 years).

NOTE 3.7

PENSION OBLIGATIONS (CONTINUED)

DKK Million	2016	2015
POST-EMPLOYMENT BENEFIT PLANS RECOGNISED IN INCOME STATEMENT		
Current service costs	16.1	19.1
Interest on net obligation	10.2	8.9
Recognised past-service costs	0.0	0.4
Curtailments	-24.5	0.0
Net income (-)/expense (+) reported in the income statement	**1.8**	**28.4**

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

Staff costs	-8.4	19.5
Financial costs	10.2	8.9
Net income (-)/expense (+) reported in the income statement	**1.8**	**28.4**

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 (-)	32.6	-11.4
Effect of asset limit	0.0	0.0
Cumulative net actuarial losses (+)/ gains (-)	180.1	146.4

EXPECTED CONTRIBUTION NEXT YEAR

Expected contributions for post-employment benefit plans for the year ending 31 December 2016 amount to DKK 13.9 million (DKK 13.7 million).

DEFINED CONTRIBUTION PLANS

The Group has certain obligations under defined contribution plans. Contributions to these plans are determined by provisions in the relevant plan. Costs for defined contribution plans charged to the income statement for the year ending 31 December 2016 amount to DKK 46.3 million (DKK 49.9 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.

DKK Million	2016	2015
Financial institutions are recognised in the balance sheet as follows:		
Non-current liabilities	2,730.7	3,337.9
Total	**2,730.7**	**3,337.9**

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

				Carrying amount		Fair value* level 2	
Currency	Fixed/ floating	Term/revolving credit facility	Maturity date	2016	2015	2016	2015
EUR	Floating	Term	30/09/20	557.6	1,679.1	577.3	1,692.8
EUR	Floating	Term	30/09/21	1,115.2	0.0	1,163.1	0.0
USD	Floating	Term	30/09/20	352.6	1,024.5	364.4	1,040.3
USD	Floating	Term	30/09/21	705.3	0.0	734.7	0.0
EUR	Floating	RCF	30/09/21	0.0	634.3	0.0	639.5
				2,730.7	**3,337.9**	**2,839.5**	**3,372.6**

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

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

NOTE 4.2

FINANCIAL RISKS AND INSTRUMENTS

ACCOUNTING POLICIES

Derivative financial instruments

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

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

Hedge accounting

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

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

Financial risk management policy

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

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

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

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

Foreign exchange risk

Fluctuating currency rates influence the Group's reported income statement, balance sheet and value of future cash flows denominated in foreign currencies.

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

Translation risk

Translation risk arises from the translation of subsidiaries' income statement and net assets into DKK. The single most significant currency is USD. The Group does not hedge with financial contracts against translation effects, although borrowings in currencies other than DKK are used to partly mitigate translation risk.

Transaction risk

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

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

A 5% increase/decrease in the USD rate versus DKK and EUR would impact net earnings before tax positively/negatively by DKK 0.1 million (DKK 5.8 million) and impact other comprehensive income positively/negatively by DKK 0.7 million (DKK 0.0 million) arising from financial assets and liabilities. The sensitivity analysis does not include financial assets and liabilities in the functional currency of the Group's subsidiaries and translation risk from consolidation of income statement.

Interest rate risk

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

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

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

As at the balance sheet date, the Group has interest rate swap agreements totalling a notional amount of EUR 225.0 million (EUR 310.0 million) and USD 150.0 million (USD 150.0 million), which relates to bank loans.

NOTE 4.2

FINANCIAL RISKS AND INSTRUMENTS (CONTINUED)

Assuming the current portfolio of swap contracts remains the same, an increase in the EUR and USD rate of interest by one percentage point would impact (before tax) other comprehensive income positively by DKK 38.7 million (DKK 82.0 million) and DKK 41.4 million (DKK 46.2 million), respectively and a positive impact on the financial items of DKK 34.1 million (0.0 million).

Credit risk

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

Operational credit risk

The Group's balance sheet at 31 December 2016 included trade receivables with a net book value of DKK 700.4 million (DKK 828.8 million), representing a gross receivable balance of DKK 722.5 million (DKK 849.7 million) and a bad debt provision of DKK 22.1 million (DKK 20.9 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 2016 which have not been written down totalled DKK 194.0 million (DKK 165.3 million). Please refer to note 3.4.

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

Financial credit risk

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

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

In the event of bankruptcy among the lending banks, the Group has in accordance with the Danish Bankruptcy Act the right to offset cash deposits in the counterparty bank debt totalling DKK 139.7 million at 31 December 2016 (DKK 262.2 million).

Liquidity risk

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

The Group has a committed revolving credit facility of EUR 155.0 million (EUR 155.0 million), which matures in 2020 and 2021 with EUR 51.7 million and EUR 103.3 million, respectively. The undrawn amount of the credit facility at 31 December 2016 was EUR 155.0 million (EUR 70.0 million).

