SCANDINAVIAN TOBACCO GROUP

ANNUAL 2020 REPORT

CONTENTS

MANAGEMENT REPORT

FINANCIAL STATEMENTS

FIVE-YEAR SUMMARY[1]

DKK million	2020	2019	2018	2017	2016
INCOME STATEMENT					
Net sales [2]	8,006	6,719	6,563	6,464	6,746
Gross profit before special items [2]	3,712	3,142	3,044	3,134	3,314
EBITDA before special items	1,826	1,513	1,304	1,283	1,440
Special items	-435	-133	-266	-69	-200
EBIT	986	977	738	913	957
Net financial items	-53	-45	-37	-77	-72
Profit before tax	951	949	717	852	895
Income taxes	-274	-201	-51	-140	-213
Net profit	678	748	666	712	681
BALANCE SHEET					
Total assets	13,996	13,872	13,403	12,990	14,264
Equity	8,372	9,103	8,818	8,448	9,273
Net interest-bearing debt (NIBD)	3,274	2,330	2,585	2,247	2,469
Investment in property, plant and equipment	157	94	110	54	190
Total capital expenditures	201	122	125	109	235
CASH FLOW STATEMENT					
Cash flow from operating activities	1,585	1,300	784	1,049	1,358
Cash flow from investing activities	-1,752	-50	-511	-94	-219
Free cash flow	-166	1,250	274	955	1,139
Free cash flow before acquisitions	1,394	1,187	668	963	1,139

1. See definition/explanation of financial ratios in note 5.8. The years 2016-2018 are not adjusted in relation to IFRS16.
2. Net sales and gross profit before special items in 2018 and 2019 have been restated due to reclassification of certain type of expenses (refer to note 1.1).

DKK million	2020	2019	2018	2017	2016
KEY RATIOS					
Net sales growth [2]	19.2%	2.4%	1.5%	-4.2%	0.2%
Gross margin before special items [2]	46.4%	46.8%	46.4%	48.5%	49.1%
EBITDA margin before special items [2]	22.8%	22.5%	19.9%	19.9%	21.4%
Effective tax percentage	28.7%	21.2%	7.2%	16.4%	23.8%
Equity ratio	59.8%	65.6%	65.8%	65.0%	65.0%
Cash conversion	135.4%	118.6%	88.2%	110.2%	122.4%
Organic net sales growth [2]	6.6%	-2.5%	0.4%	-2.2%	0.4%
Organic EBITDA growth	14.0%	7.1%	3.5%	-7.4%	4.0%
NIBD / EBITDA before special items	1.8	1.5	2.0	1.8	1.7
ROIC	7.7%	8.2%	6.4%	7.9%	7.8%
ROIC ex. goodwill	12.7%	13.5%	10.4%	12.7%	12.2%
Adjusted earnings per share (DKK)	9.8	8.3	8.5	7.7	8.2
Basic earnings per share (DKK)	6.8	7.5	6.7	7.1	6.8
Diluted earnings per share (DKK)	6.8	7.5	6.7	7.1	6.8
Number of shares issued ('000)	100,000	100,000	100,000	100,000	100,000
Number of treasury shares ('000)	2,324	316	367	367	412
Share price at year end (DKK)	104.10	81.25	78.45	120.00	118.90
Dividend per share (DKK)	6.5	6.1	6.0	9.3	5.5
Pay-out ratio	95.9%	81.6%	90.2%	130.0%	80.7%

LETTER FROM CHAIRMAN AND CEO

BUSINESS RESILIENCE

We are pleased to present our Annual Report for 2020; a dramatic year in which the resilience of our employees and business was tested by the COVID-19 pandemic and we still managed to deliver on our promise to consumers and shareholders.

LETTER FROM CHAIRMAN AND CEO

2020 was marked by COVID-19, and the societal and economic disruption brought on by the global pandemic left no one or no business untouched. For Scandinavian Tobacco Group, it presented significant challenges to most aspects of the Group's operations but none more important than keeping our 11,000 employees safe.

Overall, Scandinavian Tobacco Group responded effectively to COVID-19 and swiftly put measures in place to keep our people safe, to serve our consumers and to maintain business operations. The strength and resilience of our business, in combination with the dedication of our employees who worked tirelessly and took responsibility to navigate the Company through the crisis, enabled us to weather the storm so far and emerge stronger.

STRONG PERFORMANCE

As authorities across the world implemented measures to contain and fight the spread of the Corona virus early in the year, we suspended our financial guidance due to lack of transparency on consumer behaviour and consumption. However, tobacco consumption proved resilient and later in the year, we reintroduced and raised our guidance as a consequence of strong growth in the consumption of handmade cigars in the US and online sales that were higher than expected. This growth sustained for the rest of the year and we were able to present strong results during 2020 with organic growth in net sales of 6.6%, an organic EBITDA growth of 14% and strong free cash flow before acquisitions of DKK 1,394 million.

The continued strong cash flow is testament to the strength of our business which allows us to propose an ordinary dividend payment of DKK 6.50 per share to our shareholders and launch a share buy-back programme with a value of up to DKK 600 million. The programme follows the completion of the first share buy-back programme ever in Scandinavian Tobacco Group with a total value of DKK 300 million which was completed in February 2021. On the back of the 2020 results, we will distribute above DKK 930 million in total to shareholders. We continue to regularly evaluate our total cash distribution to ensure alignment with our financial performance and the investment needs of the business.

ROLLING TOWARDS 2025

In the course of 2020, we completed the transformational programme Fuelling the Growth which since its launch in late 2018 has professionalised and modernised our Group and increased overall cost efficiency and operational performance. We managed to complete the programme and reach the DKK 250 million run rate savings target one year ahead of time.

In addition, the integration of Agio Cigars, which is the largest acquisition in the history of the Group, is on track to deliver the expected synergies and firmly establish Scandinavian Tobacco Group as a leading company in our industry.

Another key milestone in 2020 was the internal presentation and launch of our updated strategy – Rolling Towards 2025. The strategy renews and revises the vision and sets a clear strategic direction for the Group for the next five years with five focused must-win battles and a set of defined new values to support us in being our very best.

Rolling Towards 2025 is the natural next step in the development and professionalisation of Scandinavian Tobacco Group. It cements our focus on cigars and will ultimately enable us to become a larger company, to grow EBITDA and to create outstanding cash generation to support our continued growth and for our shareholders.

OPTIMISTIC ABOUT THE FUTURE

Looking forward to 2021, we remain optimistic about the opportunities for Scandinavian Tobacco Group in the future despite challenging market conditions. Our new strategy unites our employees behind a new purpose and sets a clear direction for how to achieve our vision of becoming the undisputed, global leader in cigars. Based on the strong business performance in 2020 and the passion and perseverance of our employees, we have the prerequisites to create further value for our shareholders.

We would like to offer a sincere thank you to every employee in Scandinavian Tobacco Group for their dedication and hard work in steering the organisation through a turbulent and dramatic year and to our shareholders and customers for their continued trust in our company.

Niels Frederiksen
President and CEO

Nigel Northridge
Chairman of the Board of Directors

2020 OVERVIEW

OUR VISION

BE THE UNDISPUTED, GLOBAL LEADER IN CIGARS

WHO WE ARE

For more than 250 years, Scandinavian Tobacco Group has been maker of rituals. We have honed our craft to make rituals: premium tobacco products and experiences to our consumers embedded by textures, flavours and aromas. With our portfolio of industry leading brands we deliver consumer experiences that really make a difference.

LEADING BRANDS

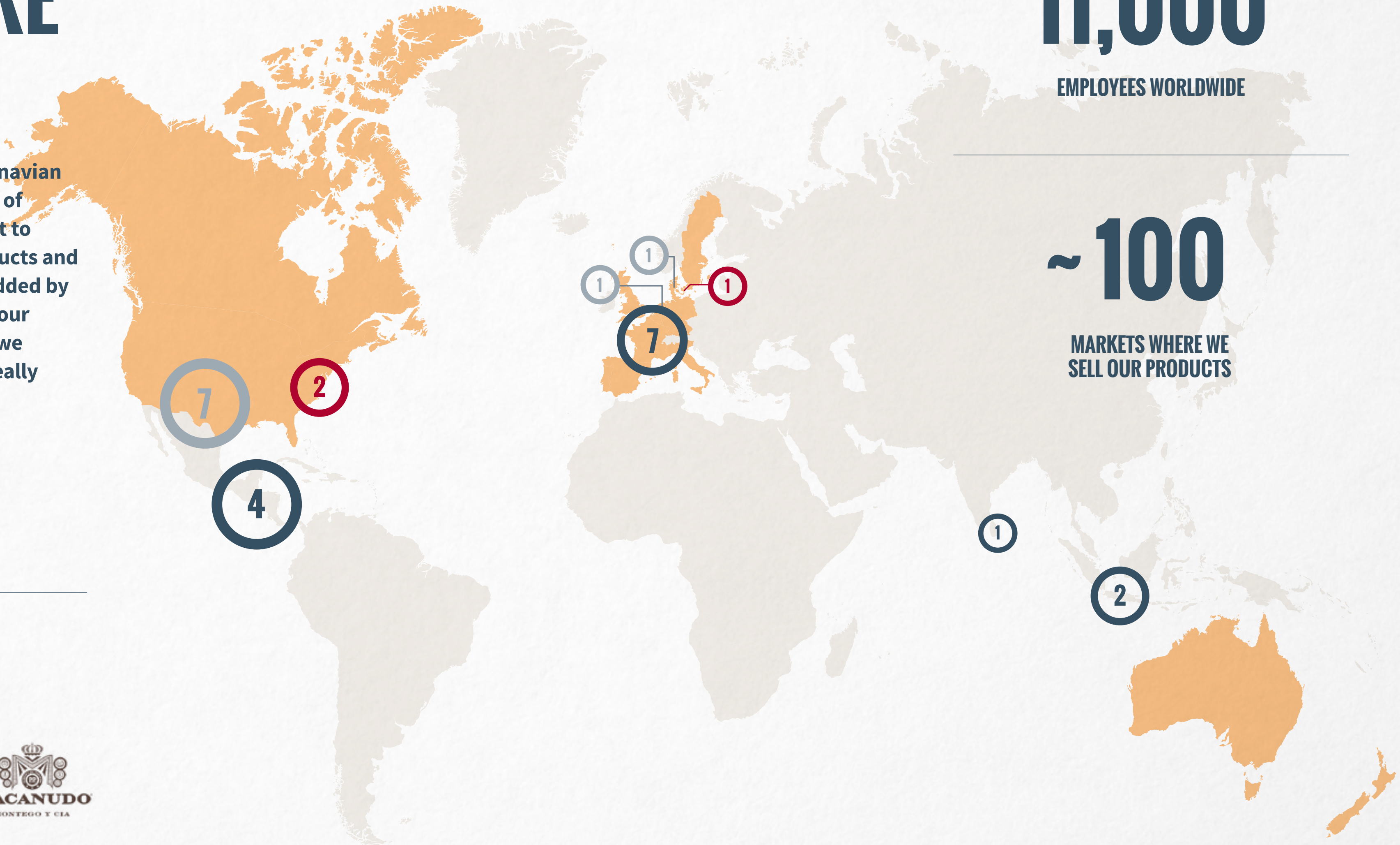
PANTER
diesel
MACANUDO
La Paz
TIEDEMANNS

11,000

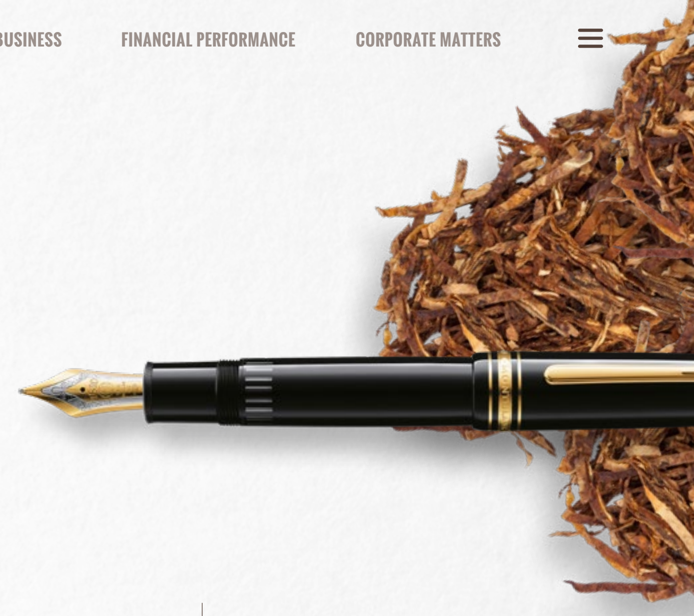
EMPLOYEES WORLDWIDE

~ 100

MARKETS WHERE WE SELL OUR PRODUCTS



Sales companies | Retail stores | Main offices | Manufacturing facilities



PERFORMANCE 2020

EXTRAORDINARY RESULTS

EXTRAORDINARY GROWTH

Overall tobacco consumption proved resilient against the COVID-19 pandemic and changes in consumer behaviour resulted in extraordinary growth in the consumption of handmade cigars in the US. On the back of this, the Group's 2020 results yielded extraordinarily strong organic EBITDA growth and free cash flow before acquisitions.

DKKm
1,394
Free cash flow before acquisitions

STABLE MARKET SHARE

The integration of Agio Cigars has supported the Group's market share in core European machine-rolled cigar markets. The combined market share of the largest European markets has stayed stable at 33.1% since the acquisition.

33%
Combined market share in core European markets

FUELLING THE GROWTH

In 2020, the transformational programme Fuelling the Growth was completed and the DKK 250 million run rate savings target was reached one year ahead of time. Since 2018, the programme has contributed to the professionalisation and modernisation of the Group and has increased overall cost efficiency and operational performance.

100%
Fuelling the Growth

OPTIMISING PRODUCTION FOOTPRINT

In April, the Group announced a restructuring of its operational footprint and the intended closure of production facilities in Eersel and Duizel, the Netherlands and Moca, the Dominican Republic. In addition the closure of the facility in Tucker, Georgia was completed in November.

14
Production facilities

INTEGRATION OF AGIO CIGARS

Since completing the largest acquisition in the history of the Group in January, work has progressed as planned on integrating Agio Cigars into the Group. The commercial integration is complete and the remaining integration is expected to be completed by the end of 2022.

35%
Of net synergies achieved

PERFORMANCE 2020

2020 DEVELOPMENTS

2020 STRATEGY EXECUTION

1 WIN IN MACHINE-ROLLED CIGAR
Increase market share and optimise and manage prices effectively

2020 developments
The acquisition of Agio Cigars strengthened the Group's overall market position in key machine-rolled cigar markets. The like-for-like volume market share stayed stable at 33% due to successful commercial integration and sound price management.

2 ACCELERATE NORTH AMERICA
Accelerate growth and improve efficiency across our business in North America

2020 developments
With increased cigar consumption in the US the Group's US business performed strongly. Cigars International had significant volume growth and grew the number of active customers. The retail expansion continued with the opening of three cigar super stores.

3 DRIVE M&A
Develop and execute M&A strategy to strengthen our position

2020 developments
The integration of Agio Cigars was successfully initiated. Maintaining commercial strength of the combined businesses and delivering expected net savings of DKK 225 million in 2022 is critical for future value creation.

4 LEAD PERFORMANCE TO THE NEXT LEVEL
Improve efficiencies by developing leaner, faster and more agile operations

2020 developments
Further optimisation and consolidation of production footprint with announced closure of three production facilites and completion of closure of Scandinavian Tobacco Group Lane facilities in Tucker, Georgia.

5 ENABLE A WINNING ORGANISATION
Invest in stronger HR capabilities, create global excellence centres and increase focus on accountability and performance

2020 developments
A new commercial divisional structure was launched and the Rolling Towards 2025 strategy with a renewed emphasis on performance culture was rolled out among the Group's 11,000 employees.

6 RAISE IT CAPABILITIES
Bring IT to the next level to fully support the business

2020 developments
The project of transforming and harmonising the Group's ERP platforms called OneProcess progressed as planned with the announcement of supplier and implementation partner.

FINANCIAL PERFORMANCE

NET SALES
8,006 DKKm
▲6.6% Organic growth

EBITDA BEFORE SPECIAL ITEMS
1,826 DKKm
▲14.0% Organic growth

NET PROFIT
678 DKKm

FREE CASH FLOW BEFORE ACQUISITIONS
1,394 DKKm

ORDINARY DIVIDEND
(DKK per share)
6.50
▲6.6%

FUELLING THE GROWTH

Launched in 2018, Fuelling the Growth was a Group-wide transformational programme aiming to increase commercial competitiveness, gross margins and operational cost efficiency and savings.

The implementation of Fuelling the Growth was completed faster than anticipated in 2020. This resulted in improved operational performance, increased cost efficiency and faster than expected net savings. By the end of 2020, the programme's overall run rate savings target was met.

Focusing on commercial initiatives, cost reduction and cash flow improvement, Fuelling the Growth has been important to all aspects of the business. With a new organisation and operating model improving competitiveness and with a persistent focus on efficiency and costs, the programme has been a key component in the execution of the strategy. Further, it will facilitate efficiency progress going forward and support execution on the new strategy Rolling Towards 2025. The intention of Fuelling the Growth to support the financial ambition of a 3-5% annual average organic EBITDA growth has been more than achieved.

FINANCIAL IMPACT

Implementation of Fuelling the Growth will incur costs (special items) up to a level of DKK 250 million. In 2020, special items were DKK 5 million and in 2018-2020 they were DKK 219 million.

Fuelling the Growth was expected to deliver net savings of approximately DKK 250 million with a full-year run rate effect by the end of 2021. Almost the full programme target was reached by the end of 2020 and approximately 20% of the net savings will impact the 2021 results.

KEY OPERATIONAL INITIATIVES IN 2020

ORGANISATION
New commercial divisional structure implemented

COMMERCIAL RESOURCES
Update of the Group's online platforms and marketing initiatives in the US

GLOBAL PROCUREMENT
Increased spend management and further reduction of number of suppliers

GLOBAL LOGISTICS
Consolidation of logistics set-up in EU

OPERATIONAL COST EFFICIENCY
Consolidation of production and updates of production facilities

COVID-19 PANDEMIC

WEATHER THE STORM

Few anticipated the speed and severity with which COVID-19 would change lives fundamentally and create unprecedented challenges for businesses during 2020.

As the pandemic spread across the world and forced the lockdown of countries and closure of borders, stores and offices and restricted manufacturing, distribution and travel, Scandinavian Tobacco Group dedicated all efforts to navigate and mitigate these extraordinary challenges. And thanks to the dedication, skills and hard work of employees around the world we can look back on one of the most challenging years in the history of Scandinavian Tobacco Group and proudly say that we kept our employees safe, while continuing to serve our customers and maintaining effective business operations.

All health and safety measures are in place in our cigar super stores in the US.

INGENUITY, DISCIPLINE AND DEDICATION

Through ingenuity, discipline and dedication disruptions to the global production network were kept to a minimum despite lockdowns, curfews and travel restrictions. Across all sites increased health and safety precautions were swiftly implemented and with our industry leading precautions our facility in Honduras was the very first to receive approval to reopen following the month long national quarantine in March 2020. And despite these challenges, output of handmade cigars improved by up to 80% across the production network.

COVID-19 induced changes to consumer behaviour were most pre dominant in North America, where employees on the road, in warehouses and call centres changed gears to handle the very strong surge in demand for handmade cigars. On top, the team built three Cigars International super stores in Texas and Florida and held the largest cigar industry and consumer appreciation event in the world online as we conducted Virtual CigarFest 2020 with cigar aficionados from across the US calling in.

In Europe, the integration of Agio Cigars - the largest acquisition in the history of the Group - has been largely unaffected by the pandemic and is progressing as planned resulting in growth in market share in key markets. Also, the national, regional and local lockdowns across markets in Europe, have encouraged the emergence of new digital solutions to connect with customers and consumers that the Group’s sales force will be exploring and leveraging in years to come.

Employees at the manufacturing facility in Honduras boxing handmade cigars

Thanks to the dedication, skills and hard work of employees around the world we kept our employees safe, while continuing to serve our customers and maintaining effective business operations

RESILIENT BUSINESS AND EMPLOYEES

The COVID-19 pandemic left no individual or business untouched in 2020 – and will continue to cause significant challenges to many aspects of the Group’s operations, including the supply chain and route to market in 2021. However, based on the demonstrated resilience of the business and employees in the past year and the Group’s continued diligent and successful mitigation efforts, we are confident that we will be able to move our business forward and deliver on our promise to our consumers and customers in a COVID-19 impacted 2021.

KEY EVENTS

2020 NOV

NEW STRATEGY

With the launch of Rolling Towards 2025, the Group renewed and revised its ambition, vision and strategic direction. The strategy cements our focus on cigars and will enable the Group to become a bigger and stronger company.

Rolling Towards 2025

2020 OCT

RETAIL EXPANSION

The Group's US retail expansion reached a significant milestone with the opening of three Cigars International super stores in Texas and Florida. Scandinavian Tobacco Group now operates six super stores under the Cigars International brand.

2020 SEP

INCREASED CIGAR PRODUCTION

The COVID-19 pandemic increased demand for handmade cigars in the US. In response, the Group expanded its handmade cigar production facilities and was able to increase the number of handmade cigars by up to 80%.

2020 AUG

REFUELLING THE ONLINE BUSINESS

The ongoing modernisation of the US online platforms continued and contributed to growth in the online channel. The transformation is expected to be completed by the end of 2021 and will provide a better shopping experience for the growing number of active customers.

2020 JUN

RECORD SHIPPING

The US online business has seen extraordinary growth due to the COVID-19 pandemic. A new monthly record was set in June as almost 420,000 orders were shipped out of the warehouse in Bethlehem, Pennsylvania.

2020 JAN

ACQUISITION COMPLETE

The acquisition of Agio Cigars, a leading European cigar company, is the biggest in the Group's history. The acquisition closed on 2 January, in a deal with a transaction value of DKK 1,559 million.

OUR BUSINESS

OUR PURPOSE

CRAFT THE RITUALS THAT MAKE US MORE

ROLLING TOWARDS 2025

In the course of 2020, we conducted a review of Scandinavian Tobacco Group's corporate strategy. The result was a new updated strategy – Rolling Towards 2025 - which was presented to the Group's 11,000 employees at the end of the year.

Rolling Towards 2025 is the natural next step in the development and professionalisation of Scandinavian Tobacco Group.

The strategy renews and revises the Group's ambition and vision - and sets a clear direction for the next five years with five focused must-win battles and a set of defined values to support us in being our very best.

Rolling Towards 2025 cements our focus on cigars and will ultimately enable us to become a **larger company**, **to grow EBITDA** and create **outstanding cash generation** for ourselves and our shareholders.

OUR STRATEGY

Rolling Towards 2025

CRAFTERS OF RITUALS

Organised around a vision of being the undisputed, global leader in cigars, Rolling Towards 2025 will allow Scandinavian Tobacco Group to become a stronger, more simplified and more attractive company to work for and do business with.