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

NOTE 4.2

FINANCIAL RISKS AND INSTRUMENTS (CONTINUED)

LIQUIDITY

Maturity at 31 december 2016	0-1 Year	2-5 Years	After 5 years	Total*	Fair value level 2**	Carrying amount
RECOGNISED AT AMORTISED COST						
Financial institutions	33.1	2,854.7		2,887.8	2,839.5	2,730.7
Trade payables	385.5			385.5		385.5
Other liabilities	550.3	26.6		576.9		576.9
Total	**968.9**	**2,881.3**	**0.0**	**3,850.2**		**3,693.1**
RECOGNISED AT FAIR VALUE						
Interest rate swaps	23.1	41.2		64.3	55.7	55.7
Currency swaps	7.9			7.9	7.9	7.9
Total	**31.0**	**41.2**	**0.0**	**72.2**		**63.6**
Total financial liabilities	**999.9**	**2,922.5**	**0.0**	**3,922.4**		**3,756.7**
RECOGNISED AT AMORTISED COST						
Cash and cash equivalents	570.3			570.3		570.3
Trade receivables	700.4			700.4		700.4
Other receivables	98.3			98.3		98.3
Total	**1,369.0**	**0.0**	**0.0**	**1,369.0**		**1,369.0**
RECOGNISED AT FAIR VALUE						
Interest rate swaps	6.0	22.4		28.4	17.7	17.7
Forward contracts	0.9			0.9	0.9	0.9
Total	**6.9**	**22.4**	**0.0**	**29.3**		**18.6**
Total financial assets	**1,375.9**	**22.4**	**0.0**	**1,398.3**		**1,387.6**

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

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

NOTE 4.2

FINANCIAL RISKS AND INSTRUMENTS (CONTINUED)

LIQUIDITY

Maturity at 31 december 2015	0-1 Year	2-5 Years	After 5 years	Total*	Fair value level 2**	Carrying amount
RECOGNISED AT AMORTISED COST						
Financial institutions	33.0	3,461.0		3,494.0	3,372.6	3,337.9
Trade payables	385.9			385.9		385.9
Other liabilities	650.4			650.4		650.4
Total	**1,069.3**	**3,461.0**	**0.0**	**4,530.3**		**4,374.2**
RECOGNISED AT FAIR VALUE						
Interest rate swaps	39.7	89.7		129.4	53.5	53.5
Total	**39.7**	**89.7**	**0.0**	**129.4**		**53.5**
Total financial liabilities	**1,109.0**	**3,550.7**	**0.0**	**4,659.7**		**4,427.7**
RECOGNISED AT AMORTISED COST						
Cash and cash equivalents	608.8			608.8		608.8
Trade receivables	828.8			828.8		828.8
Other receivables	88.7			88.7		88.7
Total	**1,526.3**	**0.0**	**0.0**	**1,526.3**		**1,526.3**
RECOGNISED AT FAIR VALUE						
Currency swaps	0.1			0.1	0.1	0.1
Forward contracts	12.8			12.8	12.8	12.8
Total	**12.9**	**0.0**	**0.0**	**12.9**		**12.9**
Total financial assets	**1,539.2**	**0.0**	**0.0**	**1,539.2**		**1,539.2**

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

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

NOTE 4.2

FINANCIAL RISKS AND INSTRUMENTS (CONTINUED)

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 ın level 3 (none).

HEDGING TRANSACTIONS

The net fair value as at 31 December 2016 of outstanding derivative contracts was negative by DKK 37.1 million (negative by DKK 40.7 million), of which positive DKK 0.9 million was related to currency forward contracts (positive by DKK 12.8 million), while negative DKK 38.0 million was related to interest rate swaps (negative by DKK 53.5 million).

Currency forward contracts have been used to hedge future cash flows denominated in GBP and CHF swapping the exchange rate exposure to fixed flows in DKK and EUR. The total notional amount of these outstanding forward contracts was DKK 8.9 million (DKK 214.0 million) as at 31 December 2016.

All forward contracts expire within 1 month (12 months). The single most significant forward contract as at 31 December 2016 is GBP. A 10% increase in the GBP rate will result in a contract loss of DKK 0.7 million (DKK 15.7 million) to be recognised in other comprehensive income.

Interest rate swaps have been used to hedge the floating rate on bank loans. As at the balance sheet date, the Group has outstanding interest rate swaps with a notional amount of EUR 225.0 million and USD 150 million (EUR 310.0 million and USD 150.0 million). Interest rate swaps follow the maturity profile of the bank term loans (see note 4.1).

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

OTHER TRANSACTIONS

The Group uses financial transactions which do not qualify as hedge accounting according to IFRS.

Currency swaps are used to manage group liquidity over the short term. The net fair value as at 31 December 2016 of outstanding currency swaps was negative by DKK 7.9 million (positive by DKK 0.1 million). As at the balance sheet date, the Group has outstanding currency swaps with a notional amount of DKK 876.0 million (DKK 626.5 million).

NOTE 4.3

CHANGES IN WORKING CAPITAL (CASH FLOW STATEMENT)

ACCOUNTING POLICIES

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

DKK Million	2016	2015
Change in receivables	92.8	-0.7
Change in inventories	256.9	224.5
Change in liabilities	-26.4	59.6
Change in balances with affiliated companies (trade)	0.0	0.9
	323.3	**284.3**

NOTE 4.4
FINANCIAL FIXED ASSETS

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

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

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

2016

DKK Million	Investments in associated companies	Other
Cost at 1 January 2016	92.6	0.5
Addition	0.0	0.0
Deduction	0.0	-0.5
Accumulated cost at 31 December 2016	92.6	0.0
Accumulated revaluation and impairment at 1 January 2016	33.5	0.1
Dividends	-6.3	0.0
Currency translation	4.4	-0.1
Profit after tax	10.4	0.0
Accumulated revaluation and impairment at 31 December 2016	42.0	0.0
Carrying amount at 31 December 2016	**134.6**	**0.0**

2015

DKK Million	Investments in associated companies	Other
Cost at 1 January 2015	92.6	0.6
Addition	0.0	0.0
Deduction	0.0	-0.1
Accumulated cost at 31 December 2015	92.6	0.5
Accumulated revaluation and impairment at 1 January 2015	17.1	0.0
Dividend	-5.6	0.0
Currency translation	11.8	0.1
Profit after tax	10.2	0.0
Accumulated revaluation and impairment at 31 December 2015	33.5	0.1
Carrying amount at 31 December 2015	**126.1**	**0.6**

NOTE 4.4

FINANCIAL FIXED ASSETS (CONTINUED)

NAME AND COUNTRY OF INCORPORATION

Caribbean Cigar Holdings Group Co. S.A, Panama

DKK Million	2016	2015
PROFIT & LOSS		
Revenue	379.1	314.4
Profit for the year	52.0	51.0
Other comprehensive income	0.0	0.0
Total comprehensive income	**52.0**	**51.0**
FINANCIAL POSITION		
Non-current assets	37.8	36.6
Current assets	461.4	426.3
Non-current liabilities	2.1	2.0
Current liabilities	86.8	84.0
% Interest held	**20%**	**20%**

The financial information stated above is based on estimates for 2016.

RECONCILIATION OF CARRYING AMOUNT		
Scandinavian Tobacco Group's share of Caribbean Cigar Holdings Group's equity	82.1	75.4
Goodwill concerning Caribbean Cigar Holdings Group	58.2	56.4
Elimination of internal profit	-5.7	-5.7
Carrying amount at 31 December	**134.6**	**126.1**

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	2016	2015
Interest on deposits in financial institutions etc.	3.4	2.2
Exchange gains, net	23.8	33.8
Other financial income	2.8	1.9
	30.0	**37.9**

FINANCIAL COSTS

DKK Million	2016	2015
Interest to financial institutions etc.	80.6	78.7
Interest part of pension cost	10.0	8.9
Other financing costs	11.7	17.7
	102.3	**105.3**

Interest on debt to financial institutions etc. includes cost of interest rate swaps of DKK 41.3 million (DKK 34.9 million).
Other financing costs include discounting effect of provisions of DKK 1.0 million (DKK 1.5 million).

NOTE 4.6
SHARE CAPITAL, TREASURY SHARES, DIVIDEND AND EARNINGS PER SHARE

DEVELOPMENT IN SHARE CAPITAL

DKK Million	
2012-2015	0.0
At the beginning of the year	**100.0**
2016	0.0
At the end of the year	**100.0**

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

TREASURY SHARES:

	Nominal value (DKK million)	Number of shares (in thousands)	Purchase price (DKK million)	% of share capital
Acquisition of treasury shares	0.4	412	45.5	0.4
Treasury shares at 31 December 2016	0.4	412	45.5	0.4

The market value of treasury shares at 31 December 2016 was DKK 49.0 million.
The holding of treasury shares are regarded as hedges for the share-based incentive programmes.

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

NOTE 4.6

SHARE CAPITAL, TREASURY SHARES, DIVIDEND AND EARNINGS PER SHARE (CONTINUED)

NET CASH DISTRIBUTION TO SHAREHOLDERS (DIVIDEND):

	Dividend DKK million	Per share DKK
2012 (proposed dividend in 2011 Annual Report)	350.0	3.5
2013 (proposed dividend in 2012 Annual Report)	412.0	4.1
2014 (proposed dividend in 2013 Annual Report)	382.0	3.8
2015 (proposed dividend in 2014 Annual Report)	427.0	4.3
2015 (interim dividend)	900.0	9.0
2016 (proposed dividend in 2015 Annual Report)	500.0	5.0

Retained earnings end of 2016 include proposed dividend of DKK 550 million (DKK 5.5 per share).

EARNINGS PER SHARE:

Earnings per share is presented as both basic and diluted earnings per share. Basic earnings per share is calculated as net profit divided by the average number of shares outstanding. Diluted earnings per share is calculated as net profit divided by the sum of average number of shares outstanding, including the dilutive effect of outstanding share bonus programmes. Please refer to note 5.7 'Explanation of financial ratios' for a description of the calculation of basic and diluted earnings per share.

DKK Million	2016	2015
Net profit for the year	681.5	667.6
Average number of shares outstanding (in 1,000 shares)	100,000	100,000
Average number of treasury shares (in 1,000 shares)	-225	0
Average number of shares - basic (in 1,000 shares)	99,775	100,000
Dilutive effect of outstanding PSUs (in 1,000 shares)	97	0
Average number of shares outstanding, including dilutive effect of PSUs (in 1,000 shares)	99,872	100,000
Basic earnings per share (DKK) 100,000	6.8	6.7
Diluted earnings per share (DKK)	6.8	6.7

NOTE 4.7

NET INTEREST-BEARING DEBT

DKK Million	2016	2015
Interest-bearing liabilities	2,775.7	3,378.5
Pensions	263.8	241.0
Cash equivalents	-570.3	-608.8
	2,469.2	**3,010.7**

Financial Policy

According to the financial policy, the Group has a leverage ratio target of 2.5 (measured as net interest-bearing debt divided by adjusted EBITDA) while maintaining flexibility to increase leverage temporarily, for example to pursue acquisitions. At 31 December 2016 the ratio was 1.7 (2.2).

SECTION 5
OTHER DISCLOSURES

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

NOTE 5.1
CASH FLOW ADJUSTMENTS

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

DKK Million	2016	2015
Financial items	72.3	67.4
Share of profit of associated companies, net of tax	-10.4	-10.2
Depreciation and impairment	154.5	121.5
Amortisation and impairment	167.2	184.4
Income taxes	213.4	216.3
(Gains)/losses from sale of property, plant and equipment	-4.6	-1.3
Other adjustments	15.1	63.5
	607.5	**641.6**

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 10 years, and the majority of the lease agreements are renewable at the end of the lease period at market rate.