SHARPENED FOCUS
For over 250 years, Scandinavian Tobacco Group has been maker of rituals. We have honed our craft to make rituals: premium products and experiences to our consumers embedded by textures, flavours, and aromas.

Past achievements have brought the Group to where it is today and will serve as a guide forward. However, in order to grow and outperform competitors in an industry with declining volumes, we continually need to sharpen our strategic focus on the products, processes and consumer experiences that really make a difference.

Our new strategy **Rolling Towards 2025** will do exactly that.

PURPOSE

CRAFT THE RITUALS THAT MAKE US MORE

VISION

BE THE UNDISPUTED, GLOBAL LEADER IN CIGARS

AMBITION

LARGER COMPANY	GROWING EBITDA MARGIN	OUTSTANDING CASH GENERATION

MUST-WIN BATTLES

1 **GROW** OUR HANDMADE CIGAR BUSINESS	2 **DRIVE** SUSTAINABLE PROFIT GROWTH IN MACHINE-ROLLED CIGARS	3 **INTEGRATE** NEW MERGERS AND ACQUISITIONS	4 **SIMPLIFY** EVERYTHING WE DO	5 **EMBRACE A** PERFORMANCE CULTURE

ENABLERS

IT AND DATA CAPABILITIES AND INFRASTRUCTURE	LEAN, AGILE, EFFICIENT OPERATIONS	ATTRACTIVE EMPLOYER FOR TALENT	GROWTH INCUBATOR

OUR STRATEGY

Rolling Towards 2025

UNDISPUTED, GLOBAL LEADER

Rolling Towards 2025 will allow Scandinavian Tobacco Group to become a stronger, more simplified and more attractive company to work for and do business with.

Our common purpose will unite Scandinavian Tobacco Group across brands, products and markets. It will give a new perspective on why we exist and provide guidance on how we conduct business and how we can strengthen the experience we offer to our consumers. As we organise ourselves around a vision of being the undisputed, global leader in cigars, we sharpen our focus on cigars, handmade as well as machine-rolled. This is where we will strengthen our business and primarily pursue future investments. We will have strong returns from our other categories such as pipe tobacco and fine cut, yet cigars are our primary focus going forward and the first thing we need to succeed with to accelerate growth and value creation.

FIVE MUST-WIN BATTLES

Rolling Towards 2025 is based on five must-win battles – the focus areas we need to succeed with by 2025 to reach our ambition of becoming a bigger and more profitable company with outstanding cash generation for our shareholders.

The five must-win battles are supported by four enablers; four areas that will keep the engines running and reinforce our strategy ensuring efficient operations and IT infrastructure and establish a steady intake of new talent while identifying new paths to potential growth.

OUR STRATEGY

OUR MUST-WIN BATTLES

Rolling Towards 2025

GROW OUR HANDMADE CIGAR BUSINESS

We want to grow in handmade cigars. This is our primary investment focus, and we will direct our efforts at driving growth across the business, specifically in North America.

In the US online and retail market we will strengthen our consumer orientation through improved online experience and by continuously evaluating the potential of further retail expansion.

FOCUS AREAS
- Tobacco and innovation
- Route to market and pricing
- Branding, experiential and occasions
- Pursue M&A opportunities
- Retail store expansion
- Drive benefits of scale
- Gold standard customer service
- Personalisation driving basket size increase
- Analytics and technology nimbleness

KPI'S
- Annually grow category sales and gross margin
- Increase category profitability through increased sales of proprietary handmade brands and by building brand equity for top brands
- Annually grow number of active online customers in the US (in %)

OUR STRATEGY

Rolling Towards 2025

DRIVE SUSTAINABLE PROFIT GROWTH IN MACHINE-ROLLED CIGARS

We want to drive sustainable profit growth in machine-rolled cigars by efficient price management and leveraging market leading positions across Europe while simplifying our portfolio to drive efficiencies.

FOCUS AREAS

- Efficient price management
- Simplify portfolio
- Win in winning segments
- Win the key customers

KPI'S

- Annually maintain category sales and increase profitability
- Simplify portfolio and reduce number of brands

INTEGRATE NEW MERGERS AND ACQUISITIONS

We continue to look into opportunities to grow the business, strengthen our brand portfolio and leverage our costs through successful mergers and acquisitions. And we want to continue building the capabilities to successfully integrate new acquisitions.

FOCUS AREAS

- Identify M&A opportunities
- Establish standard integration processes
- Build integration capabilities

KPI'S

- Integrate synergy cases fast and successfully
- Acquisitions must improve Group ROIC within 3 years

OUR STRATEGY

Rolling Towards 2025

SIMPLIFY EVERYTHING WE DO

We want to reduce complexity and make it easier to drive the business by simplifying portfolios, operations and back office functions. We will simplify our IT infrastructure, increase digitalisation across the value chain, streamline the supply chain and establish simpler and more efficient distribution.

FOCUS AREAS
- Portfolios
- Supply chain
- Ways of working
- Back office
- Sales and consumer service

KPI'S
- Reduce complexity of systems and processes
- Build lean and efficient product portfolio
- Increase digitalisation

EMBRACE A PERFORMANCE CULTURE

We want to ensure that we move in the same direction by embracing a performance culture with a strong focus on performance, learning and development in our appraisals and our everyday life allowing us to improve as a company and as individuals.

FOCUS AREAS
- Purpose
- Value and behaviours
- Performance management systems
- Uniform operating model

KPI'S
- Build competencies across the workforce to increase efficiency
- Further develop as an attractive employer for international talent
- Develop and embed a Scandinavian Tobacco Group leadership model

M&A AGENDA

In January 2020, Scandinavian Tobacco Group acquired Agio Cigars, a leading European manufacturer of machine-rolled cigars. The purchase price was DKK 1,559 million and the acquisition reinforced the Group's strong market positions in key machine-rolled markets like France, the Netherlands, Belgium, Italy and Spain. With the acquisition, Group net sales grew by 15%.

The acquisition represents an investment in the future of the Scandinavian Tobacco Group and is an important step in the transformation of the company as it builds a more competitive and profitable business with a powerful brand portfolio, strong market positions and robust supply chains.

New organisational structure
As part of the integration and to increase speed to market and unlock synergies, the Group's organisational structure was changed in May when the number of commercial divisions was reduced from four to three. The former Smoking Tobacco and Accessories Division was integrated into two new divisions, leaving Scandinavian Tobacco Group with three commercial divisions: North America Online & Retail Division, North America Branded & Rest of World Division and Europe Branded Division.

Furthermore, to improve capacity utilisation and reduce production unit costs, two production facilities in the Netherlands and one facility in the Dominican Republic are planned to close and production to be moved to other production facilities.

FINANCIAL IMPACT

The combination of Scandinavian Tobacco Group and Agio Cigars is expected to deliver substantial cost synergies within sales & marketing, production and back office functions. When full integration has been completed by the end of 2022, it is assumed that the acquisition will deliver net synergies at the level of DKK 225 million with a positive impact in Scandinavian Tobacco Groupi´s EBITDA margin before special items of more than 2 percentage points.

Total special costs until the end of 2022 are expected to be at the level of DKK 555 million including DKK 105 million in non-cash impairments.

ABOUT AGIO CIGARS

Founded in **1904** the company was based in the Netherlands with approximately **3,200** full-time employees and annual net sales of approximately **DKK 1 billion**. The company had a strong cigar portfolio including key brands such as Mehari´s, Panter and Balmoral – and strong market positions in **the Netherlands, Belgium, France, Italy and Spain.**

CORPORATE SOCIAL RESPONSIBILITY

We want our CSR work to have a meaningful and recognizable impact in our business and in the world around us. That is why we have sought to map our new CSR Strategy to the United Nations Sustainable Development Goals (SDGs).

HOW WE LINK OUR WORK TO THE SDGS

The Group adobted its first CSR Strategy in June 2020. The new CSR Strategy has 4 focus areas, each with its own defined ambitions, activities and goals. These focus areas are:

- **People & Communities**
- **Planet**
- **Ethics**
- **Governance**

We assess that these focus areas and related activities impact 5 of the United Nations Sustainable Development Goals (SDGs):

5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

PEOPLE AND COMMUNITIES

How we engage with our employees and the communities where they work and live

5 GENDER EQUALITY: We do not tolerate any kind of discrimination

8 DECENT WORK AND ECONOMIC GROWTH: We work to protect labour rights and ensure safe and secure working environments

PLANET

How we work to ensure sustainable production

12 RESPONSIBLE CONSUMPTION AND PRODUCTION: We seek to reduce energy use and waste through prevention, reduction, recycling and reuse

13 CLIMATE ACTION: We will seek to measure, report and ultimately reduce our greenhouse gas emissions

ETHICS

How we promote responsible actions in our business and industry

8 DECENT WORK AND ECONOMIC GROWTH: We are committed to eliminating child labour in all forms in our value chain

16 PEACE, JUSTICE AND STRONG INSTITUTIONS: We do not tolerate any form of corruption or bribery

GOVERNANCE

How we embed strong oversight and transparency in our business

12 RESPONSIBLE CONSUMPTION AND PRODUCTION: We are working to adopt sustainable business practices

16 PEACE, JUSTICE AND STRONG INSTITUTIONS: We commit to non-discrimination under human rights laws and conventions

CLIMATE ACTION

The Group will in 2021 begin measuring our Scope 1 and 2 emissions under the Greenhouse Gas Protocol.

DIVERSITY AND INCLUSION

25% of our senior managers in 2020 were women. This falls short of our goal of 33%, and we want to do better.

CODE OF CONDUCT

Our Code of Conduct describes the ethical behaviour we expect from every one of our employees.

For the statutory statement on corporate social responsibility in compliance with Section 99a of the Danish Financial Statements Act, please see our Corporate Social Responsibility Report for 2020, available at:

ST-GROUP.COM/CSRREPORT.PDF

NEW ERP SYSTEM

As part of the ongoing modernisation and professionalisation of the Company, Scandinavian Tobacco Group will in the coming years invest significantly in updating the Group's Enterprise Resource Planning (ERP) system.

The project is called OneProcess and our current 12 different ERP legacy systems will be replaced by one new global ERP system. SAP proved to be the optimal platform in regards to functionality, solution footprint and best practice and has therefore been chosen as Scandinavian Tobacco Group's future ERP system.

The implementation of OneProcess will commence at the end of 2021. Until then a clarification phase will ensure the scope, prepare the organisation for the project and create the foundation to ensure the success of the OneProcess transformation. The final implementation road map will be prepared during 2021 while full ERP implementation is expected in 2024.

OPPORTUNITIES AND RISKS

OneProcess represents a significant business transformation - and a new global ERP system will be a key enabler for strategy execution and will strengthen our ability to deliver growth and profitability in a declining market. It will harmonise and simplify core business processes, improve quality of global master data and create a robust compliance and control environment in an industry with ever expanding regulations. Furthermore, a higher degree of digitalisation, process simplification and automation will provide the Group with an improved basis for entering into further market consolidations.

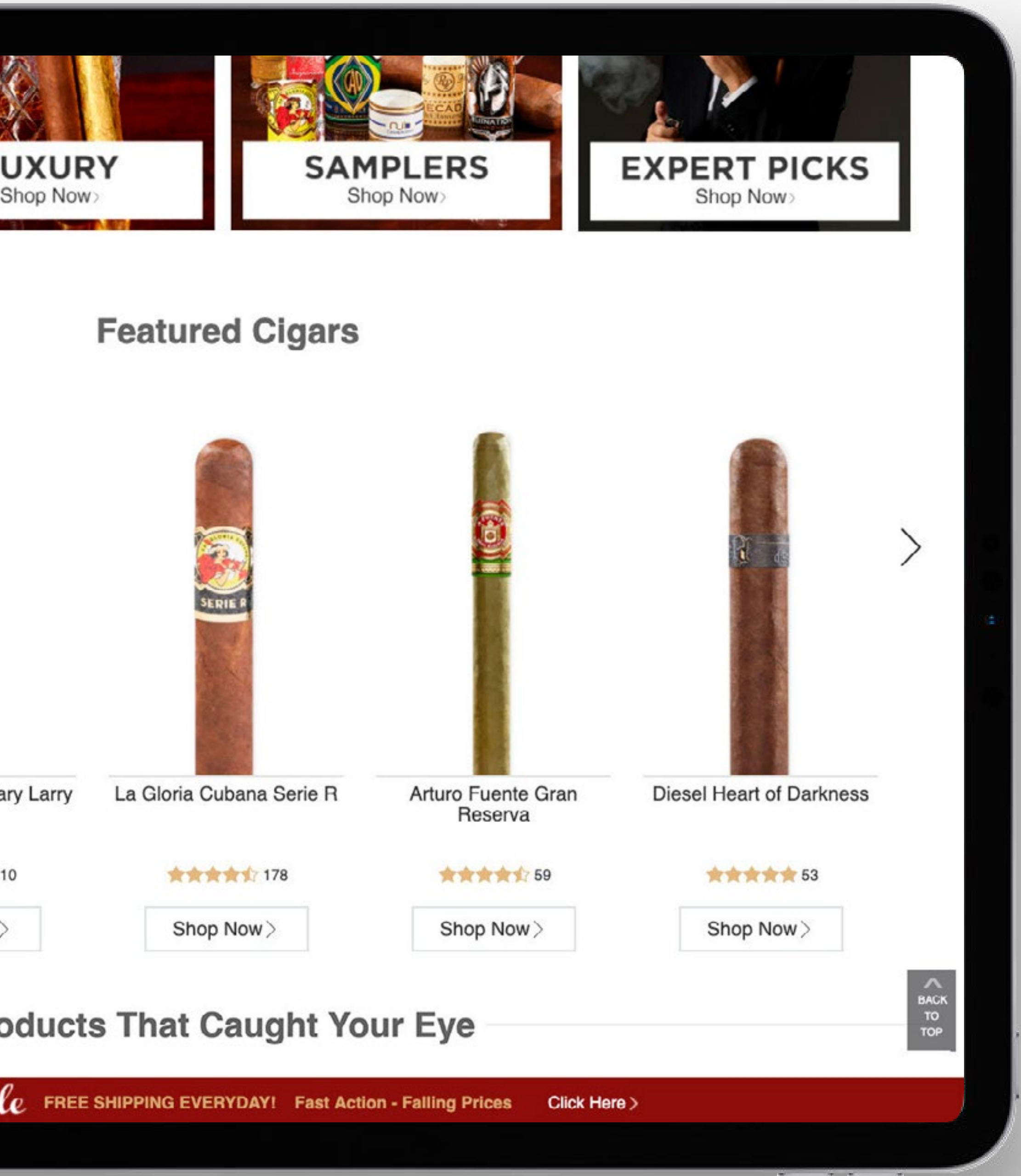
There are inherent risks in ERP system implementation. Disruptions, delays or deficiencies in the transition, design and implementation of the new system can have adverse effect on the Group's business. However, risk mitigation will be a priority throughout the project and several actions are taken to ensure risk mitigation. The choice of an experienced implementation partner with a proven track record and change management focus (Deloitte), a project governance with strong commitment from senior management and a thorough clarification phase will all contribute to reduce the risk of the project and create optimal conditions for a successful implementation.

FINANCIAL IMPACT

The investment in the new ERP system represents the largest IT investment in the history of Scandinavian Tobacco Group and is expected to be in the range of DKK 280-340 million from 2021-2024. The majority of investments are to be incurred in 2022 and 2023. Once fully implemented, a new ERP system will significantly improve IT infrastructure compliance, enhance the Group's ability to faster integrate acquisitions and yield annual savings.

WHAT IS ENTERPRISE RESOURCE PLANNING (ERP)

ERP applications are the key enabler - the IT backbone - in supporting an organisation's processes. It is used to manage and integrate business critical processes and data within all aspects of an organisation, including commercial, production, supply chain and finance. Any change to such applications has significant impact across the organisation.



BUSINESS HIGHLIGHTS

A TRANSFORMATION TO LEAD BUSINESS GROWTH

Scandinavian Tobacco Group's North America Online & Retail Division is tackling a declining market with a modernisation and upgrade of the online platforms. This has already accounted for a significant part of the business' growth, with more to come.

READ THE WHOLE ARTICLE HERE*

* Not part of the Management Report

BUSINESS HIGHLIGHTS

INTEGRATION - THE KEY INGREDIENT FOR A SUCCESSFUL ACQUISITION

The acquisition of Agio Cigars is the largest in the history of Scandinavian Tobacco Group. Once the deal was closed in 2020, the priority became to quickly integrate the business in order to efficiently add value. The process is going well, and there are some lessons which can be applied to future acquisitions.

READ THE WHOLE ARTICLE HERE*

* Not part of the Management Report

FINANCIAL PERFORMANCE

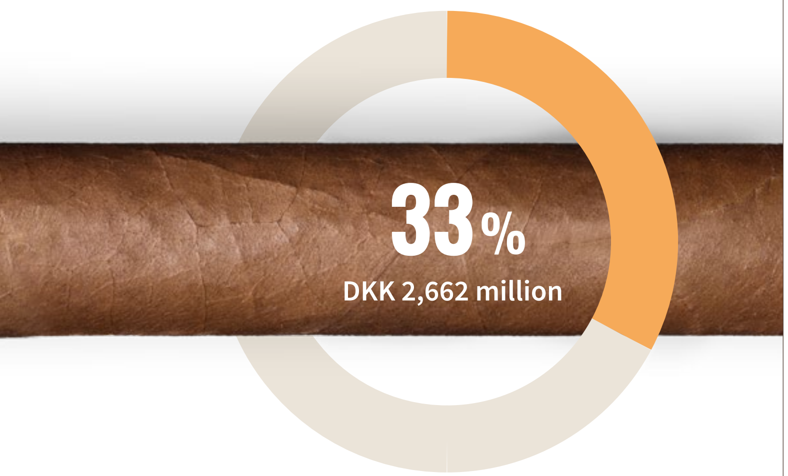
OUR VISION

BE THE UNDISPUTED, GLOBAL LEADER IN CIGARS

THE THREE DIVISIONS

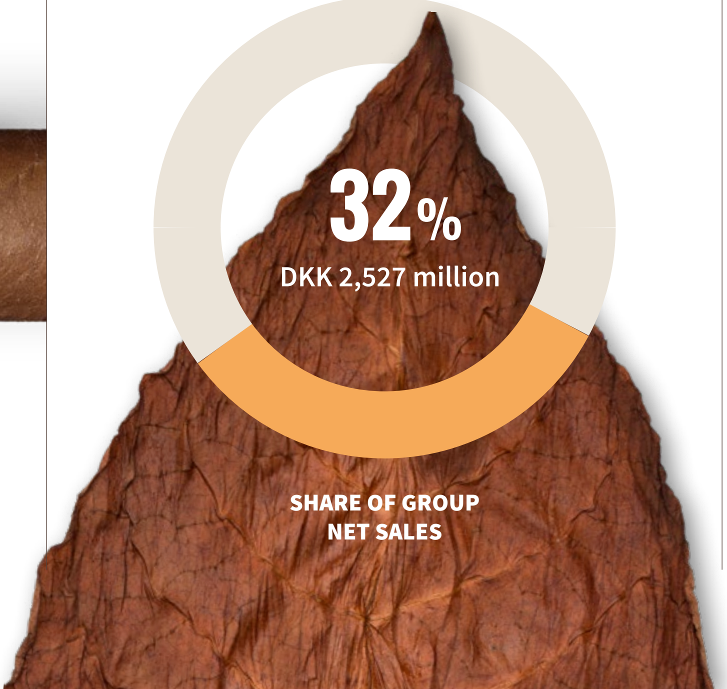
The Group's organisational and external reporting structure was revised during 2020 and now comprises three commercial divisions.

NORTH AMERICA ONLINE & RETAIL



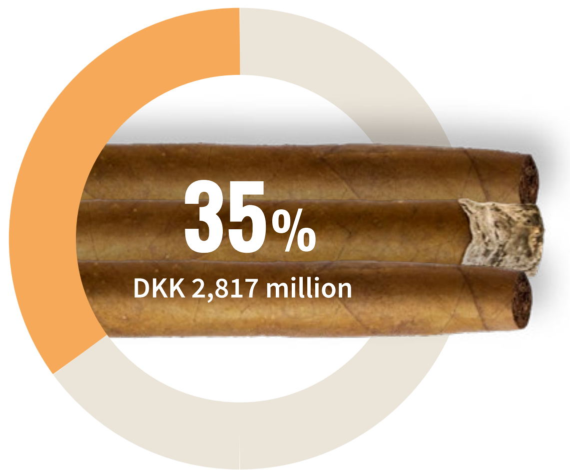
SHARE OF GROUP NET SALES

NORTH AMERICA BRANDED & REST OF WORLD



SHARE OF GROUP NET SALES

EUROPE BRANDED



SHARE OF GROUP NET SALES

THE THREE DIVISIONS

NORTH AMERICA ONLINE & RETAIL

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

TOP BRANDS

diesel

Mark Twain

5 Vegas

Man O'War

Ave Maria

THE THREE DIVISIONS

NORTH AMERICA ONLINE & RETAIL

MACHINE-ROLLED CIGARS	SMOKING TOBACCO	HANDMADE CIGARS	ACCESSORIES & CMA
5%	3%	81%	11%




In 2020 North America Online & Retail accounted for 33% of Group net sales and 28% of EBITDA before special items. The product category handmade cigars accounted for 81% of divisional net sales.

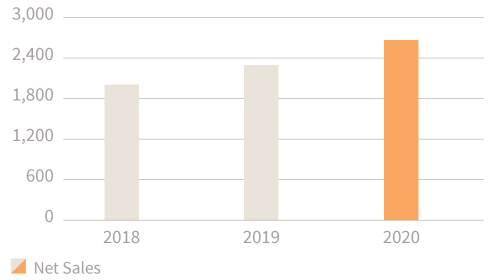
Volume development for handmade cigars in the division is driven by direct to consumer sales which in return is driven by the total handmade cigar market development and our market share performance. The total market for handmade cigars is estimated long-term to be declining by 1% per year, but on the back of the COVID-19 pandemic consumption increased in 2020.

The expansion of Cigars International's super store network progressed as planned with the opening of the second Texas store in Fort Worth in July, the first Florida store in Lutz in September and the second Florida store in Tampa in October. With the three new openings the first phase of the retail expansion has been finalised. A further expansion of the retail network is being evaluated based on the experiences from the existing stores. Overall, the retail super stores lounges were negatively impacted by the COVID-19 restrictions across the US in 2020.

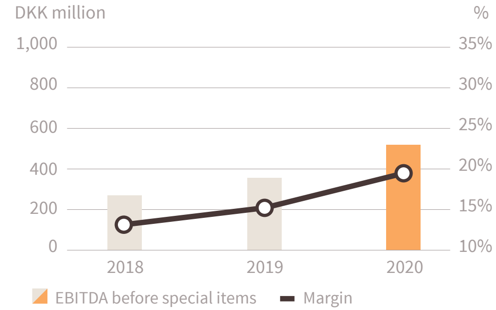
Divisional net sales increased by 16.2% to DKK 2,662 million during the year composed by a 18.9% positive organic net sales growth and a negative exchange rate effect of 2.7%. The organic development was driven by a significant positive contribution in the online channel from all product categories, but in particular handmade cigars.