DKK Million	2016	2015
Lease expenditures charged to the income statement during the year	127.1	126.0
Future minimum lease payment under operating lease contracts and rent commitments amounts to:		
Within 1 year	93.9	107.8
Between 1 and 5 years	131.0	152.7
After 5 years	13.4	42.6
	238.3	**303.1**

GUARANTEE OBLIGATIONS
The Group has guarantee obligations totalling DKK 545.8 million (DKK 543.5 million), primarily given to local tax authorities in relation to excise and tax stamps.

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

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

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

NOTE 5.3

RELATED-PARTY TRANSACTIONS

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

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

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

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

DKK Million	2016	2015
Swedish Match AB (significant influence from key management)		
Purchase of products by Scandinavian Tobacco Group	-77.2	-87.4
Sale of products from Scandinavian Tobacco Group	68.0	79.1
Caribbean Cigar Holdings Group Co. S.A (associated company)		
Purchase of products by Scandinavian Tobacco Group	-34.0	-39.4
Skandinavisk Holding A/S (controlled by the Augustinus Foundation)		
Services provided by Scandinavian Tobacco Group A/S	2.5	2.5
Tivoli (controlled by the Augustinus Foundation)		
Purchase of products and sponsorship	-0.6	-1.1

For information on remuneration to the Management of Scandinavian Tobacco Group A/S, please refer to note 2.2 and note 2.3. For an overview of Group companies, please refer to note 5.6. There have not been and there are no loans to key management personnel in 2016 or 2015.

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

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

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

For information concering major shareholders, please refer to Shareholder information in the Management Report, page 48.

NOTE 5.4

EVENTS AFTER THE REPORTING PERIOD

On the 2 February 2017 the French Ministry of Health and Ministry of Budget published the result of their review of all tobacco product names in the French market. As a result of this, the French authorities consider the use of Scandinavian Tobacco Group's Café Crème brand name for cigars to be a violation of the French Public Health Code.

The ban is announced to take effect from 1 February 2018 and Scandinavian Tobacco Group will appeal the decision to the French courts.

Management have assessed that the name ban in France does not have any impact on the Consolidated Financial Statements and the financial position at 31 December 2016 of the Group.

The Group has not experienced any further significant events after 31 December 2016 which have an impact on the annual report.

NOTE 5.5

FEE TO STATUTORY AUDITOR

DKK Million	2016	2015
Statutory audit	5.1	5.0
Audit-related services	0.3	0.3
Tax advisory services	2.1	4.7
Other services	1.4	2.4
Total fee to statutory auditors	**8.9**	**12.4**

NOTE 5.6

ENTITIES IN SCANDINAVIAN TOBACCO GROUP

Company	Country	Ownership	Activity: Production	Activity: Sales and marketing	Activity: Administration	Activity: Finance
PARENT COMPANY						
Scandinavian Tobacco Group A/S	Denmark	–		●	●	●
SUBSIDIARIES BY REGION						
EUROPE						
Bogaert Cigars N.V.	Belgium	100%		●		
Scandinavian Tobacco Group Belux N.V.	Belgium	100%		●		
Scandinavian Tobacco Group Lummen N.V.	Belgium	100%	●			
Scandinavian Tobacco Group Belgium Services N.V.	Belgium	100%			●	
Scandinavian Tobacco Group Wuustwezel N.V.	Belgium	100%	●			
Scandinavian Tobacco Group Zagreb d.o.o.	Croatia	100%		●		
Scandinavian Tobacco Group Assens A/S	Denmark	100%	●	●		
Scandinavian Tobacco Group Denmark A/S	Denmark	100%		●		
Scandinavian Tobacco Group Nykøbing ApS	Denmark	100%	●			
STG Finans ApS	Denmark	100%				●
STG Latin Holding ApS	Denmark	100%			●	
Peter Stokkebye Tobaksfabrik A/S	Denmark	100%		●		
Scandinavian Tobacco Group France S.A.S	France	100%		●		
Scandinavian Tobacco Group Deutschland GmbH	Germany	100%		●		
Scandinavian Tobacco Group Italy S.R.L.	Italy	100%		●		
Scandinavian Tobacco Group Norway AS	Norway	100%		●		
Scandinavian Tobacco Group Polska Sp. z o.o. w likwidacji	Poland	100%			●	
STG Portugal S.A.	Portugal	100%		●		
Scandinavian Tobacco Group d.o.o.	Slovenia	100%		●		
Scandinavian Tobacco Group Spain S.A.U.	Spain	100%		●		
Intermatch Sweden AB	Sweden	100%			●	
P.G.C. Hajenius B.V.	The Netherlands	100%		●		
Scandinavian Tobacco Group Eersel B.V.	The Netherlands	100%	●	●	●	
Scandinavian Tobacco Group Nederland B.V.	The Netherlands	100%		●		
Scandinavian Tobacco Group Tobacco Service B.V.	The Netherlands	100%		●		
ST Cigar Group Holding B.V.	The Netherlands	100%			●	
STG Finance B.V.	The Netherlands	100%				●
Scandinavian Tobacco Group Bethlehem Holdings B.V.	The Netherlands	100%			●	
Scandinavian Tobacco Group Bethlehem Sales B.V.	The Netherlands	100%		●	●	
Scandinavian Tobacco Group United Kingdom Limited	United Kingdom	100%		●		