EBITDA before special items increased by 46.3% to DKK 517 million with an EBITDA margin before special items of 19.4% (15.4%). The margin improvement is driven by scale benefits, lower promotional and marketing expenses with the competitive pressure remaining low as well as continued benefits from cost efficiencies and optimisations.

NET SALES



EBITDA BEFORE SPECIAL ITEMS



DKK million	2020	2019
Net sales	2,662	2,291
Gross profit before special items	1,075	883
EBITDA before special items	517	353
Net sales growth	16.2%	14.2%
Organic net sales growth	18.9%	0.7%
Gross margin before special items	40.4%	38.5%
EBITDA margin before special items	19.4%	15.4%

THE THREE DIVISIONS

NORTH AMERICA BRANDED & REST OF WORLD

Division North America Branded & Rest of World includes sales of all product categories to wholesalers and distributors that supply retail in the US, Canada, Australia, New Zealand, International Sales (Norway, Finland, Switzerland, Israel and Russia), Asia, Global Travel Retail and contract manufacturing for third parties.

TOP BRANDS

MACANUDO MONTEGO Y CIA
Captain Black
CAO
COHIBA
TIEDEMANNS

THE THREE DIVISIONS

NORTH AMERICA BRANDED & REST OF WORLD

MACHINE-ROLLED CIGARS

28%

SMOKING TOBACCO

23%

HANDMADE CIGARS

26%

ACCESSORIES & CMA

23%

In 2020 North America Branded & RoW accounted for 32% of Group net sales and 45% of EBITDA before special items. In 2020 machine-rolled cigars accounted for 28% of divisional net sales, handmade cigars for 26%, smoking tobacco for 23% and accessories & CMA (contract manufacturing) for 23%.

Organic net sales growth in the year was driven by a strong development in handmade cigars and smoking tobacco. As many consumers around the world were working from home and thereby having more smoking opportunities, the total consumption of several product categories increased.

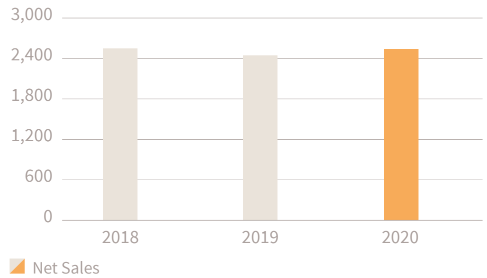
While demand for handmade cigars from the online channel continues to be strong, the reopening of the brick and mortar retail channel in the US impacted total sales volumes positively during the second half of the year following a significant negative impact in the second quarter when retail stores closed across the country.

In smoking tobacco, the structural declining market trend has been offset by consumers having more smoking occasions. In particular, fine-cut tobacco realised strong volume growth.

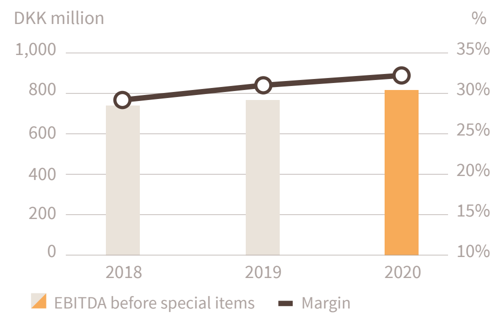
Net sales increased by 3.8% to DKK 2,527 million during the year composed by a 0.4% positive organic net sales growth, a 6.2% impact from acquisitions and a negative exchange rate effect of 2.8%. The organic development was driven by a significant increase in volumes of handmade cigars and a positive growth in smoking tobacco driven by the US and Norway, which in return was offset against a significant negative contribution from Global Travel Retail.

EBITDA before special items increased by 6.4% to DKK 813 million with an EBITDA margin before special items of 32.2% (31.4%). The margin improvement was realised with an unchanged gross margin and an improved OPEX ratio which decreased due to lower sales and marketing spending and general efficiency improvements.

NET SALES



EBITDA BEFORE SPECIAL ITEMS



DKK million	2020	2019
Net sales	2,527	2,436
Gross profit before special items	1,241	1,195
EBITDA before special items	813	764
Net sales growth	3.8%	-4.1%
Organic net sales growth	0.4%	-6.2%
Gross margin before special items	49.1%	49.0%
EBITDA margin before special items	32.2%	31.4%

THE THREE DIVISIONS

EUROPE BRANDED

Division Europe Branded includes sales of all product categories to wholesalers, distributors and direct to retail in Germany, Denmark, Sweden, France, Italy, Belgium, the Netherlands, Luxembourg, Spain, Portugal, as well as the UK and Ireland.

TOP BRANDS

La Paz
Break
Panter
Mehari's
Signature

THE THREE DIVISIONS

EUROPE BRANDED

MACHINE-ROLLED CIGARS

74%

SMOKING TOBACCO

17%

HANDMADE CIGARS

3%

ACCESSORIES & CMA

6%

In 2020 Europe Branded accounted for 35% of Group net sales and 32% of EBITDA before special items. In 2020 machine-rolled cigars accounted for 74% of divisional net sales and smoking tobacco for 17%.

In 2020 the overall market for machine-rolled cigars continued its structural decline after a weaker trend during the first half of the year following the early phases of the COVID-19 pandemic. However, the impact in segments like border trading and tourist areas continues to be profound. Preparations are underway for further lockdowns and restrictions during 2021.

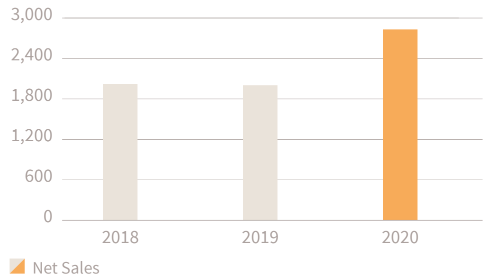
For the division, the organic growth in net sales was supported by market share performance and pricing in machine-rolled cigars and positive developments in smoking tobacco in Germany and Denmark.

The integration of Agio Cigars progresses according to plan with the commercial integration being finalised and total savings of approximately DKK 80 million being realised during the year. The combined market share of machine-rolled cigars in the largest European markets (France, Belgium, the Netherlands, the UK, Germany, Spain and Italy) has stayed stable at 33.1% since the acquisition. France delivered good progress just as market shares improved in Belgium, the Netherlands and Spain.

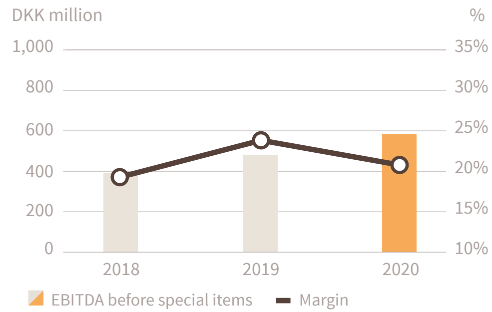
Net sales increased by 41.4% to DKK 2,817 million during the year composed by a 2.3% organic net sales growth and a 38.6% positive impact from the acquisition of Agio Cigars. The organic development was driven by a stable contribution from machine-rolled cigars and by positive growth in primarily smoking tobacco.

EBITDA before special items increased by 22.5% to DKK 581 million with an EBITDA margin before special items of 20.6% (23.8%). Excluding a fair value adjustment of inventories related to the acquisition of Agio Cigars of DKK 62 million, the margin was 22.8% with the decline being a result of the consolidation of Agio Cigars.

NET SALES



EBITDA BEFORE SPECIAL ITEMS



DKK million	2020	2019
Net sales	2,817	1,992
Gross profit before special items	1,397	1,065
EBITDA before special items	581	474
Net sales growth	41.4%	-1.3%
Organic net sales growth	2.3%	-1.3%
Gross margin before special items	49.6%	53.4%
EBITDA margin before special items	20.6%	23.8%

GROUP FINANCIAL REVIEW

FINANCIAL HIGHLIGHTS 2020

NET SALES

Net sales increased by 19.2% to DKK 8,006 million (DKK 6,719 million) driven by the acquisition of Agio Cigars, a positive organic growth in net sales of 6.6% and negative exchange rate developments of 2.1%. Organic net sales were driven by positive developments across all three divisions with North America Online & Retail contributing the most. The Americas remained our largest market and grew its share of Group net sales to 52%. Europe and Rest of World accounted for 43% and 5% respectively.

GROSS PROFIT

Gross profit before special items increased by 18.1% to DKK 3,712 million (DKK 3,142 million). The increase was driven by all divisions and affected by the consolidation of Agio Cigars. Gross margin before special items was 46.4% (46.8%).

OPERATING EXPENSES (OPEX)

OPEX before special items increased by 15.3% to DKK 1,886 million (DKK 1,635 million) primarily driven by the consolidation of Agio Cigars. Organic OPEX increased by 0.2% to DKK 1,909 million (DKK 1,904 million).

DKK million	2020	2019	Change in %
Net Sales			
Reported net sales	8,006	6,719	19.2%
Acquisitions		995	
Divestments		-75	
Effect from currency development	141		
Organic net sales	8,147	7,639	6.6%
Gross Profit			
Gross profit before special items	3,712	3,142	18.1%
Acquisitions	62	472	
Divestments		-27	
Effect from currency development	61		
Organic gross profit	3,835	3,587	6.9%
OPEX			
OPEX before special items	1,886	1,635	15.3%
Acquisitions		270	
Divestments		-7	
Effect from currency development	23		
Organic OPEX	1,909	1,898	0.6%

EBITDA

EBITDA before special items increased by 20.7% to DKK 1,826 million (DKK 1,513 million) while organic EBITDA grew by 14.0% driven by the increase in organic net sales, the integration of Agio Cigars and general efficiency improvements across all divisions. The EBITDA margin before special items increased to 22.8% (22.5%).

DKK million	2020	2019	Change In %
EBITDA before special items	1,826	1,513	20.7%
Acquisitions	62	202	
Divestments		-26	
Effect from currency development	38		
Organic EBITDA	1,926	1,689	14.0%

SPECIAL ITEMS

Special items were DKK 435 million (DKK 133 million) and relate primarily to costs for the integration of Agio Cigars by DKK 234 million, optimisation of production footprint of DKK 141 million and net impairment costs of DKK 55 million mainly related to production footprint. Costs related to Fuelling the Growth were DKK 5 million.

SPECIAL ITEMS

DKK million	2020	2019
Integration and transactions costs (Thompson Cigar)		22
Integration and transactions costs (Agio Cigars)	234	20
Fuelling the Growth programme	5	32
Divestment of licence agreement		-47
Production footprint	141	5
Impairment intangible assets		9
Impairment tangible assets	107	92
Reversal of impairments	-52	
Total special items, net costs	435	133

EBIT

EBIT increased by 0.9% to DKK 986 million (DKK 977 million) and was positively impacted by the increase in EBITDA before special items.

TAX AND NET PROFIT

Income taxes were DKK 274 million (DKK 201 million). The effective tax rate was 28.7% (21.2%) – an increase of 7.5 percentage points from last year's rate - as the enacted reduction of the tax rate in the Netherlands was cancelled late December.

Driven by the high special items net profit decreased by 9.3% to DKK 678 million (DKK 748 million). Basic earnings per share were DKK 6.8 (DKK 7.5). Earnings

GROUP FINANCIAL REVIEW

per share adjusted for special items and fair value adjustments and currency gains/losses on financial items, net of tax increased by 18.0% to DKK 9.8 (DKK 8.3).

BALANCE SHEET

Total assets were DKK 13,996 million (DKK 13,872 million). Net working capital decreased by 2.6% to DKK 2,572 million (DKK 2,640 million) as a higher level of payables and a net reduction from the exchange rates was more than offset by higher inventories. The increase in inventories was a combination of the Agio Cigars acquisition and loading ahead of Brexit, partly offset by the Group's continued focus on reducing inventories.

CASH FLOW

Cash flow from operating activities increased to DKK 1,585 million (DKK 1,300 million) driven by the development in operations and a positive change in working capital of DKK 294 million in 2020 compared to a positive change in 2019 of DKK 101 million. The development is primarily driven by a positive effect from liabilities.

Cash flow from investing activities was an outflow of DKK 1,752 million (DKK 50 million). CAPEX was DKK 201 million (DKK 122 million) and acquisitions and divestments, net contributed with a negative impact of DKK 1,560 million (positive impact of DKK 63 million).

Free cash flow decreased to DKK -166 million (DKK 1,250 million). Free cash flow before acquisitions was DKK 1,394 million (DKK 1,187 million).

CASH FLOW

DKK million	2020	2019
EBITDA before special items	**1,826**	**1,513**
Fin. items, tax and other adjustments	-535	-314
Cash flow from operations before NWC	**1,291**	**1,199**
Changes in working capital	294	101
Cash flow from operations	**1,585**	**1,300**
Investments	-1,752	-50
Free cash flow	**-166**	**1,250**

FINANCING

Net interest-bearing debt (NIBD) increased to DKK 3,274 million (DKK 2,330 million) driven by investments of DKK 1,752 million and dividend payments of DKK 608 million and repurchasing of own shares of DKK 189 million partly offset by positive cash flow from operations. NIBD/EBITDA before special items ended at 1.8x (1.5x).

DIVIDEND

For the financial year 2020, the Board of Directors proposes a dividend of DKK 6.50 per share corresponding to a pay-out ratio of 95.9% (81.6%).

FUELLING THE GROWTH

The programme launched in 2018 was aimed to deliver operational improvements with expected full-year run rate net savings of approximately DKK 250 million by the end of 2021. Net savings have been realised faster than originally expected as more than 80% of total net savings have been realised in the 2020 results. The programme is still expected to incur total costs (special items) of up to a level of DKK 250 million. DKK 5 million have been expensed in 2020 totalling DKK 219 million in the period 2018-2020 and the remaining amount of up to around DKK 31 million is expected to be expensed in 2021.

As of the end of 2020 we will no longer make quarterly financial updates on Fuelling the Growth.

CREDIT RATING

11 September, 2020, Moody´s Investor Service ("Moody's") assigned a first-time issuer rating of Baa3 with a stable outlook to Scandinavian Tobacco Group A/S.

Moody´s also assigned a Baa3 rating to the EUR 300 million senior unsecured bond issued 24 September 2020 by Scandinavian Tobacco Group A/S' wholly-owned subsidiary STG Global Finance B.V. and guaranteed by Scandinavian Tobacco Group A/S.

FINANCIAL AMBITIONS AND 2021 GUIDANCE

EQUITY STORY

Leading brand portfolio of crafted cigars and other products for adult enjoyment and relaxation

Leading cigar company with activities spread across the entire value chain. From growing and manufacturing to distribution and sales through a diversified global network incl. retail, online and catalogue sales

Strong market positions in our two key markets; North America and the EU. We are the largest manufacturer and distributor of handmade cigars in North America and the largest machine-rolled cigar manufacturer in the EU

Experienced management team leading confidently through transformations and optimisations, integration of acquired companies, and adapting to a constantly changing industry with increasing regulation

The strategy Rolling Towards 2025 sets the scene for our long-term ambitions:
- To become the undisputed, global leader in cigars through organic growth and driving industry consolidation through value accretive acquisitions
- To increase profits and to deliver outstanding cash flows

We aim to optimise value for our shareholders by:
- increasing capital efficiency
- a disciplined shareholder return policy and
- a dedicated sustainability effort as embedded in our CSR strategy

SHAREHOLDER RETURN POLICY

The Board of Directors continuously evaluates the distribution of excess capital to shareholders based on a comparison of the projected leverage ratio against a target of 2.5x with the leverage ratio calculated as Net Interest Bearing Debt (NIBD)/EBITDA before special items.

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

The Group maintains the flexibility to temporarily exceed the target leverage ratio in connection with dividend distribution, acquisitions or investments. Our capital distributions will always take into account potential acquisitions and other liquidity needs.

FIVE YEARS ACHIEVEMENTS - 2016-2020

TOTAL SHAREHOLDER RETURN

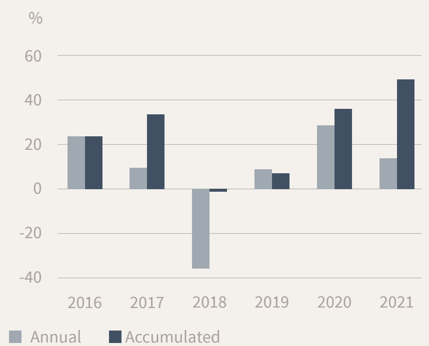
In the period 2016-2020* total shareholder return (TSR) equals 48%. TSR is shareholder return including share price performance and dividends paid being reinvested. The share price increase in the period has been 15% and dividends have in total accounted for 32%. This implies a CAGR of 8% over the past five years.

EBITDA GROWTH

In the five years from 2016-2020 Scandinavian Tobacco Group has delivered average positive organic EBITDA growth of 4.2% p.a.

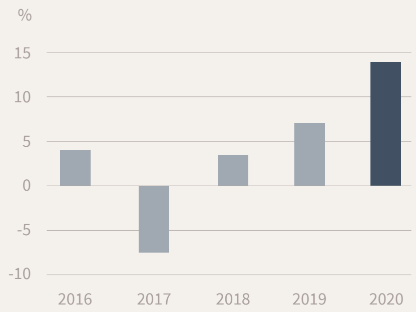
TOTAL SHAREHOLDER RETURN

8.2%
CAGR



ORGANIC EBITDA GROWTH

~ 4.2%
average



* Feb2016-Feb2021

FINANCIAL AMBITIONS AND 2021 GUIDANCE

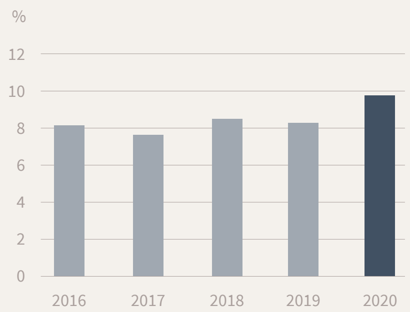
ADJUSTED EPS

In the five years from 2016-2020 Scandinavian Tobacco Group has delivered average positive annual growth in adjusted Earnings Per Share of 5.3%.

ADJUSTED EPS GROWTH

~ 5.3 %

CAGR



STRONG CASH FLOW

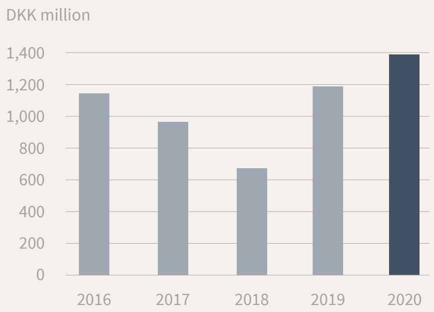
In the past five years from 2016-2020, Scandinavian Tobacco Group has delivered an average annual free cash flow before acquisitions of DKK 1,070 million driven by a combination of a strong structural cash flow generation in the tobacco categories and focus on reducing working capital tied up in the operation.

Scandinavian Tobacco Group has made acquisitions for a total of DKK 1.9 billion in the past five years (2016-2020): Thompson Cigars and Peterson Pipe Tobacco in 2018 and Agio Cigars in 2020.

FREE CASH FLOW BEFORE ACQUISITIONS

▲1,070 DKKm

average



CAPITAL DISTRIBUTION

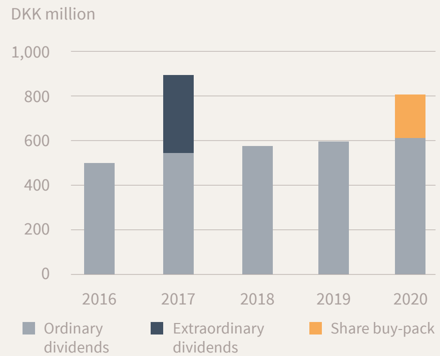
Including a proposed ordinary dividend for 2020, Scandinavian Tobacco Group has for the past five years (2016-2020) paid almost DKK 3.3 billion back to shareholders either as ordinary or extraordinary dividends. The average increase in the annual ordinary dividend was 5.4%.

Furthermore, in 2020 Scandinavian Tobacco Group repurchased 2,047,031 own shares at a value of DKK 197 million resulting in a total capital distribution of DKK 3.5 billion to shareholders in the past five years.

ORDINARY DIVIDEND GROWTH

5.4 %

CAGR



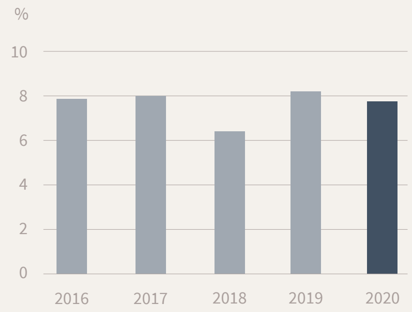
RETURN ON INVESTED CAPITAL

In the past five years (2016-2020), Scandinavian Tobacco Group has delivered a pre-tax return on invested capital (ROIC) in the range of 6.4%-8.2%. In 2020 the ROIC was 7.7%.

RETURN ON INVESTED CAPITAL

7.6 %

average



FINANCIAL AMBITIONS AND 2021 GUIDANCE

FINANCIAL AMBITIONS

Scandinavian Tobacco Group's financial ambition is to deliver strong financial performance. The Group continuously strives to increase our market share by focusing on innovation and core brands, sales and marketing excellence, dynamic pricing and leveraging of commercial resources. In addition, we aim to deliver growth in net sales and earnings through acquisitions.

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

EARNINGS

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

FREE CASH FLOW

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

RETURN ON INVESTED CAPITAL

We aim to improve Return on Invested Capital (ROIC). We strive to do this through profitable growth driven by organic growth in net sales and margin expansion across our businesses supporting our ambition of organic EBITDA growth as well as a disciplined approach to capex investments and acquisitions and by driving down working capital.

3-5%

Organic EBITDA growth

FINANCIAL AMBITIONS AND 2021 GUIDANCE

2021 GUIDANCE

The uncertainty related to the severity and length of the COVID-19 pandemic, the possibility of further government restrictions and overall impact on consumer behaviour continues to decrease visibility into business performance in 2021.

The COVID-19 pandemic continues to impact business performance in most of our markets and may have significant implications for consumer behaviour and overall tobacco consumption. Given this outlook, our guidance for 2021 is:

EARNINGS

We expect to generate organic EBITDA growth of more than 7% for the full year 2021. Organic growth in net sales is expected to increase in 2021 with consumption of handmade cigars in the US expected to remain strong with positive growth continuing, especially in the first half of the year. For the Group, organic EBITDA growth is also expected to be driven by additional savings from the integration of Agio Cigars of about DKK 70-80 million and full year effect of Fuelling the Growth.

Organic EBITDA growth is expected to be strongest in the first and second quarter of the year, while negative in the third quarter based on a very strong third quarter in 2020 and then return to positive growth in the fourth quarter.

FREE CASH FLOW

Based on the projected earnings growth, we expect the Group´s free cash flow before acquisitions to exceed DKK 1,000 million. The free cash flow before acquisitions is expected to be impacted by relatively high investments in operational footprint and digitalization initiatives as well as a negative impact from payables in the level of DKK 150 million.

ADJUSTED EARNINGS PER SHARE

The adjusted EPS is expected to increase more than 10% (from DKK 9.78 in 2020) including a positive impact from the share repurchases of about DKK 0.4 per share and a negative impact from currency developments.

ASSUMPTIONS

Financial performance for Scandinavian Tobacco Group for the full year 2021 rests on several assumptions and is subject to uncertainties related to the COVID-19 pandemic. The key assumptions related to the COVID-19 pandemic are:

- The positive impact of the COVID-19 pandemic on demand for handmade cigars in North America is expected to continue into Q1 and Q2 and normalize thereafter on a level higher than pre-pandemic levels
- The convergence to the online channel in the US is sustainable through-out 2021
- In Europe, we are assuming that most restrictions will be lifted before the summer season and the categories to return to their long-term structural development

Key financial assumptions are:

- Organic growth in net sales are expected to increase with positive organic growth in North America Online & Retail and in North America Branded & Rest of World, whereas Europe Branded is expected to deliver slightly negative organic net sales growth due to loss of a distribution contract
- Special items are expected to be approximately DKK 90 million related to the integration of Agio Cigars
- Financial expenses, excluding currency effects, are expected at DKK 105-115 million
- The effective tax rate is expected to be in the range of 21-22%
- Working capital is expected to deliver a slight positive net contribution
- Capital expenditure is expected at DKK 410 million including DKK 35 million relating to ERP project (OneProcess) and DKK 90 million in relating to changes in the production footprint
- Guidance and assumptions are based on current exchange rates. A 5% change in the USD/DKK exchange rate would impact net sales by approximately 2.5 percentage points and EBITDA by approximately 2.0 percentage points
- No contribution or expenses related to potential acquisitions are included

2020 REALISED

The organic EBITDA growth was 14% as a consequence of strong growth in the consumption of handmade cigars in the US and higher online sales. This is in line with the guidance provided in December 2020. Free cash flow before acquisitions was somewhat higher due to timing of payables.

	2020 GUIDANCE[1]	2020 REALISED	2021 GUIDANCE
Organic EBITDA growth	>13%	14.0%	> 7%
Free cash flow before acquisitions (DKK million)	>1,250	1,394	>1,000
Adjusted earnings per share (DKK/%)	-	9.8	> 10%

1. As of 18 December 2020

CORPORATE MATTERS

OUR PURPOSE

CRAFT THE RITUALS THAT MAKE US MORE

REGULATION

Tobacco products are subject to extensive regulation. The tobacco products themselves, as well as the labelling, packaging, marketing, display, sale and consumption of tobacco products are generally regulated, and in many markets operators in the manufacturing and sale of tobacco products have an obligation to file with the authorities information on their products and ingredients and available research related to the health aspects of these.

Standardised consumer packaging and prohibitions on the display of tobacco products at the points of sale are examples of regulation introduced by some countries in recent years. Scandinavian Tobacco Group expects the development with increasing regulation to continue. We monitor the regulatory developments, and via national and international trade associations we engage with stakeholders to support evidence-based and reasonable regulation that takes into account the different characteristics of the various tobacco product categories; It is not always a "one size fits all" approach that leads to the best regulation. Regulation offers risks for our industry, as it adds complexity and costs, but it also offers opportunities for Scandinavian Tobacco Group, because often scale and agility are important. We believe, we have both.

REGULATORY DEVELOPMENTS IN THE US

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

The FDA has in recent years issued draft rules and guidance documents covering several topics and asked for comments on these, including flavoured tobacco products and reduction of nicotine in tobacco products to minimal/non-addictive levels. A final guidance issued early 2020 removed all flavoured e-cigarettes other than tobacco- and menthol flavoured e-cigarettes from the US market, while flavoured cigars, which were included in the original document, were not affected. However, as per end of 2020 two US states as well as several counties and cities have banned flavoured tobacco products, including cigars, and flavoured cigars could still be regulated at federal level. However, flavoured cigars sold in the US only make up a low single-digit percentage of Scandinavian Tobacco Group's net sales and profit.

Online sales of tobacco products are subject to a requirement by the individual states that the seller collects the sales tax applicable in the state where the customer is residing. Two states have enacted regulation to have out-of-state retailers also collect and remit state excise tax on tobacco products, and more states are expected to implement similar regulation over time.

REGULATORY DEVELOPMENTS IN EUROPE

In the European Union, the so-called Tobacco Products Directive sets the framework for most regulation of tobacco products. One element is the so-called "track-and-trace" regime that took effect in May 2019 for cigarettes and fine-cut tobacco and is scheduled to take effect for cigars and pipe tobacco in May 2024. Each individual consumer package must be traceable from the manufacturer/importer to the last stop before the retailer. In the preparations for May 2024 Scandinavian Tobacco Group expects to leverage the extensive experience gathered in connection with the implementation of "track-and-trace" in our fine-cut tobacco business.

The EU Tobacco Products Directive will in the next few years undergo a statutory review. In the second half of 2021, the European Commission is expected to present a proposal for an updated version of the EU's Tobacco Excise Directive, which contains definitions of the various tobacco product categories for excise purposes and determines the structure and minimum levels of tobacco excise tax in the EU. Another review scheduled for the second half of 2021 deals with a specific provision in a directive on cross-border acquisitions of excise goods by private individuals ("border trade"). The provision under review contains the minimum guide levels that national authorities can set as a reference when determining if excise goods transported by a private individual from one member state to another should be considered as intended for the individual's own use and thus not liable to excise duty in the member state where the goods are consumed.

The exact timing for completion of the above reviews and the effective dates for the potential changes are uncertain.

With due consideration of the minimum excise levels and definitions of the EU Tobacco Excise Directive, each member state sets its own tobacco excise rates. Increases in excise rates are common and happened also in 2020. Occasionally, the changes impact consumer behaviour in the shorter or longer term.

CORPORATE MATTERS

RISK MANAGEMENT

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

GOVERNANCE

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

RISK ASSESSMENT PROCESS

Scandinavian Tobacco Group operates with a framework including various principles that secure a structured and cross-functional approach to risk management.

The approach is a top-down facilitated process with the intent to identify risks and support risk management throughout the organisation, and ensure consistent follow-up and reporting on risks to the Executive Board during the year. To receive input from the organisation, a Risk Team works with key stakeholders across the business to ensure an effective assessment before presenting recommendations to the Executive Board. The Executive Board performs an annual risk assessment based on the impact and likelihood of a risk materialising. The process ensures that appropriate actions are taken to reduce, prevent or mitigate risks and to ensure that the Group is transparent and compliant in its external communication on these risks.

The main risk categories identified are regulation, excise taxes, total market development, cyber risk and implementation of a new Group Enterprise Resource Planning (ERP) system. The identified financial risks, including foreign exchange, interest rate, credit and liquidity risks can be found in note 4.2 on pages 82-85.

REGULATION

There is a strong regulatory focus on the tobacco industry - a trend that is expected to continue.

EXCISE TAXES

Excise tax rates are a major component of the retail price of tobacco products.

TOTAL MARKET DEVELOPMENT

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

CYBER RISK

Cyber security threats are growing in number and sophistication.

IMPLEMENTATION OF ERP SYSTEM

A project that aims to harmonise Group processes and update the ERP platform.

CORPORATE MATTERS

REGULATION

There is a strong regulatory focus on the tobacco industry. Regulatory initiatives could affect consumer behaviour, discourage use of tobacco products, control new product development and place significant burdens on the tobacco industry. Regulatory initiatives could include significant reporting obligations, bans on tobacco product displays, labelling requirements, standardised packaging and bans on certain flavourings as well as restrictions on sale and consumption of tobacco products. Regulatory changes could lead to increase in costs and increase in operational complexity, impact the ability to compete and differentiate products, erode brand values, reduce possibilities to launch new products and loss of sales and profitability.

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

We focus our sales in categories with mainly adult smokers, where the regulatory landscape seems more stable than for new tobacco product categories. Also, we mainly focus on the non-aromatic segment for cigars which has been less exposed to regulatory focus than the aromatic segment.

EXCISE TAXES

Excise taxes are a major component of the retail price of tobacco products. This component can be changed by national governments and is actively used to increase tax revenue and to limit tobacco consumption. An alignment of excise tax rates across tobacco product categories could increase the excise tax and impact the consumer price of our products and negatively impact our sales volumes and profitability. Increases of excise taxes implemented unexpectedly and unusually high excise increases could limit our ability to pass on excise increases to consumers through price increases. It could also provide us limited time to adjust our production and sales efforts which could have an additional adverse effect on our profitability and lead to lower consumer demand.

In two US states, remote sellers are required to collect excise tax. We expect an increase in the number of states requiring remote sellers to collect excise tax. This could lead to additional costs and complexity for our operations, affect consumer behaviour and impact our sales volumes and profitability.

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

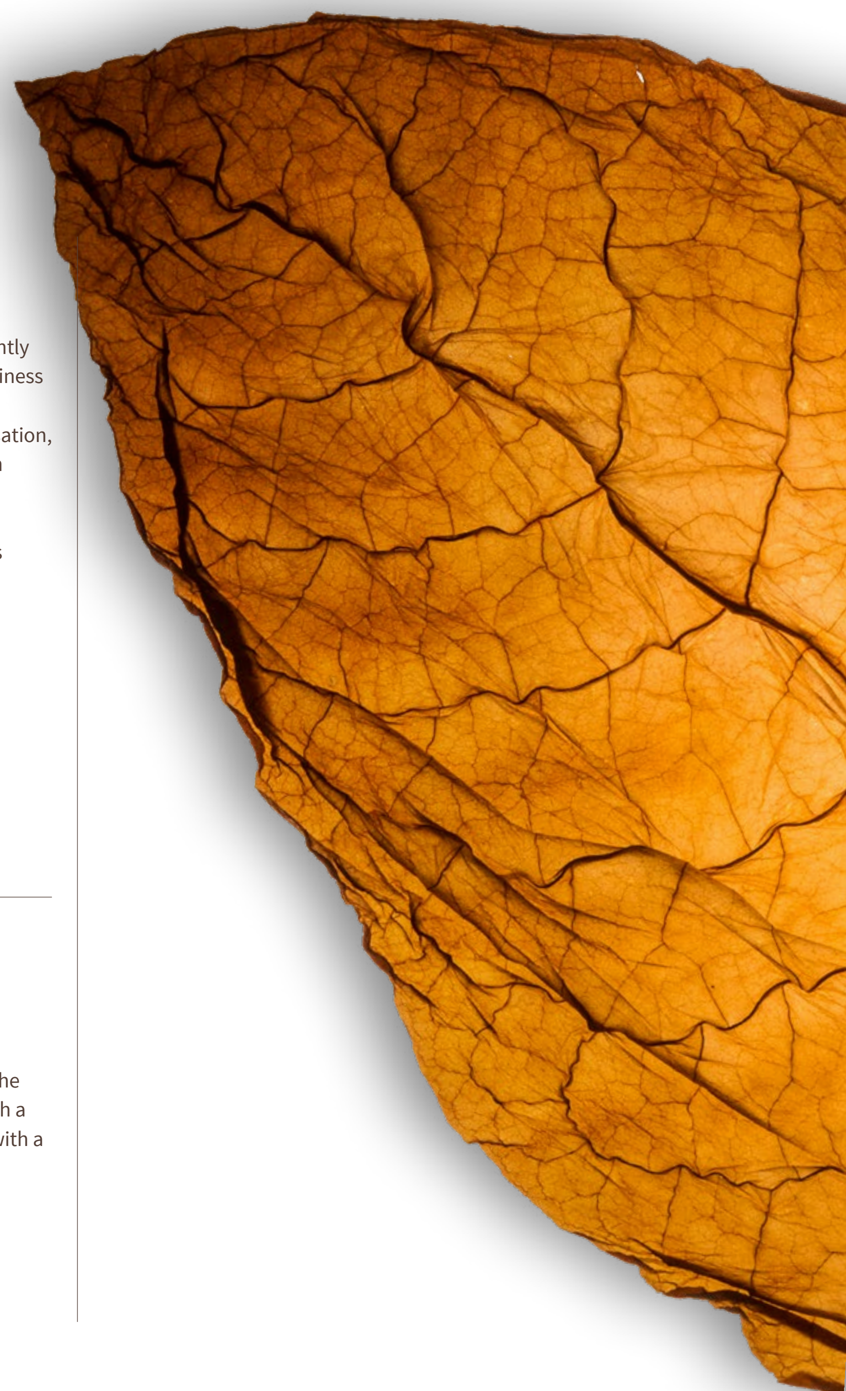
TOTAL MARKET DEVELOPMENT

The total market for tobacco products is declining. Although cigar volumes have shown higher resilience than cigarettes in some of our markets, the markets for machine-rolled cigars and pipe tobacco are also declining. With presence in approximately 100 markets around the world, we have a high degree of geographic diversification. Still, a significant and unexpected decrease in demand for tobacco products in one or more of our core markets could negatively impact our net sales and profitability.

For Scandinavian Tobacco Group, the negative consequences of the COVID-19 pandemic have so far been limited. However, it has resulted in decreased visibility on market development and consumer behaviour and especially the longer term effects on consumer behaviour remain uncertain.

Mitigating actions
We continuously monitor the market trends, collect market research data and perform forecasts to project market developments and trends. The trend analyses help us address adverse market conditions more promptly. We have a strong focus on portfolio and pricing strategies. We strive to gain market shares and implement price increases to offset the negative impact of declining markets. We aim at being present in all price points to remain relevant for the consumers if they change spending patterns.

CORPORATE MATTERS



CYBER RISK

We operate in an environment with cyber security threats that are growing in number and sophistication. Successful attacks might result in business disruption, production stops, loss of image, compromise of customer information and personal data and direct financial loss. Disruptions to our online retail business platforms resulting in these becoming unavailable to customers could impact our sales and profitability. Further, if our business platforms were unavailable, it could lead to supply chain and general business disruption and could keep us from fulfilling our engagements and responsibilities towards customers and other parties.

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

IMPLEMENTATION OF ERP SYSTEM

Scandinavian Tobacco Group will in the coming years invest significantly in updating the Group's ERP system. This represents a significant business transformation and will strengthen our ability to deliver growth and profitability in a declining market. Further, a higher degree of digitalisation, process simplification and automation will provide the Group with an improved basis for participating in further industry consolidation.

Implementation of the new ERP system requires significant resources and affects the Group's whole supply chain and business operations. Disruptions, delays or deficiencies in the transition, design and implementation of the new system could have adverse effect on the Group's business.

Mitigating actions
Senior management is committed to the project's governance and is securing key resources across the organisation. Also, the Group has a structured and systematic approach to monitoring and tracking the status of large projects. Risk mitigation will be a priority throughout the project and the choice of an experienced implementation partner with a proven track record and change management focus in combination with a thorough clarification phase will all contribute to risk mitigation.

CORPORATE MATTERS

CORPORATE GOVERNANCE

Scandinavian Tobacco Group A/S is incorporated in Denmark under Danish law. Since February 2016, the Company's shares have been publicly listed on Nasdaq Copenhagen.

The Group's corporate governance is based on the Danish Companies Act, the Danish Financial Statements Act, the International Financial Reporting Standards (IFRS), the EU Market Abuse Regulation, Nasdaq Copenhagen A/S' Rulebook for Issuers of Shares and its Rules for Issuers of Bonds as well as the Company's articles of association among others. Further, the Danish Recommendations on Corporate Governance are taken into account.

The ultimate authority over the Company is held by the shareholders who exercise their rights at general meetings. The Annual Report and amendments to the articles of association are approved by the general meeting which also elects members of the Board of Directors and the independent auditor. The general meeting exercises its powers pursuant to the provisions of Scandinavian Tobacco Group's articles of association which are available at **st-group.com**. In 2020, the Annual General Meeting was held on 26 March. The minutes of the Annual General Meeting are available at **investor.st-group.com**.

As a publicly listed company, Scandinavian Tobacco Group is required by law to report on its compliance with the Danish Recommendations on Corporate Governance, which can be found at **corporategovernance.dk.** Reports on corporate governance must be presented by companies in accordance to the 'comply or explain approach', which means that a company may choose not to comply with a specific recommendation and instead explain why it has chosen not to comply with the recommendation, and what it has chosen to do instead.

Scandinavian Tobacco Group complies with the Recommendations on Corporate Governance. A detailed overview can be found in Scandinavian Tobacco Group's 2020 Statutory Report on Corporate Governance. The report is available at **st-group.com/corporategovernance.pdf**.

REMUNERATION

Scandinavian Tobacco Group's Remuneration Policy lays down the principles governing the remuneration of the Board of Directors and Executive Management, and it acts as a framework around which their contractual terms and compensation are set, reviewed and managed in accordance with the Danish Companies Act and the Corporate Governance Recommendations.

The overall objective of the Remuneration Policy is to enable the Company to attract and retain high calibre, experienced and qualified individuals to its Board of Directors and Executive Management. Further, the Remuneration Policy enables the Company to incentivise the Executive Management to deliver the Company's strategic ambitions in a way which creates sustained shareholder value and reward the Executive Management appropriately for achieving core short-term and long-term business goals while managing and growing the company to ensure its continued sustainability in a way which aligns with the interests of shareholders and stakeholders. The Remuneration Policy was reviewed in 2020 in the light of changes to the Danish Companies Act and adopted at the Annual General Meeting on 26 March 2020. The Remuneration Policy can be found at **st-group.com**.

A detailed description of the main elements of the remuneration of the Board of Directors and the Executive Management and the remuneration paid in the financial year 2020 is included in the 2020 Remuneration Report available at **st-group.com**.

DIVERSITY AND INCLUSION

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

The statutory report and description of the Company's activities to ensure relevant diversity at management levels, including a discription of the goals and objectives and the progress made in achieving the objectives can be found in the Company's 2020 CSR Report, which is available at **st-group.com/csrreport.pdf.**

DISCLOSURE REGARDING CHANGE OF CONTROL

Scandinavian Tobacco Group's loan facilities at financial institutions and issued bonds as well as the investment in an associated company are subject to change of control clauses.

In relation to the Executive Management, the current employment contract with the CEO states that within 6-12 months after a change of the control, the CEO may terminate his employment, and he will be entitled to 24 months remuneration and a proportional share of his buy-out payment as further described in the Remuneration Report. If the Company should wish to terminate the CFO within 18 months after a change of the control of the Company, the CFO is according to her contract entitled to a notice of 24 months.

CORPORATE MATTERS

Year of birth · Nationality · Election period · Joined the board in

BOARD OF DIRECTORS

	NIGEL NORTHRIDGE CHAIRMAN	HENRIK BRANDT VICE-CHAIRMAN	ANDERS C. OBEL MEMBER OF THE BOARD
	1956 Irish 2019-2020 2016 and was elected Vice-Chairman in 2016 and Chairman in 2017	1955 Danish 2019-2020 2017 and was elected Vice-Chairman	1960 Danish 2019-2020 2018
EDUCATION	HND in Business Studies from Northern Ireland Polytechnic, Sullivan Upper School, Belfast.	MBA from Stanford University Master of Science (Econ), Copenhagen Business School.	BSc in Economics and Business Administration from Copenhagen Business School.
COMPETENCIES	• Long professional experience as an executive director in the international tobacco industry • Experience as executive and non-executive director in managing publicly listed companies • Sales and marketing of fast-moving consumer goods	• Extensive executive and non-executive experience in leading international, publicly listed, private, and private equity businesses • Sale and marketing of fast-moving consumer goods • Strategic business development	• Extensive experience in management of industrial and investment companies • Strategic business development • Economic and financial expertise
SELECTED FORMER EMPLOYMENT POSITIONS	• CEO of Gallaher Group PLC 2000-2007 • Held a number of sales, marketing and then general management positions within the group of Gallaher Tobacco Ltd. (subsequently Gallaher Group PLC) in the UK and overseas, before being appointed to the board of directors in 1993, a position held 1993-2000	• President and CEO Royal Unibrew A/S 2008-2017 • President and CEO of Unomedical a/s 2003-2008 • President and CEO of Sophus Berendsen Group 1999-2002 • CEO of House of Prince A/S and Group Executive of Skandinavisk Tobakskompagni A/S 1992-1999 • President and CEO of Fritz Hansen A/S 1989-1992 • President and CEO of Kevi A/S 1987-1989	• Member of the board of directors of Forenet Kredit f.m.b.a., Nykredit Holding A/S and Nykredit Realkredit 2009-2017 • Member of the board of directors of Scandinavian Tobacco Group A/S 2010-2016 • Vice President at Gemini Consulting/Cap Gemini 1996-2002 • Various positions, including Manager, at Hambros Bank Plc., 1985-1996
MANAGEMENT POSITIONS WITH OTHER ENTITIES	**Non-Executive Chairman** of Belfast City Airport. **Director of Board** of London Irish Holdings Ltd	**Chairman of the board:** Toms Gruppen A/S, Fritz Hansen A/S, Intervare A/S (and its subsidiary nemlig.com A/S), Danish Bake Holding ApS (Ole & Steen). **Member of the board:** Ferd Holding as, Norway, Gerda & Victor B. Strands Foundation, Gerda & Victor B. Strand Holding A/S	**Chairman of the board:** C.W. Obel Bolig A/S, C.W. Obel Ejendomme A/S, Obel-LFI Ejendomme A/S, Semco Maritime A/S, Semco Maritime Holding A/S, Goodvalley A/S (Board Committee: Audit Committee; Member, Nomination Committee; Member, Remuneration Committee; Chairman), Haxholm v/Anders Christen Obel **Vice-Chairman of the board:** Fritz Hansen A/S, Skandinavisk Holding A/S. **Member of the board:** Scandinavian Tobacco Group's Gavefond, Minkpapir A/S, PAL-CUT A/S, C.W. Obels Fond, Danmark-Amerika Fondet, Fonden Det Obelske Jubilæumskollegium, Mullerupgaard- og Gl. Estrupfonden, Høvdingsgaard Fonden, Skjørringefonden, Woodmancott Fonden, Aktieselskabet Dampskibsselskabet Orient´s Fond, Kilsmark A/S, Rexholm A/S, A/S Motortramp. **CEO of:** C.W. Obel A/S, Anders Christen Obel Aps
STG COMMITTEES	Chairman of the Nomination and Remuneration Committees	Member of the Nomination and Remuneration Committees	-
CONSIDERED INDEPENDENT	Yes	Yes	Yes