NOTE 5.6

ENTITIES IN SCANDINAVIAN TOBACCO GROUP (CONTINUED)

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

NOTE 5.7

EXPLANATION OF FINANCIAL RATIOS

GROSS MARGIN = Gross profit / Net sales

EBITDA MARGIN = EBITDA / Net sales

EBIT MARGIN = EBIT / Net sales

TAX PERCENTAGE = Tax / Profit before tax

CASH CONVERSION = CFFO before interest and tax, excluding payment of non-recurring item - Maintenance CAPEX / Adjusted operating profit (Adjusted EBITA)

EQUITY RATIO = Equity / Total assets

ROIC = EBIT / 12 months average invested capital*

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

ROIC EX. GOODWILL AND TRADEMARKS FROM 2010 MERGER* = EBIT / 12 months average invested capital** ex. goodwill and trademarks from 2010 merger

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

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

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

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

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

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

FINANCIAL STATEMENTS

THE PARENT COMPANY

INCOME STATEMENT – PARENT COMPANY

1 JANUARY – 31 DECEMBER

DKK Million	Note	2016	2015
Other income		**261.6**	**199.9**
Other external costs		-115.0	-94.9
Staff costs	2	-119.4	-133.8
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**27.2**	**-28.8**
Depreciation	3	-2.2	-0.8
Earnings before interest, tax and amortisation (EBITA)		**25.0**	**-29.6**
Amortisation	3	-8.6	-13.1
Earnings before interest and tax (EBIT)		**16.4**	**-42.7**
Result of investments in affiliated companies, net of tax	4	383.4	435.1
Financial income	5	81.9	60.2
Financial costs	6	-94.6	-90.9
Profit before tax		**387.1**	**361.7**
Income taxes	7	-2.4	19.7
Net profit for the year		**384.7**	**381.4**
DISTRIBUTION OF PROFIT			
Proposed distribution of profit:			
Proposed dividend		550.0	500.0
Reserve for retained earnings – equity method		0.0	0.0
Retained earnings		-165.3	-118.6
		384.7	**381.4**

BALANCE SHEET AT 31 DECEMBER – PARENT COMPANY

ASSETS

DKK Million	Note	2016	2015
Other intangible assets		40.6	33.1
Intangible assets	8	**40.6**	**33.1**
Leasehold improvements		0.6	2.8
Property, plant and equipment	9	**0.6**	**2.8**
Investments in affiliated companies		10,706.5	10,451.2
Financial fixed assets	10	**10,706.5**	**10,451.2**
Fixed assets		**10,747.7**	**10,487.1**
Receivables from affiliated companies		2,973.3	2,539.6
Other receivables		21.9	21.2
Income tax receivable		84.3	82.5
Prepayments	11	23.3	21.5
Total receivables		**3,102.8**	**2,664.8**
Cash and cash equivalents		**351.2**	**468.1**
Current Assets		**3,454.0**	**3,132.9**
Assets		**14,201.7**	**13,620.0**

BALANCE SHEET AT 31 DECEMBER – PARENT COMPANY

EQUITY, PROVISIONS AND LIABILITIES

DKK Million	Note	2016	2015
Share capital		100.0	100.0
Retained earnings		6,942.1	7,000.9
Treasury shares		-45.5	0.0
Proposed dividend		550.0	500.0
Equity		**7,546.6**	**7,600.9**
Deferred income tax liabilities	7	48.6	39.8
Pension obligations	12	0.0	20.4
Other provisions	12	4.7	4.7
Provisions		**53.3**	**64.9**
Bank loans		2,730.7	3,337.9
Other liabilities		26.6	0.0
Long-term liabilities		**2,757.3**	**3,337.9**
Liabilities to affiliated companies		3,703.5	2,470.3
Trade creditors		38.0	26.6
Other liabilities		103.0	119.4
Current liabilities		**3,844.5**	**2,616.3**
Liabilities		**6,601.8**	**5,954.2**
Equity, provisions and liabilities		**14,201.7**	**13,620.0**
Contingent liabilities	13		
Financial instruments	14		
Related-party transactions	15		
Fee to statutory auditor	16		
Ownership	17		

STATEMENT OF CHANGES IN EQUITY – PARENT COMPANY

1 JANUARY – 31 DECEMBER

DKK Million	Share capital	Retained earnings	Treasury shares	Proposed dividend	Total
Equity at 1 January 2016	100.0	7,000.9		500.0	7,600.9
Cash flow hedges		3.6			3.6
Tax of cash flow hedges		-0.8			-0.8
Purchase of treasury shares			-45.5		-45.5
Share-based payments		9.4			9.4
Equity movement in subsidiaries		-22.5			-22.5
Foreign exchange adjustments of net investments in foreign subsidiaries		116.8			116.8
Dividend paid				-500.0	-500.0
Profit / loss for the year		-165.3		550.0	384.7
Equity at 31 December 2016	**100.0**	**6,942.1**	**-45.5**	**550.0**	**7,546.6**
Equity at 1 January 2015	100.0	7,581.0		427.0	8,108.0
Cash flow hedges		48.8			48.8
Tax of cash flow hedges		-11.5			-11.5
Actuarial gains and losses on pension obligations		-4.2			-4.2
Tax of actuarial gains and losses on pension obligations		1.0			1.0
Equity movement in subsidiaries		9.8			9.8
Foreign exchange adjustments of net investments in foreign subsidiaries		394.6			394.6
Dividend paid		-900.0		-427.0	-1,327.0
Profit / loss for the year		-118.6		500.0	381.4
Equity at 31 December 2015	**100.0**	**7,000.9**	**0.0**	**500.0**	**7,600.9**

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

NOTES TO THE PARENT COMPANY

NOTE 1

ACCOUNTING POLICIES

The Parent Company has prepared its Financial Statements in accordance with the provisions of the Danish Financial Statements Act (Class D) and other accounting regulations for companies listed on NASDAQ Copenhagen.