CORPORATE MATTERS

★ Year of birth ▬ Nationality ◷ Election period 👤 Joined the board in

BOARD OF DIRECTORS

	CLAUS GREGERSEN MEMBER OF THE BOARD	**MARLENE FORSELL** MEMBER OF THE BOARD	**DIANNE NEAL BLIXT** MEMBER OF THE BOARD
	★ 1961 ▬ Danish	★ 1976 ▬ Swedish	★ 1959 ▬ American
	◷ 2019-2020	◷ 2019-2020	◷ 2019-2020
	👤 2019	👤 2019	👤 2016
EDUCATION	Bachelor of Commerce degree (HD) in Business Finance from Copenhagen Business School	Master of Science degree in Business Administration and Economics from Stockholm School of Economics	Master's degree in Business Administration and Finance from University of North Carolina at Greensboro.
COMPETENCIES	• Board experience from international, private and public enterprises • Management experience from Danish and international enterprises • Extensive experience with M&A, capital markets, strategic development, risk management and operations	• Extensive experience with and insight into financial matters • Enterprise performance management • Reporting processes in listed companies • Considerable insight into the tobacco industry	• Significant experience in business analysis • Financial management and reporting expertise • Considerable insight into the US tobacco industry
SELECTED FORMER EMPLOYMENT POSITIONS	• CEO and Country Manager at Carnegie Investment Bank 2010-2017 • Partner, Select Partners, Asset Management 2005-2010	• Senior Vice President and CFO of Swedish Match AB 2013-2018 • Member of the board of Scandinavian Tobacco Group A/S 2014-2017 • Various positions in the Swedish Match group, including Vice President Group Reporting and Vice President Business Control 2004-2013 • Analyst Ernst & Young 2001-2004	• Member of the board of directors of Lorillard, Inc. 2011-2015 • Executive Vice President and Chief Financial Officer of Reynolds American, Inc. 2004-2007 • Various positions in Reynolds American and its subsidiaries 1988-2003 • Executive Vice President and Chief Financial Officer of R. J. Reynolds Tobacco Holdings, Inc. 2003-2004
MANAGEMENT POSITIONS WITH OTHER ENTITIES	**Chairman of the board:** Skandinavisk Holding A/S, Skodsborg Sundhedscenter A/S, Kurhotel Skodsborg A/S, Rungsted Sundpark A/S, Skodsborg Sundpark A/S, Scandinavian Tobacco Group's Gavefond. **Vice-Chairman of the board:** Jeudan A/S (Board committee: Remuneration Committee; Member, Nomination Committee; Member). **Member of the board:** Gyldendal A/S (Board committee: Audit Committee; Chairman), Fritz Hansen A/S, Tivoli A/S (Board committee: Audit Committee; Member), Axcel Future, Aktive Ejere, Søren Gyldendal Fonden. **CEO of:** Chr. Augustinus Fabrikker Aktieselskab, CAF Invest A/S. **Member of the management:** CG61 ApS	**Member of the board:** Kambi Group plc (Board committee: Audit Committee; Chairman), Lime Technologies AB (Board committee: Audit Committee; Chairman), Nobia AB (Board committee: Audit Committee; Chairman), InDex Pharmaceuticals Holding AB, AddSecure AB	**Member of the board:** Ameriprise Financial Services, Inc. (Board committee: Compensation Committee; Chairperson, Audit Committee; Member), Triad Business Bank (Board committee: Executive Committee; Member), **Chairperson of the board:** National Sports Media Association (Board committee: Finance and Governance Committee; Member). **Vice Chairperson of the board:** Reynolda House Museum of American Art (Board committee: Finance Committee; Member)
STG COMMITTEES	Member of the Nomination and Remuneration Committees	Chairman of the Audit Committee	Member of the Audit Committee
CONSIDERED INDEPENDENT	No	Yes	Yes

CORPORATE MATTERS

★ Year of birth ▰ Nationality ◷ Election period 👤 Joined the board in

BOARD OF DIRECTORS




	LUC MISSORTEN MEMBER OF THE BOARD	LINDY LARSEN MEMBER OF THE BOARD	HANNE MALLING MEMBER OF THE BOARD	MOGENS OLSEN MEMBER OF THE BOARD
	★ 1955 ▰ Belgian ◷ 2019-2020 👤 2016	★ 1955 ▰ Danish ◷ 2019-2023 👤 2016	★ 1960 ▰ Danish ◷ 2019-2023 👤 2010	★ 1967 ▰ Danish ◷ 2019-2023 👤 2017
EDUCATION	Law degree from the Catholic University of Leuven, Certificate of Advanced European Studies from the College of Europe, Bruges. Master of Laws from the University of California, Berkeley	Finance Business Partner, Business Services MSc. Business Administration & Auditing from Copenhagen Business School	Trademark Manager Bi-lingual Commercial Correspondent degree from Aarhus School of Business	Operator Primary
COMPETENCIES	• Executive and non-executive general management experience • Substantial experience in financial management of international corporations	Elected by the employees	Elected by the employees	Elected by the employees
SELECTED FORMER EMPLOYMENT POSITIONS	• CEO of Corelio NV 2007-2014 • Group CFO and Executive Vice President for Finance at UCB S.A. 2004-2007 • Executive Vice President and CFO at Inbev S.A. (now ABI) 1995-2003	-	-	-
MANAGEMENT POSITIONS WITH OTHER ENTITIES	**Member of the board:** Recticel NV/SA (Board committee: Audit Committee; Chairman, Remuneration Committee; Member), GIMV NV (Board committee: Audit Committee; Chairman). **Advisor to the board:** Barco NV. **Managing director**: Lubis BV	Member of the Board of Directors and Manager of Scandinavian Tobacco Group Nykøbing ApS	-	-
STG COMMITTEES	Member of the Audit, Remuneration and Nomination Committees	-	-	-
CONSIDERED INDEPENDENT	Yes	No	No	No

CORPORATE MATTERS

ATTENDANCE 2020 MEETINGS

Board of Directors Meetings

Nigel Northridge	●	●	●	●	●	●
Henrik Brandt	●	●	●	●	●	●
Claus Gregersen	●	●	●	●	●	●
Dianne Neal Blixt	●	●	●	●	●	●
Anders Obel	●	●	●	●	●	●
Luc Missorten	●	●	●	●	●	●
Marlene Forsell	●	●	●	●	●	●
Mogens Olsen	●	●	●	●	●	●
Hanne Malling	●	●	●	●	●	●
Lindy Larsen	●	●	●	●	●	●

Audit Committee Meetings

Marlene Forsell	●	●	●	●	●	●
Dianne Neal Blixt	●	●	●	●	●	●
Luc Missorten	●	●	●	●	●	●

Nomination Committee Meetings

Nigel Northridge	●	●	●
Luc Missorten	●	●	●
Henrik Brandt	●	●	●
Claus Gregersen	●	●	●

Remuneration Committee Meetings

Nigel Northridge	●	●	●	●
Luc Missorten	●	●	●	●
Henrik Brandt	●	●	●	●
Claus Gregersen	●	●	●	●

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

CORPORATE MATTERS

EXECUTIVE BOARD

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

1 NIELS FREDERIKSEN

PRESIDENT AND CEO

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

2 MARIANNE RØRSLEV BOCK

EXECUTIVE VICE PRESIDENT AND CFO

Marianne Rørslev Bock (1963) joined Scandinavian Tobacco Group in 2018 as Executive Vice President and Chief Financial Officer (CFO) from a position as CFO of Brdr. Hartmann. Marianne Rørslev Bock is currently Vice Chairman of the board of directors of Kemp & Lauritzen A/S and Axel Muusfeldts Foundation, and on the board of directors of Dansk Landbrugs Grovvareselskab A.M.B.A., the Danish Financial Supervisory Authority and Axel Muusfeldts Fond Holding A/S.

3 RÉGIS BROERSMA

PRESIDENT AND SENIOR VICE PRESIDENT, NORTH AMERICA BRANDED & ROW DIVISION

Régis Broersma (1977) joined Scandinavian Tobacco Group in 2002 and has since held various positions in the Group including President of General Cigar Co. Ltd. and Senior Vice President of the Smoking Tobacco & Accessories Division. In 2020, he became Senior Vice President of the North America Branded & Rest of World (RoW) Division.

4 YULIA LYUSINA

HEAD OF STRATEGY AND TRANSFORMATION AND SENIOR VICE PRESIDENT

Yulia Lyusina (1986) joined Scandinavian Tobacco Group as Senior Vice President of Strategy & Transformation in 2019. Prior to this, Yulia Lyusina worked 8 years in the Boston Consulting Group and held various positions at consulting and audit firms.

5 JURJAN KLEP

PRESIDENT AND SENIOR VICE PRESIDENT, EUROPE BRANDED DIVISION

Jurjan Klep (1971) joined Scandinavian Tobacco Group in 1997 and has since held various sales and marketing positions in the Group including Senior Vice President of Sales. Jurjan Klep became Senior Vice President of the Machine-rolled Cigar Division in 2018 and Senior Vice President of the Europe Branded Division in 2020.

6 HANNE BERG

CHRO AND SENIOR VICE PRESIDENT

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

7 SARAH SANTOS

PRESIDENT AND SENIOR VICE PRESIDENT, NORTH AMERICA ONLINE & RETAIL DIVISION

Sarah Santos (1978) started at Cigars International as a marketing consultant in 2003 and joined Scandinavian Tobacco Group as Marketing Director in 2008. She held various leadership positions before becoming Senior Vice President of the North America Online & Retail Division in 2018. Sarah Santos is a member of the board of the LifePath Foundation and is a member of the foundation's investment board committee.

8 GRAHAM CUNNINGHAM

CHIEF SUPPLY CHAIN OFFICER

Graham Cunningham (1976) joined Scandinavian Tobacco Group in 2017 as Senior Vice President for Development, Technology, QEHS and Lean. Prior to this, he was 18 years with Unilever and held leading supply chain positions in manufacturing, integrated planning, procurement and transformation across Europe and Asia.

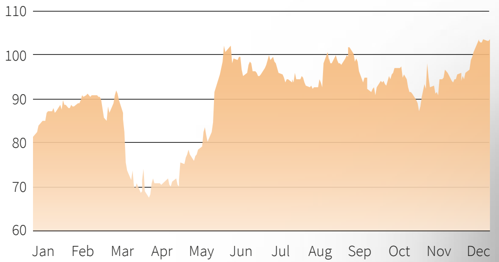
CORPORATE MATTERS

SHAREHOLDER INFORMATION

HIGHLIGHTS 2020

Scandinavian Tobacco Group is listed on the Nasdaq Copenhagen Stock Exchange. In 2020, the share price increased by 28%. In the same period the Nasdaq OMX Large Cap Index increased by 31%. Including dividend payments and share buy-backs, the Total Shareholder Return was positive by 36% in the period ending 31 December 2020.

Share price development



SHAREHOLDERS

Scandinavian Tobacco Group had almost 6,000 shareholders by the end of 2020. The Company owns 2.3% of the share capital. As of 1 February 2021 the following investors have reported holdings of more than 5% of Scandinavian Tobacco Group´s share capital and voting rights.

Chr. Augustinus Fabrikker Aktieselskab	>25%
C.W.Obel A/S	>10%
Parvus Asset Management Europe Limited	> 5%

Share data

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

Until 26 March 2025 the Board of Directors is authorised to increase the share capital by issuance of new shares of up to nominally DKK 10,000,000. Further, until 26 March 2025 the Board of Directors may increase the share capital by cash contribution by issuing new shares of up to nominally DKK 1,000,000 by a subscription by officers and employees of the Company and its subsidiaries at a price below market price. The Board of Directors is also authorised until 26 March 2025 to allow the Company to acquire own shares of a maximum amount of nominally DKK 10,000,000 at a price deviating by no more than 10% from the listed price at the time of acquisition. Reference is made to articles 5 and 6 of the articles of association.

DIVIDENDS

At the Annual General Meeting on 26 March 2020, the shareholders approved an ordinary dividend of DKK 6.10 per share to be paid out for the financial year 2019. For the financial year 2020, the Board of Directors proposes that the Annual General Meeting approves that a dividend of DKK 6.50 per share is paid to the shareholders. This will be equivalent to a pay-out ratio of 95.9%. The proposed dividend of DKK 6.50 per share corresponds to an increase of 6.6% versus last year´s ordinary dividend.

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

Financial Information

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

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

INVESTOR.ST-GROUP.COM

FINANCIAL CALENDAR 2021

14 APR — **Annual General Meeting**
Scandinavian Tobacco Group´s Annual General Meeting.

06 MAY — **Interim Report**
Q1

25 AUG — **Interim Report**
Q2

04 NOV — **Interim Report**
Q3

CORPORATE MATTERS

QUARTERLY FINANCIAL HIGHLIGHTS

	2020					2019				
DKK million	Q4	Q3	Q2	Q1	Full year	Q4	Q3	Q2	Q1	Full year
REPORTED DATA										
Net sales	1,922	2,231	2,097	1,756	8,006	1,699	1,808	1,782	1,429	6,719
Gross profit before special items	867	1,124	940	781	3,712	810	854	832	646	3,142
EBITDA before special items	397	614	489	326	1,826	430	446	398	239	1,513
Special items	-121	-80	-78	-155	-435	29	-118	-20	-24	-133
EBIT	180	436	304	66	986	350	229	280	119	977
Net financial item	-15	7	-2	-43	-53	-3	-16	-22	-4	-45
Profit before tax	170	450	305	26	951	351	217	262	119	949
Income taxes	-122	-94	-52	-6	-274	-72	-45	-57	-26	-201
Net profit	48	356	254	21	678	279	172	205	93	748
OTHER FINANCIAL KEY DATA										
Organic EBITDA growth	-14.6%	32.5%	19.1%	23.9%	14.0%	10.6%	5.4%	5.5%	7.3%	7.1%
Organic net sales growth	4.2%	12.0%	4.6%	5.3%	6.6%	-2.8%	-4.2%	-0.9%	-1.9%	-2.5%
Free cash flow before acquisitions	238	609	425	122	1,394	368	503	243	72	1,187

CORPORATE MATTERS

QUARTERLY FINANCIAL HIGHLIGHTS

	2020					2019				
DKK million	Q4	Q3	Q2	Q1	Full year	Q4	Q3	Q2	Q1	Full year
NORTH AMERICA ONLINE & RETAIL										
Net sales	639	746	788	489	2,662	568	619	631	473	2,291
Gross profit before special items	272	309	310	183	1,075	211	242	252	178	883
EBITDA before special items	135	151	165	66	517	99	107	103	44	353
Net sales growth	12.5%	20.5%	24.9%	3.4%	16.2%	3.0%	3.6%	8.3%	71.7%	14.2%
Organic net sales growth	21.7%	27.0%	22.5%	0.3%	18.9%	-0.2%	-1.0%	2.0%	2.3%	0.7%
Gross margin before special items	42.6%	41.5%	39.3%	37.5%	40.4%	37.1%	39.2%	40.0%	37.5%	38.5%
EBITDA margin before special items	21.1%	20.2%	20.9%	13.6%	19.4%	17.4%	17.3%	16.4%	9.3%	15.4%
NORTH AMERICA BRANDED & REST OF WORLD										
Net sales	572	734	629	593	2,527	614	653	641	528	2,436
Gross profit before special items	240	386	329	286	1,241	305	321	319	249	1,195
EBITDA before special items	128	279	230	176	813	206	214	207	137	764
Net sales growth	-6.9%	12.4%	-1.9%	12.3%	3.8%	-4.1%	-8.0%	0.3%	-4.3%	-4.1%
Organic net sales growth	-8.5%	12.1%	-4.3%	2.2%	0.4%	-5.6%	-10.1%	-2.3%	-6.4%	-6.2%
Gross margin before special items	42.0%	52.6%	52.4%	48.1%	49.1%	49.6%	49.3%	49.8%	47.1%	49.0%
EBITDA margin before special items	22.4%	38.0%	36.7%	29.6%	32.2%	33.5%	32.7%	32.4%	26.0%	31.4%
EUROPE BRANDED										
Net sales	712	752	680	673	2,817	517	537	511	428	1,992
Gross profit before special items	355	428	301	312	1,397	294	290	261	219	1,065
EBITDA before special items	156	213	107	106	581	146	136	112	80	474
Net sales growth	37.6%	40.1%	33.1%	57.4%	41.4%	-1.8%	-0.1%	-2.4%	0.0%	-1.3%
Organic net sales growth	2.1%	-0.4%	-3.0%	12.3%	2.3%	-2.2%	0.0%	-2.5%	-0.2%	-1.3%
Gross margin before special items	49.9%	57.0%	44.2%	46.4%	49.6%	56.9%	54.0%	51.1%	51.3%	53.4%
EBITDA margin before special items	21.9%	28.3%	15.7%	15.7%	20.6%	28.2%	25.4%	22.0%	18.7%	23.8%

FINANCIAL STATEMENTS

SCANDINAVIAN TOBACCO GROUP A/S

CONSOLIDATED FINANCIAL STATEMENTS

NOTES

1 JANUARY - 31 DECEMBER

STATEMENT OF COMPREHENSIVE INCOME

DKK million	Note	2020	2019
CONSOLIDATED INCOME STATEMENT			
Net sales	2.1	**8,005.9**	**6,719.0**
Cost of goods sold	2.1	-4,293.7	-3,576.5
Gross profit	2.1	**3,712.2**	**3,142.5**
Other external costs		-1,007.9	-898.3
Staff costs	2.2	-878.4	-737.1
Other income		-	5.9
Earnings before interest, tax, depreciation, amortisation and special items (EBITDA before special items)		**1,825.9**	**1,513.0**
Depreciation and impairment	3.2, 3.3	-238.1	-215.1
Earnings before interest, tax, amortisation and special items (EBITA before special items)		**1,587.8**	**1,297.9**
Amortisation and impairment	3.1	-167.0	-187.3
Earnings before interest, tax and special items (EBIT before special items)		**1,420.8**	**1,110.6**
Special items incl. impairment, net costs	2.5	-435.2	-133.4
Earnings before interest and tax (EBIT)		**985.6**	**977.2**
Share of profit of associated companies, net of tax	4.3	18.7	16.7
Financial income	4.4	81.1	46.6
Financial costs	4.4	-134.0	-91.9
Profit before tax		**951.4**	**948.6**
Income taxes	2.6	-273.5	-200.9
Net profit for the year		**677.9**	**747.7**
Earnings per share			
Basic earnings per share (DKK)	4.5	6.8	7.5
Diluted earnings per share (DKK)	4.5	6.8	7.5

DKK million	Note	2020	2019
Net profit for the year		**677.9**	**747.7**
OTHER COMPREHENSIVE INCOME			
Items that will not be recycled subsequently to the Consolidated Income Statement:			
Actuarial gains and losses on pension obligations		9.4	-31.6
Tax of actuarial gains and losses on pension obligations		-2.4	7.1
Items that will be recycled subsequently to the Consolidated Income Statement, when specific conditions are met:			
Cash flow hedges, realisation of previously deferred gains/losses to financial items		4.6	4.9
Cash flow hedges, deferred gains/losses incurred during the year		-3.8	-33.2
Tax of cash flow hedges		-0.2	6.2
Foreign exchange adjustments on net investments in foreign operations		-630.0	172.1
Other comprehensive income for the year, net of tax		**-622.4**	**125.5**
Total comprehensive income for the year		**55.5**	**873.2**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

DKK million	Note	2020	2019
ASSETS			
Goodwill		4,895.1	4,629.8
Trademarks		3,067.5	2,840.2
IT software		77.9	45.7
Other intangible assets		239.2	281.1
Total intangible assets	3.1	**8,279.7**	**7,796.8**
Property, plant and equipment	3.2	1,200.8	1,098.2
Right-of-use assets	3.3	204.7	225.5
Investments in associated companies	4.3	152.0	155.9
Deferred income tax assets	2.6	129.3	136.3
Other financial fixed assets		-	1.7
Total non-current assets		**9,966.5**	**9,414.4**
Inventories	3.4	2,816.3	2,530.0
Trade receivables	3.5	830.2	800.6
Other receivables		113.3	93.6
Corporate tax	2.6	72.2	82.0
Prepayments	3.6	48.7	53.9
Cash and cash equivalents		117.0	897.5
Assets classified as held for sale	3.7	31.8	-
Total current assets		**4,029.5**	**4,457.6**
Total assets		**13,996.0**	**13,872.0**

DKK million	Note	2020	2019
EQUITY AND LIABILITIES			
Share capital	4.5	100.0	100.0
Reserve for hedging		-14.5	-15.1
Reserve for currency translation		284.4	914.4
Treasury shares		-227.7	-35.0
Retained earnings		8,230.1	8,138.4
Total equity		**8,372.3**	**9,102.7**
Borrowings	4.1	2,843.5	2,682.1
Deferred income tax liabilities	2.6	628.2	516.7
Pension obligations	3.9	289.3	281.7
Other provisions	3.8	20.0	18.5
Lease liabilities		159.8	159.8
Other liabilities		19.0	31.4
Total non-current liabilities		**3,959.8**	**3,690.2**
Trade payables		525.1	334.0
Corporate tax	2.6	136.7	121.5
Other provisions	3.8	211.2	38.4
Lease liabilities		54.6	67.0
Other liabilities		736.3	518.2
Total current liabilities		**1,663.9**	**1,079.1**
Total liabilities		**5,623.7**	**4,769.3**
Total equity and liabilities		**13,996.0**	**13,872.0**

1 JANUARY - 31 DECEMBER

CONSOLIDATED CASH FLOW STATEMENT

DKK million	Note	2020	2019
Net profit for the year		677.9	747.7
Depreciation, amortisation and impairment		460.0	503.1
Adjustments	5.2	774.1	291.2
Changes in working capital	4.6	294.2	100.9
Special items, paid		-196.4	-174.3
Cash flow from operating activities before financial items		**2,009.8**	**1,468.6**
Financial income received		115.8	124.8
Financial costs paid		-312.2	-127.0
Cash flow from operating activities before tax		**1,813.4**	**1,466.4**
Tax payments	2.6	-228.0	-166.8
Cash flow from operating activities		**1,585.4**	**1,299.6**
Acquisitions	5.1	-1,560.1	-5.9
Divestments		-	68.5
Investment in intangible assets	3.1	-44.2	-28.2
Investment in property, plant and equipment	3.2	-156.5	-93.5
Sale of property, plant and equipment		1.6	1.2
Dividend from associated companies	4.3	7.5	8.0
Cash flow from investing activities		**-1,751.7**	**-49.9**
Free cash flow		**-166.3**	**1,249.7**

DKK million	Note	2020	2019
Repayment of lease liabilities		-70.3	-81.3
Other financing		14.7	6.8
New external funding		7,549.5	-
Repayment bank loans		-7,299.0	-
Dividend payment		-608.3	-598.0
Purchase of treasury shares		-188.5	-
Cash flow from financing activities		**-601.9**	**-672.5**
Net cash flow for the year		**-768.2**	**577.2**
Cash and cash equivalents, net at 1 January		897.5	310.8
Exchange gains/losses on cash and cash equivalents		-12.3	9.5
Net cash flow for the year		-768.2	577.2
Cash and cash equivalents, net at 31 December		**117.0**	**897.5**

1 JANUARY - 31 DECEMBER

STATEMENT OF CHANGES IN GROUP EQUITY

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
Equity at 1 January 2020	**100.0**	**-15.1**	**914.4**	**-35.0**	**8,138.4**	**9,102.7**
COMPREHENSIVE INCOME FOR THE YEAR						
Net profit for the year	**-**	**-**	**-**	**-**	**677.9**	**677.9**
OTHER COMPREHENSIVE INCOME						
Cash flow hedge	-	0.8	-	-	-	0.8
Tax of cash flow hedges	-	-0.2	-	-	-	-0.2
Foreign exchange adjustments on net investments in foreign operations	-	-	-630.0	-	-	-630.0
Actuarial gains and losses on pension obligations	-	-	-	-	9.4	9.4
Tax of actuarial gains and losses on pension obligations	-	-	-	-	-2.4	-2.4
Total other comprehensive income	**-**	**0.6**	**-630.0**	**-**	**7.0**	**-622.4**
Total comprehensive income for the year	**-**	**0.6**	**-630.0**	**-**	**684.9**	**55.5**
TRANSACTIONS WITH SHAREHOLDERS						
Purchase of treasury shares	-	-	-	-196.9	-	-196.9
Share-based payments	-	-	-	-	20.6	20.6
Settlement of vested PSUs	-	-	-	4.2	-4.2	-
Settlement in cash of vested PSUs	-	-	-	-	-1.3	-1.3
Dividend paid to shareholders (note 4.5)	-	-	-	-	-610.0	-610.0
Dividend, treasury shares	-	-	-	-	1.7	1.7
Total transactions with shareholders	**-**	**-**	**-**	**-192.7**	**-593.2**	**-785.9**
Equity at 31 December 2020	**100.0**	**-14.5**	**284.4**	**-227.7**	**8,230.1**	**8,372.3**

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
Equity at 1 January 2019	**100.0**	**7.0**	**742.3**	**-40.5**	**8,009.4**	**8,818.2**
COMPREHENSIVE INCOME FOR THE YEAR						
Net profit for the year	**-**	**-**	**-**	**-**	**747.7**	**747.7**
OTHER COMPREHENSIVE INCOME						
Cash flow hedge	-	-28.3	-	-	-	-28.3
Tax of cash flow hedges	-	6.2	-	-	-	6.2
Foreign exchange adjustments on net investments in foreign operations	-	-	172.1	-	-	172.1
Actuarial gains and losses on pension obligations	-	-	-	-	-31.6	-31.6
Tax of actuarial gains and losses on pension obligations	-	-	-	-	7.1	7.1
Total other comprehensive income	**-**	**-22.1**	**172.1**	**-**	**-24.5**	**125.5**
Total comprehensive income for the year	**-**	**-22.1**	**172.1**	**-**	**723.2**	**873.2**
TRANSACTIONS WITH SHAREHOLDERS						
Share-based payments	-	-	-	-	9.3	9.3
Settlement of vested PSUs	-	-	-	5.5	-5.5	-
Dividend paid to shareholders (note 4.5)	-	-	-	-	-600.0	-600.0
Dividend, treasury shares	-	-	-	-	2.0	2.0
Total transactions with shareholders	**-**	**-**	**-**	**5.5**	**-594.2**	**-588.7**
Equity at 31 December 2019	**100.0**	**-15.1**	**914.4**	**-35.0**	**8,138.4**	**9,102.7**

SECTION 1

1.1 BASIS OF PREPARATION

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

RECOGNITION AND MEASUREMENT

The Consolidated Financial Statements have been prepared under the historical cost basis except when IFRS explicitly require the use of fair value. Danish kroner is the Group's presentation currency and the functional currency of the parent company. The principal accounting policies set out below have been applied consistently in the preparation of the Consolidated Financial Statements for all the years presented.