The Consolidated Financial Statements have been prepared in accordance with IFRS. The accounting policies applied for the Consolidated Financial Statements regarding recognition and measurement have also been applied for the Parent Company with the below exceptions.

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

RESULT OF INVESTMENTS IN AFFILIATED COMPANIES, NET OF TAX

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

GOODWILL

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

TRADEMARKS

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

INVESTMENTS IN AFFILIATED COMPANIES

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

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

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

DEFINED BENEFIT PENSION PLANS

In relation to defined benefit plans, the company follow the requirements in the Danish Financial Statement Act (dated 1 July 2015 for financial statements starting 1 January 2016), meaning that actuarial gains and losses are recognised directly in other comprehensive income instead of directly in the income statement. For the monetary impact, please refer to the statement of changes in equity and note 3.7 "pension obligation" for the group.

SHARE BASED PAYMENTS

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

NOTE 2

STAFF COSTS

DKK Million	2016	2015
Salaries	134.1	123.2
Pensions*	-14.3	10.5
Social security costs	-0.4	0.1
	119.4	**133.8**
Average number of employees	**84**	**81**

*Pensions are impacted by curtailments related to conversion of a pension scheme for Executive Management (defined benefit pension plan) converted into a stay-on bonus programme and recognised within salaries. The conversion did not have any net impact on total staff cost for the year.

NOTE 2

STAFF COSTS (CONTINUED)

Remuneration of the Board of Directors and Executive Management

Total fees to the Board of Directors and Executive Management, amounted to DKK 58.1 million (DKK 77.3 million).

2016 Executive management	Salary	Bonus	Pension	IPO incentive bonus*	Shared based incentive programme*	Total
Niels Frederiksen	6.4	1.8	0.0	1.5	2.5	12.2
Christian Hother Sørensen	4.6	1.6	0.0	1.5	1.4	9.1
Sisse Fjelsted Rasmussen	3.8	1.3	0.0	1.5	1.1	7.7
Rob Zwarts	3.9	1.0	0.2	1.5	0.8	7.4
Vincent Crepy	3.7	1.2	0.0	1.6	0.9	7.4
Total 2016	**22.4**	**6.9**	**0.2**	**7.6**	**6.7**	**43.8**

In addition to the above, the company has expensed DKK 7.1 million in 2016 (DKK 8.9 million) related to stay-on bonus and loyalty programme which are due after 1-2 years and which replace previous retirement plans for selected executives.

2015 Executive management	Salary	Bonus	Pension	IPO incentive bonus*	Shared based incentive programme*	Total
Niels Frederiksen **	5.7	5.8	0.0	5.5	0.0	17.0
Christian Hother Sørensen	4.5	4.6	0.0	5.5	0.0	14.6
Sisse Fjelsted Rasmussen	3.6	3.7	0.0	5.5	0.0	12.8
Rob Zwarts	3.5	2.8	0.2	5.5	0.0	12.0
Vincent Crepy **	1.1	1.1	0.0	2.5	0.0	4.7
Anders Colding Friis **	1.2	1.2	0.0	0.0	0.0	2.4
Total 2015	**19.6**	**19.2**	**0.2**	**24.5**	**0.0**	**63.5**

* Comparison numbers for 2015 in relation to the IPO incentive bonus represent amounts expensed in 2015 based on estimated total value, probability and expected timing. The programme was subsequently triggered in connection with the listing of the Group on Nasdaq Copenhagen on 10 February 2016 where Executive Management received a total payment of DKK 36.9 million.
2016 numbers (share-based incentive programme) relate to the new Performance Share Units programme (PSU) established during 2016. Refer to Group note 2.3 for further description of the programme.

** Niels Frederiksen was appointed CEO on 1 March 2015.
Vincent Crepy joined the Group as Executive Vice President of supply chain on 1 September 2015.
Anders Colding Friis left his position as CEO on 28 February 2015.

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

NOTE 2
STAFF COSTS (CONTINUED)

DKK Thousand	Position	Joined the board	Left the board	Board	Committees	Total
Board of Directors						
Jørgen Tandrup	Chairman	October 2010		1,200	200	1,400
Nigel Northridge	Vice-chairman	April 2016		525	75	600
Conny Karlsson	Board member	October 2010		500	100	600
Søren Bjerre-Nielsen	Board member	February 2016		367	275	642
Marlene Forsell	Board member	June 2014		400	150	550
Tommy Pedersen	Board member	October 2010	April 2016	100	50	150
Lars Dahlgren	Board member	October 2010	February 2016	117		117
Dianne Neal Blixt	Board member	February 2016		367	137	504
Luc Missorten	Board member	February 2016		367		367
Henning Kruse Petersen	Board member	October 2010		450	33	483
Fredrik Lagercrantz	Board member	January 2015	February 2016	67	25	92
Anders C. Obel	Board member	October 2010	February 2016	67	25	92
Kurt Asmussen	Employee representative	October 2010		400		400
Charlotte Lückstadt Nielsen	Employee representative	October 2010		400		400
Hermod Hvid	Employee representative	April 2015	July 2016	233		233
Hanne Malling	Employee representative	October 2010		400		400
Lindy Larsen	Employee representative	July 2016		200		200
Total 2016				**6,160**	**1,070**	**7,230**
Total 2015				**4,491**	**450**	**4,941**

NOTE 3
DEPRECIATION AND AMORTISATION

DKK Million	2016	2015
DEPRECIATION		
Leasehold improvements	2.2	0.8
	2.2	**0.8**
AMORTISATION		
Other intangible assets	8.6	13.1
	8.6	**13.1**

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

DKK Million	2016	2015
Result of investments in affiliated companies, net of tax	383.4	435.1
	383.4	**435.1**

NOTE 5
FINANCIAL INCOME

DKK Million	2016	2015
Interest on deposits in financial institutions, etc.	0.5	0.3
Interest on balances with affiliated companies	65.6	39.8
Exchange gains, net	15.8	20.1
	81.9	**60.2**

NOTE 6
FINANCIAL COSTS

DKK Million	2016	2015
Interest on debt to financial institutions, etc.	80.3	77.5
Interest on balances with affiliated companies	13.4	12.6
Other financing costs	0.9	0.8
	94.6	**90.9**

NOTE 7
INCOME TAXES

DKK Million	2016	2015
Current income tax	-9.1	-44.0
Deferred income tax	11.3	29.1
Adjustment regarding prior years, current income tax	2.6	-0.5
Adjustment regarding prior years, deferred income tax	-2.4	-4.3
	2.4	**-19.7**

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

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

DKK Million	2016	2015
BREAKDOWN OF DEFERRED INCOME TAX:		
Intangible assets	8.8	6.9
Property, plant and equipment	-0.4	-0.4
Receivables	46.5	36.8
Treasury shares	-6.3	0.0
Other liabilities	0.0	-3.5
	48.6	**39.8**
BREAKDOWN OF INCOME TAXES:		
Tax calculated at 22% (2015: 23.5%) of profit before tax	85.2	85.0
TAX EFFECT OF:		
Adjustment regarding prior years	0.2	-4.8
Non-deductable costs	1.4	2.3
Result of investments in affiliated companies	-84.4	-102.2
	2.4	**-19.7**
Deferred income tax 1. Januar	39.8	16.0
Deferred income tax in income statement	8.8	24.8
Deferred income tax on equity	-	-1.0
Deferred income tax 31. December	**48.6**	**39.8**

NOTE 8

INTANGIBLE ASSETS

2016 DKK Million	Other intangible assets
Accumulated cost at 1 January	81.3
Addition	16.1
Disposal	0.0
Accumulated cost at 31 December	**97.4**
Accumulated amortisation at 1 January	48.2
Amortisation	8.6
Accumulated amortisation at 31 December	**56.8**
Carrying amount at 31 December	**40.6**

NOTE 9

PROPERTY, PLANT AND EQUIPMENT

2016 DKK Million	Equipment, tools and fixtures	Leasehold improvements	Total
Accumulated cost at 1 January	0.2	6.7	6.9
Addition	0.0	0.0	0.0
Disposal	0.0	0.0	0.0
Accumulated cost at 31 December	**0.2**	**6.7**	**6.9**
Accumulated depreciation at 1 January	0.2	3.9	4.1
Depreciation	0.0	2.2	2.2
Depreciation on disposals	0.0	0.0	0.0
Accumulated depreciation at 31 December	**0.2**	**6.1**	**6.3**
Carrying amount at 31 December	**0.0**	**0.6**	**0.6**

NOTE 10

INVESTMENTS IN AFFILIATED COMPANIES

DKK Million	2016	2015
Accumulated cost at 1 January	13,023.5	12,538.6
Addition	3.1	484.9
Disposal	0.0	0.0
Accumulated cost at 31 December	**13,026.6**	**13,023.5**
Accumulated revaluation and impairment at 1 January	-2,572.3	-2,235.1
Dividends	-225.5	-1,176.7
Currency translation	116.8	394.6
Equity adjustments	-22.5	9.8
Profit after tax	383.4	435.1
Accumulated revaluation and impairment at 31 December	**-2,320.1**	**-2,572.3**
Carrying amount at 31 December	**10,706.5**	**10,451.2**

NOTE 10

INVESTMENTS IN AFFILIATED COMPANIES (CONTUNIED)

Investments in affiliated companies can be specified as follows:

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

For a complete list of all entities in the Group please refer to note 5.6 pages 100-101.

NOTE 11

PREPAYMENTS

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

NOTE 12

PENSION OBLIGATIONS AND OTHER PROVISIONS

DKK Million	Pension obligations	Other provisions
Balance at 1 January 2016	20.4	4.7
Disposal during the year	-20.4	0.0
Balance at 31 December 2016	**0.0**	**4.7**
Expected due:		
Within 1 year	0.0	4.7
Between 1 and 5 years	0.0	0.0
After 5 years	0.0	0.0
	0.0	**4.7**

NOTE 13
CONTINGENT LIABILITIES

GUARANTEE OBLIGATIONS
The Company has guarantee obligations totalling DKK 538 million at 31 December 2016 (DKK 539 million).

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

DKK Million	2016	2015
Within 1 year	27.4	37.9
Between 1 and 5 years	2.2	0.8
After 5 years	0.1	0.0
	29.7	**38.7**

NOTE 14
FINANCIAL INSTRUMENTS

Reference is made to the notes 4.2 regarding the group.