PRINCIPAL ACCOUNTING POLICIES

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

- Gross profit (net sales and cost of goods sold) (note 2.1)
- Income and deferred income taxes (note 2.6)
- Intangible assets and property, plant and equipment including impairment (notes 3.1 and 3.2)
- Inventories (note 3.4)

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

IMPACT OF NEW ACCOUNTING STANDARDS

Based on an assessment of new or amended and revised accounting standards and interpretations (‘IFRS’) issued by the International Accounting Standards Board (IASB) and IFRS endorsed by the European Union effective on or after 1 January 2020, it has been assessed that the application of these new IFRS has not had a material impact on the Consolidated Financial Statements in 2020, and the Group does not anticipate any significant impact on future periods from the adoption of these new IFRS. The Group has adopted all new, amended and revised standards and interpretations.

Amendments to IFRS 3 'Business Combinations' and IFRS 9 'Financial Instruments' and IFRS 7 'Interest Rate Benchmark Reform' with effective date 1 January 2020 have been implemented. The Group has assessed the impact of the standards and determined that they did not have any significant impact on the Annual Report.

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

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

RECLASSIFICATION

In 2020 the reportable segments were reduced from four to three segments by integrating and combining one of the previous segments into two of the other segments as well as partly reallocations between the segments. As part of this change from four to three reportable segments (see note 2.1) certain types of expenses have been realigned between markets within the new segments. Alignment of the presentation of these expenses, which are now presented as customer discounts rather than costs, has led to reclassifications between the separate line items in the income statement. The comparison figures have been restated. The impact on the historical figures is stated below.

1.1 (CONTINUED)

BASIS OF PREPARATION

DKK million	2019 reported	Reclassifi-cation	2019 restated
Net sales	**6,870.3**	**-151.3**	**6,719.0**
Cost of goods sold	-3,556.4	-20.1	-3,576.5
Gross profit before special items	**3,313.9**	**-171.4**	**3,142.5**
Other external costs	-1,069.7	171.4	-898.3
Staff costs	-737.1	-	-737.1
Other income	5.9	-	5.9
Earnings before interest, tax, depreciation, amortisation and special items (EBITDA before special items)	**1,513.0**	**-**	**1,513.0**
Gross margin before special items	**48.2%**		**46.8%**
EBITDA margin before special items	**22.0%**		**22.5%**

BASIS OF CONSOLIDATION

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

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

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

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

TRANSLATION POLICIES

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

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

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

OTHER EXTERNAL COSTS

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

OTHER INCOME

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

1.1 (CONTINUED)

BASIS OF PREPARATION

EQUITY

Proposed dividend is recognised as a liability at the time of approval by the general meeting. Dividend which is expected to be distributed for the year is disclosed in note 4.5.

The reserve for currency translation in the Consolidated Financial Statements comprises foreign exchange differences arising from translation of financial statements of foreign enterprises from their functional currencies to the presentation currency of the Group (Danish kroner).

When there is full or partial disposal of the net investment, the foreign exchange adjustments are recognised in the income statement.

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

Cost of acquisition and proceeds from sale of treasury shares are recognised in reserve for treasury shares. 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 determined as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents, prepaid tax and corporate tax liabilities.

Cash flow from investing activities comprises cash flows from addition and disposals of intangible assets, property, plant and equipment, fixed asset investments, acquisition of entities, as well as dividends from associated companies.

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

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

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

1.2

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

When preparing the Group's Consolidated Financial Statements, Management makes various accounting estimates, judgements and assumptions which form the basis of presentation, recognition and measurement of the Group's assets and liabilities. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. In some circumstances a change in the estimates may be necessary because of changes in the underlying assumptions.

ESTIMATION UNCERTAINTY

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

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

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

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

- Income and deferred income taxes (note 2.6)
- Goodwill (note 3.1)
- Trademarks (note 3.1)
- Property, plant and equipment (note 3.2)
- Inventories (note 3.4)
- Pension obligations (note 3.9)
- Business combinations (note 5.1)

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

DEFINING MATERIALITY

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

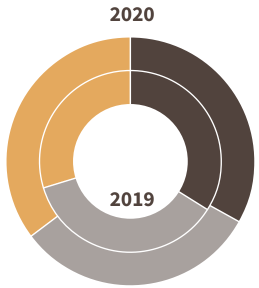
SECTION 2

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

8,006

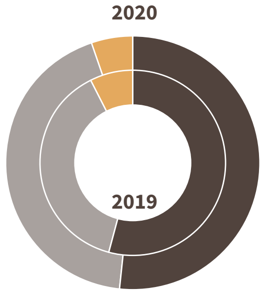
NET SALES (DKK million)

NET SALES PER DIVISION (DKK million)



- North America Online & Retail 2,662
- North America Branded & RoW 2,527
- Europe Branded 2,817

NET SALES PER REGION (DKK million)



- Americas 4,139
- Europe 3,463
- Rest of world 404

2020

DKK million	North America Online & Retail	North America Branded & RoW	Europe Branded	Group costs / not allocated	Total
Net sales	2,661.7	2,527.4	2,816.8	-	8,005.9
Cost of goods sold	-1,586.9	-1,286.7	-1,420.1	-	-4,293.7
Gross profit before special items	**1,074.8**	**1,240.7**	**1,396.7**	**-**	**3,712.2**
Staff and other external costs	-557.9	-427.6	-815.8	-85.0	-1,886.3
Other income	-	-	-	-	-
EBITDA before special items	**516.9**	**813.1**	**580.9**	**-85.0**	**1,825.9**
Depreciation and impairment	-	-	-	-238.1	-238.1
Amortisation and impairment	-	-	-	-167.0	-167.0
EBIT before special items	**-**	**-**	**-**	**-490.1**	**1,420.8**
Special items, costs and impairment	-	-	-	-435.2	-435.2
EBIT	**-**	**-**	**-**	**-925.3**	**985.6**
Share of profit of associated companies, net of tax	-	-	-	18.7	18.7
Financial income	-	-	-	81.1	81.1
Financial costs	-	-	-	-134.0	-134.0
Profit before tax	**-**	**-**	**-**	**-959.5**	**951.4**

2019

DKK million	North America Online & Retail	North America Branded & RoW	Europe Branded	Group costs / not allocated	Total
Net sales	2,290.8	2,435.8	1,992.4	-	6,719.0
Cost of goods sold	-1,407.8	-1,241.1	-927.6	-	-3,576.5
Gross profit before special items	**883.0**	**1,194.7**	**1,064.8**	**-**	**3,142.5**
Staff and other external costs	-529.6	-436.3	-590.6	-78.9	-1,635.4
Other income	-	5.9	-	-	5.9
EBITDA before special items	**353.4**	**764.3**	**474.2**	**-78.9**	**1,513.0**
Depreciation and impairment	-	-	-	-215.1	-215.1
Amortisation and impairment	-	-	-	-187.3	-187.3
EBIT before special items	**-**	**-**	**-**	**-481.3**	**1,110.6**
Special items, costs and impairment	-	-	-	-133.4	-133.4
EBIT	**-**	**-**	**-**	**-614.7**	**977.2**
Share of profit of associated companies, net of tax	-	-	-	16.7	16.7
Financial income	-	-	-	46.6	46.6
Financial costs	-	-	-	-91.9	-91.9
Profit before tax	**-**	**-**	**-**	**-643.3**	**948.6**

2.1 (CONTINUED)

GROSS PROFIT (NET SALES AND COST OF GOODS SOLD)

DKK million	2020	2019
Category split, net sales		
Handmade cigars	2,878.7	2,562.5
Machine-rolled cigars	2,894.8	2,223.1
Smoking tobacco	1,144.2	1,005.4
Accessories and Contract Manufacturing	1,088.2	928.0
Total net sales	**8,005.9**	**6,719.0**

Licence income and other sales of DKK 46.0 million (DKK 48.5 million) are included in the category 'Accessories and Contract Manufacturing'.

	2020	2019
Geographical split, net sales		
Americas	4,138.8	3,639.9
Europe	3,462.8	2,589.7
Rest of world	404.3	489.4
Total net sales	**8,005.9**	**6,719.0**

GEOGRAPHIC INFORMATION

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

The Group is domiciled in Denmark. Net sales from external customers in Denmark amount to DKK 185.9 million (DKK 180.7 million), and net sales from external customers outside Denmark amount to DKK 7,820.0 million (DKK 6,538.3 million). Individual, material countries (>10% of total net sales) are the US DKK 3,780.1 million (DKK 3,373.9 million) and France DKK 803.2 million (DKK 506.7 million).

Individual, material countries (>10% of total non-current assets) are the US DKK 3,868.1 million (DKK 4,289.6 million) and the Netherlands DKK 2,963.1 million (DKK 2,037.1 million).

DKK million	2020	2019
Non-current assets[1]		
Americas	4,032.3	4,384.0
Europe	5,757.4	4,869.4
Rest of world	47.5	23.0
Total non-current assets	**9,837.2**	**9,276.4**

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

Total non-current assets in Denmark amount to DKK 1,871.8 milion (DKK 1,901.2 million).

§ ACCOUNTING POLICIES

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

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

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

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

Segments
As a part of the Group's integration of Agio Cigars and in order to increase speed to market and unlock synergies, commercial resources are realigned in three new divisions. As of 2020, the reportable segments have been changed from four to three. This is to align to the new internal reporting structure, which is provided to the Executive Board. The Executive Board is considered to be the chief operating decision maker.

Comparison figures for segments and categories have been restated.

The three new segments are:

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

Division North America Branded & Rest of World includes sales of all product categories to wholesalers and distributors that supply retail in the US, Canada, Australia, New Zealand, International Sales (Norway, Finland, Switzerland, Israel and Russia), Asia, Global Travel Retail and contract manufacturing for third parties.

Division Europe Branded includes sales of all product categories to wholesalers and distributors that supply retail in Germany, Denmark, Sweden, France, Italy, Belgium, the Netherlands, Luxembourg, Spain, Portugal, as well as the UK and Ireland.

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

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

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

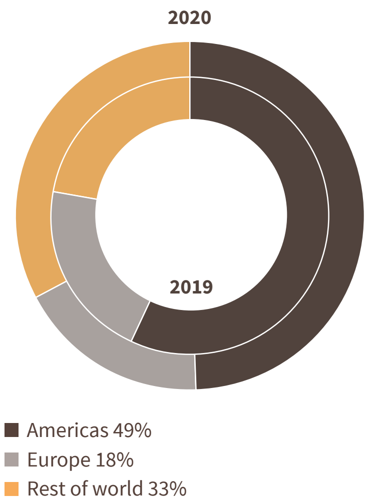
No assets and liabilities are allocated to segments in the internal reporting.

2.2
STAFF COSTS

DKK million	2020	2019
Wages and salaries	1,391.8	1,123.3
Pensions - defined contribution plans	63.7	52.9
Pensions - defined benefit plans	21.0	19.7
Social security costs	196.9	146.2
Total staff costs for the year	**1,673.4**	**1,342.1**
Change in employee costs included in inventories	-2.2	-1.6
Total staff costs expensed to the income statement	**1,671.2**	**1,340.5**

DKK million	2020	2019
Included in the income statement:		
Cost of goods sold	792.8	603.4
Staff costs	878.4	737.1
Total included in the income statement	**1,671.2**	**1,340.5**
Average number of employees in the Group	**10,561**	**7,258**

EMPLOYEES PER REGION (%)



REMUNERATION OF THE BOARD OF DIRECTORS AND EXECUTIVE BOARD

Total fees to the Board of Directors and Executive Board amounted to DKK 79.4 million (DKK 53.4 million).

Executive Board

The remuneration of the Executive Board is assessed annually and among other factors compared to the remuneration level of similar international companies in terms of size, scale and complexity.

The members of the Executive Board participate in the Group's long-term incentive programme (LTIP) according to which the participants receive an annual grant of performance share units (PSUs). The CEO receives an annual grant of PSUs with a value at target performance corresponding to 40% of the annual base salary, whereas the CFO receives a grant of PSUs with a value at target performance corresponding to 30% of the annual base salary. In a maximum performance scenario the value at the time of grant is 80% and 60%, of the base salary at the time of grant of the PSUs, respectively. Other key management members (members of the Executive Board who are not members of the Executive Management) receive an annual grant of PSUs corresponding in value to 15-30% of their annual base salary at the time of the grant. In a maximum performance scenario, the value at the time of grant is 30-60%, of the base salary at the time of grant of the PSUs. The value of the PSUs follows the trading value of Scandinavian Tobacco Group A/S' shares during the three-year performance period. The shares, if any, to be allocated to each participant under the LTIP following the performance period will be determined on the basis of the initial PSUs, with the addition of any dividend PSUs granted, adjusted by the performance in the performance period against the pre-defined KPI multiplier (between 0.0 and 2.0). For a further description of the share-based incentive programme please refer to note 2.3.

The members of the Executive Board also participate in a short-term incentive programme (STIP) according to which they may receive an annual target bonus of 25% with a potential bonus of up to 50% of the annual base salary for the CEO and a 25% target bonus with a potential bonus of up to 50% for the CFO. Other members of the Executive Board may receive an annual target bonus of 25-30% with a potential bonus up to 50-60%. Both the Executive Management member's bonus and the bonus for other Executive Board members are based on two parameters: Organic EBITDA growth and a cash-related KPI (Free cash flow before acquisitions and special items).

Should the Company terminate the individual employment contracts, members of the Executive Management would generally have a right to 12-24 months' notice, and other Executive Board members would be entitled to 6-12 months' notice/remuneration.

Within 6-12 months after a change of the control or delisting of the Company, the CEO may terminate his employment, and he will be entitled to 24 months remuneration, as if he had been terminated by the Company. Also, the CEO will be entitled to a proportional share of the below mentioned buy-out payment. If the Company should wish to terminate the CFO within 18 months after a change of the control or delisting of the Company, the CFO is entitled to a notice of 24 months.

In connection with the IPO of the Company in 2016, a contractual early-retirement plan was abolished, and the CEO was granted a compensation. With this, the CEO is entitled to a buy-out payment split in three tranches, of which the last two, each of DKK 6.1m gross, are payable on 1 January 2021 and 2024, respectively, provided that the CEO continues to be employed in the same position in the Company. If the CEO terminates his position or is terminated for breach of contract, the CEO is no longer entitled to the payments. If the employment is terminated by the Company for a reason other than breach of contract by the CEO, or if the CEO terminates the employment due to breach by the Company, the CEO will be entitled to a proportionate share of any unpaid payments.

For the year 2020, the total cost of remuneration for the Executive Board amounts to DKK 72.7 million (DKK 46.9 million.

2.2 (CONTINUED)

STAFF COSTS

§ ACCOUNTING POLICIES

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

EXECUTIVE BOARD 2020

DKK million	Salary and benefits	Bonus	Pension	Extraordinary remuneration /stay-on and loyalty bonus	Share-based incentive programme	Total
Niels Frederiksen	7.5	4.0	-	2.0	6.3	19.8
Marianne Rørslev Bock	4.5	2.2	-	-	1.2	7.9
Total Executive Management	**12.0**	**6.2**	**-**	**2.0**	**7.5**	**27.7**
Other key management*	29.4	7.8	0.7	0.6	6.5	45.0
Total Executive Board	**41.4**	**14.0**	**0.7**	**2.6**	**14.0**	**72.7**

*Includes severance pay in the amount of DKK 16.2 million related to salaries and benefits, DKK 1.9 million related to bonus, DKK 0.6 million related to stay-on and loyalty bonus and DKK 4.1 million related to sharebased incentive programme.

EXECUTIVE BOARD 2019

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

BOARD OF DIRECTORS

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

In 2020, members of the Board of Directors and the board committees received fixed annual fees in the aggregate amount of DKK 6.3 million (DKK 6.2 million). DKK 0.4 million (DKK 0.3 million) was paid during 2020 related to social security taxes and similar taxes imposed by non-Danish authorities in relation to the remuneration.

BOARD OF DIRECTORS

DKK thousand	Position	Joined the Board	Left the Board	Board	Committees	Total
Nigel Northridge	Chairman	Apr 2016		1,200	200	1,400
Henrik Brandt	Vice-chairman	Apr 2017		800	100	900
Marlene Forsell	Board member	Apr 2019		400	300	700
Dianne Neal Blixt	Board member	Feb 2016		400	150	550
Luc Missorten	Board member	Feb 2016		400	250	650
Anders Obel	Board member	Apr 2018		400	-	400
Claus Gregersen	Board member	Apr 2019		400	100	500
Hanne Malling	Employee represen.	Oct 2010		400	-	400
Lindy Larsen	Employee represen.	Jul 2016		400	-	400
Mogens Olsen	Employee represen.	Jul 2017		400	-	400
Total 2020				**5,200**	**1,100**	**6,300**
Total 2019				**5,101**	**1,075**	**6,176**

Social security taxes and similar taxes:

In addition to the above remuneration to the Board of Directors, the Company may pay social security taxes and similar taxes imposed by non-Danish authorities in relation to the remuneration. In 2020 the Company paid DKK 404 thousand compared to DKK 287 thousand in 2019.

2.3
SHARE-BASED PAYMENTS

VALUE OF THE PROGRAMS AND IMPACT ON THE INCOME STATEMENT

	LTIP 2017	LTIP 2018	LTIP 2019	LTIP 2020
Total PSUs granted	108,747	99,796	147,843	144,129
Fair value of PSUs expected to vest at grant date, DKK million	5.5	9.2	10.8	12.6
Fair value of PSUs expected to vest at 31 December 2020, DKK million	-	19.5	11.6	12.3
Recognised in the income statement in 2020, DKK million*	-	12.5	4.2	3.9
Not yet recognised in respect of PSUs expected to vest, DKK million	-	-	3.3	8.4

* DKK 20.6 million (DKK 9.3 million) was recognised in staff costs.

	Executive Board				
LTIP 2017 (number of PSUs)	**Niels Frederiksen**	**Sisse Fjelsted Rasmussen**	**Other Key Management**	**Senior Management**	**Total**
Outstanding at 1 January 2019	25,319	10,888	43,683	19,164	99,054
Granted	1,941	835	3,349	1,468	7,593
Outstanding at 31 December 2019	**27,260**	**11,723**	**47,032**	**20,632**	**106,647**
Outstanding at 1 January 2020	27,260	11,723	47,032	20,632	106,647
Transferred	-	-	2,134	-2,134	-
Vested	-13,630	-5,861	-24,583	-9,249	-53,323
Cancelled	-13,630	-5,861	-24,583	-9,249	-53,323
Outstanding at 31 December 2020	**-**	**-**	**-**	**-**	**-**

	Executive Board					
LTIP 2018 (number of PSUs)	**Niels Frederiksen**	**Marianne Rørslev Bock**	**Sisse Fjelsted Rasmussen**	**Other Key Management**	**Senior Management**	**Total**
Outstanding at 1 January 2019	25,828	2,692	-	41,804	20,391	90,715
Granted	1,980	206	-	3,206	1,563	6,955
Outstanding at 31 December 2019	**27,808**	**2,898**	**-**	**45,010**	**21,954**	**97,670**
Outstanding at 1 January 2020	27,808	2,898	-	45,010	21,954	97,670
Transferred	-	-	-	2,213	-2,213	-
Granted	2,417	252	-	3,162	2,659	8,490
Cancelled	-	-	-	-11,794	-	-11,794
Adjustment	30,225	3,150	-	38,591	22,400	94,366
Outstanding at 31 December 2020	**60,450**	**6,300**	**-**	**77,182**	**44,800**	**188,732**

	Executive Board				
LTIP 2019 (number of PSUs)	**Niels Frederiksen**	**Marianne Rørslev Bock**	**Other Key Management**	**Senior Management**	**Total**
Outstanding at 1 January 2019	-	-	-	-	-
Granted	35,829	14,855	60,767	36,392	147,843
Outstanding at 31 December 2019	**35,829**	**14,855**	**60,767**	**36,392**	**147,843**
Outstanding at 1 January 2020	35,829	14,855	60,767	36,392	147,843
Transferred	-	-	4,466	-4,466	-
Granted	3,115	1,291	4,446	4,001	12,853
Cancelled	-	-	-15,312	-	-15,312
Outstanding at 31 December 2020	**38,944**	**16,146**	**54,367**	**35,927**	**145,384**

2.3 (CONTINUED)

SHARE-BASED PAYMENTS

LTIP 2020 (number of PSUs)	Executive Board Niels Frederiksen	Executive Board Marianne Rørslev Bock	Other Key Management	Senior Management	Total
Outstanding at 1 January 2020	-	-	-	-	-
Granted	35,592	16,028	38,801	53,708	144,129
Cancelled	-	-	-14,162	-	-14,162
Outstanding at 31 December 2020	**35,592**	**16,028**	**24,639**	**53,708**	**129,967**

All of the outstanding PSUs at 31 December 2020 are hedged by treasury shares.