NOTE 15
RELATED-PARTY TRANSACTIONS

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

NOTE 16
FEE TO STATUTORY AUDITOR

DKK Million	2016	2015
Statutory audit	0.7	0.7
Audit-related services	0.2	0.1
Tax advisory services	0.4	0.5
	1.3	**1.3**

NOTE 17
OWNERSHIP

As of 1 March 2017 the following investors have reported holdings of more than 5% of Scandinavian Tobacco Group's share capital/voting rights:

Skandinavisk Holding II A/S, Soeborg, Denmark	33.1%
Swedish Match Treasury Switzerland AG, Switzerland	9.1%
FMR LLC (Fidelity), USA	6.4%
FIL Limited, Bermuda	5.0%

MANAGEMENT'S STATEMENT

Executive Management and Board of Directors have today considered and adopted the Annual Report of Scandinavian Tobacco Group A/S for the financial year 1 January – 31 December 2016.

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

In our opinion, the Consolidated Financial Statements and the Financial Statements give a true and fair view of the financial position at 31 December 2016 of the Group and the Parent Company and of the results of the Group and Parent Company operations and consolidated cash flows for the financial year 1 January - 31 December 2016. In our opinion, Management's Report includes a true and fair account of the development in the operations and financial circumstances of the Group and the Parent Company, of the results for the year and of the financial position of the Group and the Parent Company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Parent Company.

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

Soeborg, 16 March 2017

EXECUTIVE MANAGEMENT

Niels Frederiksen
CEO

Sisse Fjelsted Rasmussen
CFO

Christian Hother Sørensen
EXECUTIVE VICE PRESIDENT, SALES & MARKETING

Vincent Crepy
EXECUTIVE VICE PRESIDENT, SUPPLY CHAIN

Rob Zwarts
EXECUTIVE VICE PRESIDENT, SPECIAL PROJECTS

BOARD OF DIRECTORS

Jørgen Tandrup
Chairman

Nigel Northridge
Vice chairman

Marlene Forsell

Conny Karlsson

Henning Kruse Petersen

Søren Bjerre-Nielsen

Dianne Neal Blixt

Luc Missorten

Kurt Asmussen

Lindy Larsen

Hanne Malling

Charlotte Lückstadt Nielsen

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Scandinavian Tobacco Group A/S

OUR OPINION

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2016 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.
Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2016 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2016 in accordance with the Danish Financial Statements Act.

WHAT WE HAVE AUDITED
Scandinavian Tobacco Group A/S' Consolidated Financial Statements for the financial year 1 January to 31 December 2016 comprise the consolidated income statement and statement of comprehensive income, the consolidated balance sheet, the statement of changes in group equity, the consolidated cash flow statement, and the notes to the financial statements, including summary of significant accounting policies.

Scandinavian Tobacco Group A/S' Parent Company Financial Statements for the financial year 1 January to 31 December 2016 comprise the income statement, the balance sheet, the statement of changes in equity, and the notes to the financial statements, including summary of significant accounting policies.

Collectively referred to as the "financial statements".

BASIS FOR OPINION

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

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

INDEPENDENCE
We are independent of the Group in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS ASSESSMENT The principal risk in relation to goodwill and intangible assets is impairment due to for example changes in local regulations, changes to excise duties, and changes in the strategy of the Group. Management prepared valuations of the operating segments Handmade cigars, Machine-made cigars, Pipe tobacco, Fine-cut tobacco and Other. Values for strategic trademarks with indefinite live and other trademarks are separately tested for impairment.	Our audit procedures included assessing the Group's impairment model. In addition, we obtained impairment tests prepared by Management and evaluated the reasonableness of estimates and judgments made by Management in preparing these. We challenged Management analysis around the key drivers of the cash flow forecasts including the ability to increase market share and achieve price increases in declining markets. We also evaluated the appropriateness of the key assumptions including discount rates,

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
The most critical assumptions are the estimation of future cash flows, especially growth in EBITDA, terminal growth and the discount rates. We focused on this area as the determination of whether elements of goodwill and intangible assets are impaired involves complex and subjective judgements by the Management about the future results of the relevant parts of the business. *Refer to Note 3.1*	short-term and long-term growth rates and performed sensitivities across the reporting segments. We used our own specialist to evaluate the discount rates. We tested the reliability of Management's estimates by comparing budgeted figures to actual figures for the past years.
UNCERTAIN TAX POSITIONS The Group operates in a complex multinational tax environment and related risks in transfer pricing cases with domestic and foreign tax authorities. Management is required to exercise considerable judgement when determining the appropriate provision amount for uncertain tax positions. We focused on this area given the number of judgements involved and the complexities of dealing with tax rules and regulations in numerous jurisdictions. *Refer to Note 2.5*	We evaluated relevant controls regarding completeness of records of uncertain tax positions and management's procedure for estimating the provision for uncertain tax positions We discussed with Management issues relating to determining the appropriate provision for uncertain tax positions. In addition, we used our own tax specialists and evaluated the adequacy of Management's key assumptions and read, if relevant, correspondence with tax authorities to assess the valuation of uncertain tax positions.

STATEMENT ON MANAGEMENT REPORT

Management is responsible for Management Report.

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

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

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

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

MANAGEMENT'S RESPONSIBILITY FOR THE 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 further requirements in the Danish Financial Statements Act and for the preparation of Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

INDEPENDENT AUDITORS' REPORT (CONTUNIED)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Copenhagen, 16 March 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR-no. 33 77 12 31

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STATE AUTHORISED PUBLIC ACCOUNTANT

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