§ **ACCOUNTING POLICIES**

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

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

The fair value of granted PSUs is measured at the share price at grant date.

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

Share-based incentive programmes
Scandinavian Tobacco Group has a long-term incentive programme (LTIP) for members of the Executive Management and members of senior management.

Upon vesting, each PSU entitles the holder to receive one share in Scandinavian Tobacco Group at no cost.

The actual number of shares vesting may range between 0 and 200% of the grant and is determined by a service period of 3 years and the achievement of certain performance indicators in the financial years 2020-2022 for the LTIP 2020 (Organic EBITDA growth and cash conversion), 2019-2021 for the LTIP 2019 (organic EBITDA growth and cash conversion), 2018-2020 for the LTIP 2018 (organic EBITDA growth and cash conversion), and the financial years 2017-2019 for the LTIP 2017 (organic EBITDA growth and inventory reduction).

In March 2020, PSUs granted under the LTIP 2017 were vested and the participants received shares in Scandinavian Tobacco Group A/S at no cost. The shares received corresponded to 50% of the grant, based on the actual achieved performance. The remaining granted PSUs were cancelled and the programme has lapsed.

Under the LTIP programme, new PSUs were granted to participants in 2020. This was the fifth grant following the IPO in 2016.

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

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

APPLIED ASSUMPTIONS AT THE TIME OF GRANT

	LTIP 2020	LTIP 2019	LTIP 2018	LTIP 2017
Share price (DKK)	94.80	78.65 / 78.80 80.40	107.70 / 86.75	124.50 / 110.20 110.70

2.4

MANAGEMENT'S HOLDINGS OF STG SHARES

Management's Holdings of Shares	At the beginning of the year[1]	Additions during the year	Disposals during the year	At the end of the year	Market value[2] DKK million
Nigel Northridge	5,000	-	-	5,000	0.5
Henrik Brandt	67,112	45,558	-	112,670	11.7
Marlene Forsell	3,250	-	-	3,250	0.3
Luc Missorten	2,000	-	-	2,000	0.2
Dianne Neal Blixt	1,700	-	-	1,700	0.2
Anders Obel	20,270	-	-	20,270	2.1
Claus Gregersen	-	15,928	-	15,928	1.7
Lindy Larsen	242	-	-	242	0.0
Hanne Malling	250	-	-	250	0.0
Mogens Olsen	1,950	1,500	-	3,450	0.4
Board of Directors in total	**101,774**	**62,986**	**-**	**164,760**	**17.2**
Niels Frederiksen	75,002	44,998	-	120,000	12.5
Marianne Rørslev Bock	-	2,300	-	2,300	0.2
Sarah Santos	-	1,067	-	1,067	0.1
Hanne Berg	1,286	923	-	2,209	0.2
Yulia Lyusina	-	-	-	-	-
Jurjan Klep	3,824	2,176	-	6,000	0.6
Régis Broersma	4,289	4,287	-	8,576	0.9
Executive Board in total	**84,401**	**55,751**	**-**	**140,152**	**14.6**
Total Board of Directors and Executive Board	**186,175**	**118,737**	**-**	**304,912**	**31.7**

1) Following the changes in the Executive Board, the holding of shares at the beginning of the year has been updated compared with the Annual Report 2019.
2) Calculation of market value is based on the quoted share price of DKK 104.1 at the end of the year.

2.5

SPECIAL ITEMS

§ ACCOUNTING POLICIES

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

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

DKK million	2020	2019
Integration and transactions costs (Thompson Cigar)	-	22.3
Integration and transactions costs (Agio Cigars)	234.0	20.2
Fuelling the Growth program	5.2	31.7
Divestment of licence agreement	-	-46.6
Production footprint	141.1	5.1
Impairment tangible assets and right-of-use assets	106.7	91.9
Impairment intangible assets	-	8.8
Reversal of impairments	-51.8	-
Total special items incl. impairment, net costs	**435.2**	**133.4**

Special items are specified by line items in the income statements.

DKK million	2020	2019
Cost of goods sold	180.0	18.5
Other income	-	-46.6
Other external costs	83.6	57.5
Staff costs	116.7	3.3
Depreciation and impairment	58.8	91.9
Amortisation and impairment	-3.9	8.8
Total special items incl. impairment, net costs	**435.2**	**133.4**

2.6

INCOME AND DEFERRED INCOME TAXES

28.7

EFFECTIVE TAX RATE (%)

273.5

INCOME STATEMENT TAX EXPENSE (DKK million)

DKK million	2020	2019
Tax expense		
Current income tax	267.6	198.4
Deferred income tax	8.5	-10.8
Total	**276.1**	**187.6**
Tax is allocated as follows:		
Tax in the income statement	273.5	200.9
Tax on other comprehensive income related to:		
Hedging instruments	0.2	-6.2
Actuarial gains and losses on pension obligations	2.4	-7.1
Total	**276.1**	**187.6**
Income tax receivable/payable (net) - in the balance sheet:		
Corporate tax receivables	72.2	82.0
Corporate tax payables	136.7	121.5
Total (net)	**64.5**	**39.5**

2.6 (CONTINUED)

INCOME AND DEFERRED INCOME TAXES

DKK million	2020	2019
Income tax receivable/payable (net):		
Balance at 1 January	39.5	11.2
Currency adjustments	-5.6	-1.2
Prior-year tax adjustment	-26.8	3.9
Tax paid on account in current year	-253.5	-183.9
Received regarding previous years	62.3	62.1
Paid regarding previous years	-36.8	-45.0
Acquisition of entities (2019 disposal)	-9.0	-2.1
Current income tax	294.4	194.5
Balance at 31 December	**64.5**	**39.5**
Deferred tax (net) – in the balance sheet		
Deferred income tax assets	129.3	136.3
Deferred income tax liabilities	628.2	516.7
Deferred income tax liabilities (net)	**498.9**	**380.4**
Deferred tax (net)		
Balance 1 January	380.4	395.5
Currency adjustments	1.6	-4.3
Acquisition of entities	108.4	-
Change in deferred tax charge	8.5	-10.8
Balance at 31 December	**498.9**	**380.4**
Breakdown of deferred income tax liabilities (net):		
Intangible assets	715.4	558.2
Property, plant and equipment	16.6	27.7
Inventories	-51.6	-40.0
Receivables	-2.0	-1.9
Pensions	-59.1	-59.3
Other liabilities	-57.9	-19.3
Tax losses to be carried forward	-21.7	-33.4
Other	-40.8	-51.6
Total (net)	**498.9**	**380.4**

DKK million	2020	2019
Breakdown of tax in the income statement:		
Tax calculated at 22.0% of profit before tax	209.4	208.7
Tax according to income statement	273.5	200.9
Variance	**64.1**	**-7.8**
Tax effect of:		
Non-deductable costs	17.8	9.5
Income from associated companies	-4.1	-3.7
Non-taxable income	-1.5	-0.4
Prior-year adjustments	-6.0	-3.6
Other tax percentages	-4.4	7.4
Effect of enacted changes of tax rates*	49.0	10.4
Other	13.3	-27.4
Total	**64.1**	**-7.8**

* Effect of enacted change of tax rates in 2020 relates to the Dutch corporate tax rate, which at 31 December 2019 was enacted to be reduced to 21.7% in 2021. Late December 2020 it was enacted that the tax rate will stay at 25% going forward.

At 31 December 2020 the Group has no unrecognised tax assets (DKK 0.0 million).

UNCERTAIN TAX POSITIONS

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

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

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

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

2.6 (CONTINUED)

INCOME AND DEFERRED INCOME TAXES

ACCOUNTING POLICIES

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

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

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

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

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

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

KEY ACCOUNTING ESTIMATES

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

SECTION 3

3.1 INTANGIBLE ASSETS

44.2

ADDITIONS (DKK million)

KEY ACCOUNTING ESTIMATES

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

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

2020

DKK million	Goodwill	Trademarks	IT software	Other intangible assets	Total
Accumulated cost at 1 January	4,630.7	4,225.0	380.9	481.7	9,718.3
Exchange rate adjustment	-273.2	-136.5	-8.9	-20.5	-439.1
Acquisition	538.5	434.5	9.9	-	982.9
Additions	-	-	42.5	1.7	44.2
Disposals	-	-	-2.8	-	-2.8
Disposal of entities	-	-	-	-	-
Accumulated cost at 31 December	4,896.0	4,523.0	421.6	462.9	10,303.5
Accumulated amortisation and impairment at 1 January	0.9	1,384.8	335.2	200.6	1,921.5
Exchange rate adjustment	-	-41.7	-8.3	-8.0	-58.0
Amortisation	-	112.4	23.5	31.1	167.0
Impairment	-	-	-	-	-
Reversal of impairment	-	-	-3.9	-	-3.9
Disposals	-	-	-2.8	-	-2.8
Disposal of entities	-	-	-	-	-
Accumulated amortisation and impairment at 31 December	0.9	1,455.5	343.7	223.7	2,023.8
Carrying amount at 31 December	**4,895.1**	**3,067.5**	**77.9**	**239.2**	**8,279.7**

2019

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

§ ACCOUNTING POLICIES

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

Trademarks
Trademarks are measured at cost less accumulated amortisation and less any accumulated impairment losses. Strategic trademarks with indefinite lives are not amortised, but are reviewed annually for impairment. Strategic trademarks are defined as trademarks of a sizeable significance measured on contribution and the trademarks have the potential to grow across geographies. Other trademarks are amortised on a straight-line basis over the estimated useful lives determined on the basis of Management's experience with the individual trademarks. The amortisation period is typically in the range of 5–25 years.

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

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

3.1 (CONTINUED)

INTANGIBLE ASSETS

GOODWILL

The carrying amount of goodwill at 31 December 2020 amounted to DKK 4,895.1 million (DKK 4,629.8 million).

As announced on 23 April 2020 (company announcement no. 10/2020), the organisational/management structure in Scandinavian Tobacco Group was changed as part of the integration of Agio Cigars. To align financial reporting with the new organisational structure and to ensure consistency with internal management reporting, the Group's external reporting structure has been revised from four to three divisions. Please refer to note 2.1 for a description of the three new divisions.

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

As per 31 December 2020 the carrying amount of goodwill has been allocated to the identified cash-generating units according to the reportable segments as follows:

Goodwill is tested for impairment annually and whenever there is an indication of impairment.

When carrying out the impairment test for goodwill, the Group is seen as several cash generating units split according to the internal segment reporting. The carrying values of the individual cash generating units are compared to the values in use (discounted value of future cash flows). 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 five-year budget period) based on Management's projections.

When goodwill was tested for impairment in 2020 (and 2019), the value in use exceeded the carrying value for the individual cash generating units and no basis for impairment was found.

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

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

DKK million	North America Online & Retail	North America Branded & RoW	Europe Branded	Total
	1,525.6	1,282.1	2,087.4	4,895.1

Comparison figures for 2019 are not available due to the reallocation of goodwill in 2020.

APPLIED KEY ASSUMPTIONS – Goodwill impairment test	North America Online & Retail	North America Branded & RoW	Europe Branded
EBITDA Growth	An average growth rate of 6.9% in the five-year budget period has been applied for EBITDA for the overall Group (accumulated for the three cash generating units). The growth projection is expected to be reached through volume growth in North America (both Online & Retail and Branded), market share gains in Europe Branded, price increases in all divisions, a positive impact from the integration of Agio, cost prices and OPEX development in line with current inflation level adjusted for savings coming from both Fuelling the Growth and the Integration of Agio.		
Terminal growth (based on adjusted historical development taking into account expected future development)	1.0%	0.0%	0.0%
Discount rate after-tax (%)	8.9%	8.9%	7.4%
Discount rate pre-tax (%)	11.1%	11.3%	9.3%

Comparison figures for 2019 are not available due to the change of segments in 2020.

KEY ACCOUNTING ESTIMATES

Goodwill impairment test

In the annual impairment test of goodwill, an estimate is made to determine how the enterprise will be able to generate sufficient positive net cash flow in the future to support the value of goodwill, trademarks and other net assets of the enterprise in question. For the purpose of the annual impairment test of goodwill, the costs and income in segment note 2.1 have been allocated to each cash generating unit based on either direct allocation or by using relevant allocation keys. The estimates of the anticipated future net cash flow are based on budgets, business plans as well as Management's projections for the coming years. Contribution expectations are based upon projections made on the development in volume, average sales and cost prices as well as operating cost development for each market in each of the defined cash generating units.

TRADEMARKS

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

The carrying amount of trademarks at 31 December 2020 amounted to DKK 3,067.5 million (DKK 2,840.2 million).

	Carrying amount	
DKK million	**2020**	**2019**
Trademarks indefinite lives	2,001.4	1,709.1
Other trademarks (definite useful lives)	1,066.1	1,131.1
Total	**3,067.5**	**2,840.2**

3.1 (CONTINUED)

INTANGIBLE ASSETS

Trademarks with the highest carrying amounts are listed below.

DKK million	Indefinite trademarks allocated to segment*	Remaining amortisation period	Carrying amount 2020	Carrying amount 2019
Captain Black and Bugler	1,2,3	Indefinite / 10 years	685.1	749.2
Café Crème/Signature	1,2,3	Indefinite	482.4	482.4
Mehari's	1,2,3	Indefinite	356.1	-
Tiedemanns	2,3	15 years	148.8	171.5
Mercator	3	7 years	199.2	229.2
La Paz	2,3	Indefinite	215.2	215.2
Other trademarks	1,2,3	Indefinite / 1-19 years	980.7	992.7
Total			**3,067.5**	**2,840.2**

* 1) North America Online & Retail, 2) North America Branded & Rest of World , 3) Europe Branded

As per December 2020 the carrying amount of trademarks with indefinite useful lives was allocated to the reportable segments as follows:

DKK million	North America Online & Retail	North America Branded & RoW	Europe Branded	Total
	123.2	914.2	964.0	2,001.4

Comparison figures for 2019 are not available as reportable segments were changed in 2020.

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

When carrying out the impairment test for trademarks with indefinite useful lives, each trademark is seen as a separate asset capable of generating cash flow. The carrying value of each trademark is compared to the values in use (discounted value of future cash flows). If the carrying value is higher, the difference is charged to the income statement.

The value in use for each trademark is calculated by using a valuation model based on discounted expected future cash flows (Multi-period Excess Earnings-Method (“MEEM”) in an adapted form, covering a five-year budget period) based on Management’s projections.

When trademarks with indefinite useful lives were tested for impairment in 2020 (and 2019), the value in use exceeded the carrying value for each of the individual trademarks and no basis for impairment was found.

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

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

Management has used a discount rate (WACC after tax) between 7.6% and 24.5% (pre-tax WACC between 9.3% and 29.8%). The weighted average discount rate after tax is 9.5% (pre-tax 11.5%). The discount rates are based on the risk-free rate adjusted for the inherent risk for each individual trademark. Terminal growth in EBITDA is set between -5.0% and 1.0% and is based on adjusted historical development taking into account expected future development.

KEY ACCOUNTING ESTIMATES

Impairment test – trademarks with indefinite useful lives

In the annual impairment test of trademarks with indefinite useful lives, an estimate is made to determine how the trademarks will be able to generate sufficient positive net cash flow in the future to support the value of the trademark in question. The estimates of the anticipated future net cash flow are based on Management’s projections for the coming years. Contribution expectations are based upon projections made on the development in volume, average sales and cost prices for each trademark.

OTHER TRADEMARKS (DEFINITE USEFUL LIVES)

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

In 2020, Management did not identify any indications of impairment.

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

IT SOFTWARE

Software comprises expenses for acquired software and expenses related to internally developed software.

In 2020, a partly reversal of DKK 3.9 million of the impairment cost from 2019 was recognised in the income statement as some continued future usage for the IT software was indentified.

In 2019, an impairment of DKK 8.8 million was recognised in the income statement as part of 'Special Items'. Management did not identify any other indications of impairment.

OTHER INTANGIBLE ASSETS

Other intangible assets mainly comprise acquired name rights, customer relations and distribution rights. During 2020, Management did not identify any indications of impairment (same in 2019).

3.2
PROPERTY, PLANT AND EQUIPMENT

156.5

ADDITIONS (DKK million)

2020 DKK million	Land and buildings	Plant and machinery	Equipment, tools and fixtures	Leasehold improve-ments	Construc-tion in progress	Total
Accumulated cost at 1 January	873.4	772.5	258.3	75.2	67.4	2,046.8
Exchange rate adjustment	-30.7	-40.3	-19.0	-6.7	-7.5	-104.2
Acquisition	127.4	69.3	37.8	-	1.1	235.6
Additions	7.4	2.1	4.5	0.3	142.2	156.5
Assets classified as held for sale and other disposals	-90.0	-107.6	-15.3	-1.4	-	-214.3
Disposal of entities	-	-	-	-	-	-
Transfers	82.0	34.4	9.3	1.9	-127.6	-
Accumulated cost at 31 December	969.5	730.4	275.6	69.3	75.6	2,120.4
Accumulated depreciation and impairment at 1 January	334.4	391.3	180.4	32.2	10.3	948.6
Exchange rate adjustment	-17.6	-30.2	-16.5	-3.8	-	-68.1
Depreciation	38.6	70.8	34.1	13.5	-	157.0
Depreciation on assets classified as held for sale and other disposals	-56.8	-105.6	-12.7	-0.9	-	-176.0
Disposal of entities	-	-	-	-	-	-
Impairment	31.1	52.7	17.4	-	4.8	106.0
Reversal of impairment	-32.4	-13.3	-2.2	-	-	-47.9
Transfers/Reclassifications	-	-	-	-	-	-
Accumulated depreciation and impairment at 31 December	297.3	365.7	200.5	41.0	15.1	919.6
Carrying amount at 31 December	**672.2**	**364.7**	**75.1**	**28.3**	**60.5**	**1,200.8**

IMPAIRMENT
In 2020, impairment costs of DKK 106 million were recognised in the income statement. These costs are related to the decision to optimise the production footprint by closing three production sites. Further, as part of the Agio integration, excess capacity on machinery resulted in impairment costs.

In 2020, a partly reversal of the impairment costs from 2019 was recognised as the potential to sell land and buildings improved significantly as well as the utilisation of the machinery improved. Impairment costs and reversals of impairment cost are recognised in 'Special items' in the income statement.

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

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

DEPRECIATION
All depreciation is recognised in the income statement in 2020 and in 2019.

3.2 (CONTINUED)

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 sub-suppliers.

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

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

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

KEY ACCOUNTING ESTIMATES

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. The impairment test includes significant judgments made by Management, such as assumption of projected future cash flows used in the valuation.

2020 DKK million	Land, buildings, offices and warehouses	Motor vehicles	Other equipment	Total
Carrying amount at 1 January	**187.6**	**36.2**	**1.7**	**225.5**
Exchange rate adjustment	-10.4	-0.8	-0.1	-11.3
Acquisitions	6.8	11.1	-	17.9
Additions	31.7	28.1	3.0	62.8
Disposals	-5.0	-3.3	-	-8.3
Depreciation and impairment	-46.8	-33.6	-1.5	-81.9
Carrying amount at 31 December	**163.9**	**37.7**	**3.1**	**204.7**

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

3.3

RIGHT-OF-USE ASSETS

THE GROUP AS A LESSEE
The Group has entered into lease contracts for land, offices, warehouses, motor vehicles and other equipment utilised across the entire Group. Leases of land have lease terms up to 20 years, offices and warehouses generally have lease terms between three and ten years, while motor vehicles and other equipment generally have lease terms between three and five years. Lease contracts that include extension and termination options are recognised based on the outcome of the lease term that is considered reasonably certain at the commencement date.

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

The following amounts are recognised in the income statement:

DKK million	2020	2019
Depreciation expense of right-of-use assets	76.2	84.3
Special items, impairment	5.7	-
Interest expense on lease liabilities	5.5	6.1
Expense relating to short-term leases	3.0	1.2
Expense relating to leases of low-value assets	0.1	0.1
Variable lease payments	0.3	0.2
Total amount recognised in the income statement	**90.8**	**91.9**

In 2020, the Group had total cash outflows for leases of DKK 79.2 million (DKK 89.0 million). The Group has entered into lease contracts at a value of DKK 114.8 million (DKK 40.0 million) that have not yet commenced. The Group has extension options of a total value of DKK 24.3 million (DKK 24.0 million) that are not included in the recognised leases, as it is not considered reasonable certain that the Group will exercise the options.

3.3 (CONTINUED)

RIGHT-OF-USE ASSETS

§ ACCOUNTING POLICIES

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

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

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

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

Impairment of right-of-use assets

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

3.4

INVENTORIES

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

DKK million	2020	2019
Raw materials and consumables	1,275.8	1,107.1
Work in progress	333.6	255.7
Finished goods, goods for resale and excise stamps	1,206.9	1,167.2
Total	**2,816.3**	**2,530.0**
Movements in the Group provision for obsolete stock are as follows:		
Provision for obsolete stock 1 January	-77.1	-76.4
Additions for the year	-74.1	-39.9
Reversal for the year	2.3	7.4
Write-downs during the year	43.0	30.9
Disposal of entities	-	1.9
Effect of exchange rate adjustments	3.0	-1.0
Total provision at 31 December	**-102.9**	**-77.1**

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 3,500.9 million (DKK 2,973.1 million).

§ ACCOUNTING POLICIES

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

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

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

KEY ACCOUNTING ESTIMATES

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

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

3.5 TRADE RECEIVABLES

DKK million	2020	2019
Trade receivables (net) at 31 December comprise the following:		
Trade receivables (gross)	845.8	817.3
Provision for bad debt	-15.6	-16.7
Trade receivables (net)	**830.2**	**800.6**
Movements in the Group provision for bad debt are as follows:		
Provision for bad debt at 1 January	-16.7	-14.9
Additions for the year	-2.5	-7.1
Reversal for the year	1.6	2.6
Confirmed losses	1.2	1.7
Disposal of entities	-	1.2
Effect of exchange rate adjustments	0.8	-0.2
Total provision at 31 December	**-15.6**	**-16.7**

2020

Impairment of trade receivables can be specified as follows:	Receivable, DKK million	Loss rate, %	Provision, DKK million
Current	648.2	0.0%	-0.3
Overdue < 30 days	129.5	0.3%	-0.3
Overdue 31 - 60 days	18.8	2.7%	-0.5
Overdue 61 - 90 days	15.9	11.6%	-1.8
Overdue 91 - 180 days	19.4	15.3%	-3.0
Overdue > 180 days	14.0	68.8%	-9.7
Total	**845.8**		**-15.6**

2019

Impairment of trade receivables can be specified as follows:	Receivable, DKK million	Loss rate, %	Provision, DKK million
Current	597.4	0.1%	-0.8
Overdue < 30 days	148.4	1.0%	-1.5
Overdue 31 - 60 days	34.8	1.3%	-0.5
Overdue 61 - 90 days	8.4	15.1%	-1.3
Overdue 91 - 180 days	10.3	17.6%	-1.8
Overdue > 180 days	18.0	60.0%	-10.8
Total	**817.3**		**-16.7**

§ ACCOUNTING POLICIES

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

The ECLs on trade receivables are estimated by using a matrix based on aging of customers, and includes both historical as well as forward-looking information. The estimation takes into account geography, past default experience, analysis of the debtor's current financial position, factors that are specific to the debtors, general economic conditions in which the debtors operate and an assessment of the forecast direction of developments at the reporting date.

3.6 PREPAYMENTS

§ ACCOUNTING POLICIES

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

3.7
ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets held for sale

DKK million	2020	2019
Land and buildings	31.8	-
Total	**31.8**	**-**

Land and buildings held for sale

In November 2020, Management decided to sell the land and buildings in Tucker, US as the close-down of production at this site was completed. The sale is expected to be completed before the end of 2021. Land and buildings classified as held for sale during the reporting period were measured at their carrying amount at the time of reclassification.

3.8
OTHER PROVISIONS

DKK million	2020	2019
Balance at 1 January	56.9	137.8
Exchange rate adjustment	-1.5	0.1
Acquisition	7.2	-
Discounting cost	0.2	0.3
Addition during the year	203.0	4.3
Utilised during the year	-28.5	-76.9
Reversed provision unused	-6.1	-8.7
Carrying amount at 31 December	**231.2**	**56.9**
Non-current	20.0	18.5
Current	211.2	38.4
Total	**231.2**	**56.9**

Other provisions mainly consist of restructuring costs in relation to the integration of Agio and the changes in production footprint. The restructuring costs are primarily related to redundancy payments expected to take place in 2021. The amounts and timing of the restructurings depend on negotiations with the affected employees.

§ **ACCOUNTING POLICIES**

Provisions are recognised when – in consequence of an event occurred before or on the balance sheet date – the Group has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation. Provisions are measured at the present value of the anticipated expenditure for settlement of the legal or constructive obligation based on Management's best estimate. If considered material, the anticipated future expenditure is discounted, using a pretax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

3.9
PENSION OBLIGATIONS

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

DKK million	2020	2019
Present value of funded obligations	288.9	256.1
Fair value of plan assets	-155.3	-129.8
Deficit (+) / surplus (-)	133.6	126.3
Present value of unfunded obligations	155.7	155.4
Net asset (-) / liability (+) in the balance sheet	**289.3**	**281.7**
Amounts in the balance sheet		
Liabilities	289.3	281.7
Assets	-	-
Net asset (-) / liability (+) in the balance sheet	**289.3**	**281.7**

DKK million	2020	2019
Movement during the period in the net asset (-)/ liability (+)		
Balance at 1 January	281.7	240.8
Acquisitions	37.7	-
Recognised in the income statement	22.4	25.8
Actuarial gain recognised in other comprehensive income, financial assumptions	-9.3	31.8
Actuarial gain recognised in other comprehensive income, demographic assumptions	-0.1	-0.2
Benefit payments to employees	-17.6	-14.3
Employer contributions	-7.7	-7.7
Currency effect	-17.8	5.6
Balance at 31 December	**289.3**	**281.7**

Actuarial assumptions

Actuarial assumptions used for valuation (expressed as weighted averages and in %)	2020	2019
Discount rate	2.0	2.3
Future salary increases	3.5	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 occuring at the end of the period.

	2020		2019	
DKK million	1%-point increase	1%-point decrease	1%-point increase	1%-point decrease
Discount rate	-39.1	37.8	-41.9	40.5
Future salary increase	42.4	-30.2	44.1	-31.6

DKK million	2020	2019
CHANGE IN THE DEFINED BENEFIT OBLIGATIONS AND PLAN ASSETS		
Defined benefit obligations – movement		
Balance at 1 January	411.5	371.9
Acquisitions	63.0	-
Current service costs	21.2	19.6
Interest cost	8.6	11.6
Recognised past service costs	-	0.7
Actuarial losses (+)/gains (-)	-6.0	31.6
Benefits paid	-28.5	-25.0
Curtailments	-6.7	-4.9
Settlements	-0.2	0.4
Currency effect	-18.3	5.6
Balance at 31 December	**444.6**	**411.5**
Plan assets – movement in fair value		
Balance at 1 January	129.8	131.1
Acquisitions	25.3	-
Interest income	0.5	1.6
Actuarial losses (-)/gains (+)	3.4	0.0
Employer contributions	10.8	11.0
Benefits paid	-13.9	-13.9
Currency effect	-0.6	0.0
Balance at 31 December	**155.3**	**129.8**

The actual return on plan assets in 2020 was a gain of DKK 3.9 million (DKK 1.6 million).

3.9 (CONTINUED)

PENSION OBLIGATIONS

Categories of plan assets:	2020		2019		2020	2019
DKK million	**Quoted**	**Unquoted**	**Quoted**	**Unquoted**	**Total**	**Total**
Categories of plan assets						
Bonds	28.2	126.0	30.6	98.1	154.2	128.7
Other	1.1	-	1.1	-	1.1	1.1
Total	29.3	126.0	31.7	98.1	155.3	129.8

The weighted average duration of the defined benefit obligation is 11.3 years (11.7 years).

DKK million	2020	2019
Post-employment benefit plans recognised in income statement		
Current service costs	21.2	19.6
Interest on net obligation	8.1	10.0
Recognised past service costs	-	0.7
Curtailments	-6.7	-4.9
Settlements	-0.2	0.4
Net income (-)/expense (+) reported in the income statement	**22.4**	**25.8**
The income/expenses for defined benefit plans are reported under the following headings in the income statement:		
Staff costs	21.0	19.7
Special items incl. impairment, net costs	-6.7	-3.9
Financial costs	8.1	10.0
Net income (-)/expense (+) reported in the income statement	**22.4**	**25.8**

Amounts recognised in other comprehensive income

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

Net actuarial losses (+)/ gains (-)	-9.4	31.6

3.9 (CONTINUED)
PENSION OBLIGATIONS

EXPECTED CONTRIBUTION NEXT YEAR
Expected contributions to post-employment benefit plans for the year ending 31 December 2021 amount to DKK 22.5 million.

DEFINED CONTRIBUTION PLANS
The Group has certain obligations under defined contributions plans. Contributions to these plans are determined by provisions in the respective plans. Costs for defined contribution plans charged to the income statement for the year amount to DKK 63.7 million (DKK 52.9 million).

DEFINED BENEFIT PLANS IN PRIMARILY BELGIUM, GERMANY, FRANCE, INDONESIA, THE DOMINICAN REPUBLIC AND THE US
The Group operates a number of defined contribution plans throughout the world. In a few countries, the Group also operates defined benefit plans, which are effective in primarily Belgium, Germany, France, Indonesia, the Dominican Republic and the US. The defined benefit plans for Belgium total six different step-rate plans covering both blue and white collar employees and one offset defined benefit plan for Managers. Furthermore, a number of defined contribution plans with minimum guarantee (imposed by law) exists. These plans are insured but the guarantee given by the insurance company does not cover the full guarantee required under the pension law, why these are considered and treated as defined benefit 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 13/2003). 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 employee benefits which are paid out of corporate assets.

§ ACCOUNTING POLICIES

Under a defined benefit plan, the amount of retirement benefit that will be received by an employee is defined with respect to period of service and final salary. The amount recognised in the balance sheet is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the scheme assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows.

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

Past service costs are recognised immediately in the income statement.

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

Pension assets are only recognised to the extent that the Group is able to derive future economic benefits such as refunds from the plan or reductions of future contributions. The Group's most significant defined benefit pension plans are financed by payments from Group companies and by employees to funds which are 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.

KEY ACCOUNTING ESTIMATES

Actuarial assumptions
The discount rate is set per country with reference to high quality corporate bond yields of appropriate duration or government bond yields for countries where a deep market of high quality corporate bonds is not available.

Assumptions regarding future mortality experience are based on advice in accordance with published statistics and experience in each country.

SECTION 4

4.1
BORROWINGS

DKK million	2020	2019
Borrowings are recognised in the balance sheet as follows:		
Non-current liabilities	2,843.5	2,682.1
Total	**2,843.5**	**2,682.1**

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

				Carrying amount		Fair value Level 1		Fair value* Level 2	
Currency	Fixed/ floating	Term/ revolving credit facility	Maturity date	2020	2019	2020	2019	2020	2019
EUR	Floating	Term	30/09/2021	-	560.2	-	-	-	571.4
EUR	Floating	Term	30/09/2022	-	1,120.5	-	-	-	1,154.2
USD	Floating	Term	30/09/2021	-	333.8	-	-	-	339.1
USD	Floating	Term	30/09/2022	-	667.6	-	-	-	684.1
USD	Floating	RCF	19/03/2025	636.0	-	-	-	636.0	-
EUR	Fixed	Bond	24/09/2025	2,207.5	-	2,273.6	-	-	-
Total				**2,843.5**	**2,682.1**	**2,273.6**	**-**	**636.0**	**2,748.8**

* 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 risk related to USD Loan balance is hedged until 30 September 2022 by fixed interest swap contracts (maturing 30 September 2022).

§ ACCOUNTING POLICIES

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently at amortised cost using the effective interest method.

Any difference between the proceeds initially received and the nominal value is recognised in financial costs over the term of the loan.

4.2
FINANCIAL RISKS AND INSTRUMENTS

Maturity at 31 december 2020	0-1 Year	2-5 Years	After 5 years	Total*	Fair value level 1	Fair value level 2**	Carrying amount
LIQUIDITY							
Recognised at amortised cost							
Financial institutions	8.7	664.1	-	672.8	-	636.0	636.0
Bonds	30.8	2,322.5	-	2,353.3	2,273.6	-	2,207.5
Trade payables	525.1	-	-	525.1	-	-	525.1
Lease liabilities	58.3	108.8	75.2	242.3	-	-	214.4
Other liabilities	711.3	-	-	711.3	-	-	711.3
Total	**1,334.2**	**3,095.4**	**75.2**	**4,504.8**	**2,273.6**	**636.0**	**4,294.3**
Recognised at fair value							
Interest rate swaps	24.5	18.7	-	43.2	-	43.8	43.8
Currency swaps	0.2	-	-	0.2	-	0.2	0.2
Total	**24.7**	**18.7**	**-**	**43.4**	**-**	**44.0**	**44.0**
Total financial liabilities	**1,358.9**	**3,114.1**	**75.2**	**4,548.2**	**2,273.6**	**680.0**	**4,338.3**
Recognised at amortised cost							
Cash and cash equivalents	117.0	-	-	117.0	-	-	117.0
Trade receivables	830.2	-	-	830.2	-	-	830.2
Other receivables	113.1	-	-	113.1	-	-	113.1
Total	**1,060.3**	**-**	**-**	**1,060.3**	**-**	**-**	**1,060.3**
Recognised at fair value							
Interest rate swaps	-	-	-	-	-	-	-
Currency swaps	0.2	-	-	0.2	-	0.2	0.2
Total	**0.2**	**-**	**-**	**0.2**	**-**	**0.2**	**0.2**
Total financial assets	**1,060.5**	**-**	**-**	**1,060.5**	**-**	**0.2**	**1,060.5**

* All cash flows are non-discounted and include all liabilities according to contracts. The DKK values of future interest and principal of loans in foreign currencies are calculated based on the 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, trade receivables and other receivables which are stated at the net carrying amount at year-end.

4.2 (CONTINUED)

FINANCIAL RISKS AND INSTRUMENTS

Maturity at 31 december 2019	0-1 Year	2-5 Years	After 5 years	Total*	Fair value level 1	Fair value level 2**	Carrying amount
LIQUIDITY							
Recognised at amortised cost							
Financial institutions	41.9	2,741.1	-	2,783.0	-	2,748.8	2,682.1
Trade payables	334.0	-	-	334.0	-	-	334.0
Lease liabilities	68.7	131.4	48.4	248.5	-	-	226.8
Other liabilities	500.3	7.6	-	507.9	-	-	507.9
Total	**944.9**	**2,880.1**	**48.4**	**3,873.4**	**-**	**2,748.8**	**3,750.8**
Recognised at fair value							
Interest rate swaps	11.2	21.9	-	33.1	-	34.2	34.2
Currency swaps	7.5	-	-	7.5	-	7.5	7.5
Total	**18.7**	**21.9**	**-**	**40.6**	**-**	**41.7**	**41.7**
Total financial liabilities	**963.6**	**2,902.0**	**48.4**	**3,914.0**	**-**	**2,790.5**	**3,792.5**
Recognised at amortised cost							
Cash and cash equivalents	897.5	-	-	897.5	-	-	897.5
Trade receivables	800.6	-	-	800.6	-	-	800.6
Other receivables	90.0	-	-	90.0	-	-	90.0
Total	**1,788.1**	**-**	**-**	**1,788.1**	**-**	**-**	**1,788.1**
Recognised at fair value							
Interest rate swaps	3.1	3.1	-	6.2	-	2.5	2.5
Currency swaps	2.8	-	-	2.8	-	2.8	2.8
Total	**5.9**	**3.1**	**-**	**9.0**	**-**	**5.3**	**5.3**
Total financial assets	**1,794.0**	**3.1**	**-**	**1,797.1**	**-**	**5.3**	**1,793.4**

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

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

FINANCIAL RISKS

FINANCIAL RISK MANAGEMENT POLICY AND STRATEGY

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

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

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

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

FOREIGN EXCHANGE RISK

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

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

TRANSLATION RISK

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

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

TRANSACTION RISK

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

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

A 5% increase/decrease in the USD rate versus DKK and EUR would impact net earnings before tax positively/negatively by DKK 0.9 million (DKK 1.3 million) and impact other comprehensive income positively/negatively by DKK 1.1 million (DKK 0.1 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 or translation risk from consolidation of income statement.

INTEREST RATE RISK

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

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

The Group has an active approach to managing the interest rate risk.

4.2 (CONTINUED)

FINANCIAL RISKS AND INSTRUMENTS

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

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

Hedging instruments: Hedging of the interest exposure is mitigated via financial derivatives where there is a direct economic relation to the underlying risk – Interest rate fluctuations. The Group therefore engages in interest derivatives such as interest rate swaps (IR swap) with the aim to hedge the cash flow risk arising from paying floating interest on underlying term loans. IR swap is an agreement where the Group exchanges future payment flows from either floating rate denominated interest payments for a fixed rate interest payment for a given period or vice versa. Thus by engaging in an IR swap, the Group effectually exchanges its floating denominated interest payments to a fixed rate and thus mitigate the uncertainty regarding interest rate movements effect on loan payments. The Group uses IR swap to fix the future interest rates via matching the floating interest on the loan in exchange for a fixed rate for the remainder of the hedged period. As long as the fixing rate and terms on the floating leg of IR swap and loan are the same the hedge will be 100% effective.

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

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

Ineffectiveness has impacted the income statement by a cost of DKK 16.8 million (DKK 4.7 million) and is related to the Group's EUR interest rate swaps, where the hedge relationship ended during 2020. Assuming the current portfolio of swap contracts remains the same, an increase in the EUR and USD rate of interest by one percentage point would impact (before tax) other comprehensive income positively by DKK 0.0 million (DKK 0.0 million) and DKK 15.7 million (DKK 51.9 million), respectively and a positive impact on the financial items of DKK 34.5 million (DKK 73.8 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 2020 included trade receivables with a net book value of DKK 830.2 million (DKK 800.6 million), representing a gross receivable balance of DKK 845.8 million (DKK 817.3 million) and a provision for expected credit losses of DKK 15.6 million (DKK 16.7 million), based on the expected credit loss model (ECL). The ECLs on trade receivables are estimated by using a matrix based on aging of customers, and includes both historical as well as forward-looking information. The estimation takes into account geography, past default experience, analysis of the debtor’s current financial position, factors that are specific to the debtors, general economic conditions in which the debtors operate and an assessment of the forecast direction of developments at the reporting date.

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

FINANCIAL CREDIT RISK

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

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

In the event of bankruptcy among the lending banks, the Group has in accordance with the Danish Bankruptcy Act the right to offset cash deposits in the counterparty bank debt totalling DKK 0.0 million at 31 December 2020 (DKK 0.0 million).

LIQUIDITY RISK

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

The Group has a committed revolving credit facility of EUR 450 million (EUR 155.0 million) equally split between providers. The facility matures in 2025. The undrawn amount of the credit facility at 31 December 2020 was EUR 364.5 million (EUR 155.0 million).

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

In addition, the Group issued a rated EUR 300 million bond in September 2020, maturing in 2025. The diversification of the debt portfolio reduces the refinancing risk of the group.

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

4.2 (CONTINUED)

FINANCIAL RISKS AND INSTRUMENTS

determined directly based on the published exchange rates, quoted swap and forward rates on the balance sheet date. There are no financial instruments in level 3 (none).

HEDGING TRANSACTIONS

The net fair value as at 31 December 2020 of outstanding derivative contracts was negative by DKK 43.8 million (negative by DKK 31.7 million), all related to interest rate swaps. Income statement was impacted by DKK 16.8 million (DKK 4.7 million) related to the ineffectiveness of interest rate swaps. Balances in the cash flow hedge reserve on equity for which hedge accounting is no longer applied amounted to zero (DKK 16.8 million) as at 31 December 2020. The 2019 balances were expensed during 2020 as the hedge relationship ended.

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

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 the IFRS.

Currency swaps are used to manage group liquidity over the short term. The net fair value as at 31 December 2020 of outstanding currency swaps was positive by DKK 0.0 million (negative by DKK 4.7 million). As at the balance sheet date, the Group has outstanding currency swaps with a notional amount of DKK 57.3 million (DKK 1,538.8 million).

§ ACCOUNTING POLICIES

Derivative financial instruments

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

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

Hedge accounting

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

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

4.3

FINANCIAL FIXED ASSETS

7.5

DIVIDEND (DKK million)

2020

DKK million	Investments in associated companies
Cost at 1 January	92.6
Accumulated cost at 31 December	92.6
Accumulated revaluation and impairment at 1 January	63.3
Dividends	-7.5
Currency translation	-15.1
Profit after tax	18.7
Accumulated revaluation and impairment at 31 December	59.4
Carrying amount at 31 December	**152.0**

2019

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

4.3 (CONTINUED)

FINANCIAL FIXED ASSETS

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

DKK million	2020	2019
Profit or loss		
Revenue	394.3	392.3
Profit for the year	100.8	83.7
Total comprehensive income	**100.8**	**83.7**
Financial position		
Non-current assets	55.9	45.2
Current assets	562.8	575.9
Non-current liabilities	6.2	1.5
Current liabilities	68.1	85.4
% Interest held	**20%**	**20%**

The financial information stated above is based on estimates.

Reconciliation carrying amount		
Scandinavian Tobacco Group's share of Caribbean Cigar Holdings Group's equity	108.9	106.8
Goodwill concerning Caribbean Cigar Holdings Group	50.0	55.1
Elimination of internal profit	-6.9	-6.0
Carrying amount at 31 December	**152.0**	**155.9**

§ **ACCOUNTING POLICIES**

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

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

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

4.4

FINANCIAL INCOME AND COSTS

DKK million	2020	2019
FINANCIAL INCOME		
Interest on deposits in financial institutions etc.	2.0	5.3
Exchange gains	77.1	39.5
Other financial income	2.0	1.8
Total	**81.1**	**46.6**

DKK million	2020	2019
FINANCIAL COSTS		
Interest on borrowings	77.8	59.6
Interest part of pension cost	8.1	10.0
Exchange losses	22.2	1.6
Lease interest costs	5.5	6.1
Other financial costs	20.4	14.6
Total	**134.0**	**91.9**

Interest on debt to financial institutions etc. includes realisation of previously deferred losses from interest rate swaps of DKK 4.6 million (DKK 4.9 million). Effective interest expenses on financial liabilities measured at amortised cost amounted to DKK 83.3 million (DKK 65.7 million).

Other financing costs include discounting effect of provisions of DKK 0.2 million (DKK 0.3 million) and ineffectiveness of interest rate swaps of DKK 16.8 million (DKK 4.7 million).

§ **ACCOUNTING POLICIES**

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

4.5

SHARE CAPITAL, TREASURY SHARES, DIVIDEND AND EARNINGS PER SHARE

650

PROPOSED DIVIDEND (DKK million)

Development in share capital:

DKK million	
2016-2019	-
At the beginning of the year	**100.0**
2020	-
At the end of the year	**100.0**

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

Treasury shares:

	Nominal value (DKK million)	Number of shares (in thousands)	Purchase price (DKK million)	% of share capital
Treasury shares at 1 January 2020	0.3	316	35.0	0.3
Addition	2.0	2,048	196.9	2.0
Settlement of vested PSUs	-0.0	-40	-4.2	-0.0
Treasury shares at 31 December 2020	**2.3**	**2,324**	**227.7**	**2.3**

The market value of treasury shares at 31 December 2020 was DKK 241.9 million (DKK 25.7 million).

Treasury shares are acquired for the purpose of adjusting the Company's capital structure and to hedge the Group's share-based incentive programmes.

According to the authorisation granted by the General Meeting, the Board of Directors may allow the Company to acquire treasury shares up to a total holding of 10% of the nomimal 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 granted to the Board of Directors is in effect until 26 March 2025.

Net cash distribution to shareholders (dividend):	Dividend DKK million	Per share DKK
2016 (proposed dividend in 2015 Annual Report)	500.0	5.0
2017 (proposed dividend in 2016 Annual Report)	550.0	5.5
2017 (extraordinary dividend)	350.0	3.5
2018 (proposed dividend in 2017 Annual Report)	575.0	5.8
2019 (proposed dividend in 2018 Annual Report)	600.0	6.0
2020 (proposed dividend in 2019 Annual Report)	610.0	6.1

Retained earnings end of 2020 include proposed dividend of DKK 650 million (DKK 6.5 per share).

Earnings per share:

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

DKK million	2020	2019
Net profit for the year	677.9	747.7
Average number of shares outstanding (in 1,000 shares)	100,000	100,000
Average number of treasury shares (in 1,000 shares)	-639	-331
Average number of shares - basic (in 1,000 shares)	99,361	99,669
Dilutive effect of outstanding PSUs (in 1,000 shares)	298	271
Average number of shares outstanding, including dilutive effect of PSUs (in 1,000 shares)	99,659	99,940
Basic earnings per share (DKK)	6.8	7.5
Diluted earnings per share (DKK)	6.8	7.5

4.6

CHANGES IN WORKING CAPITAL (CASH FLOW STATEMENT)

DKK million	2020	2019
Change in receivables	58.9	35.7
Change in inventories	-41.8	87.5
Change in liabilities	277.1	-22.3
Total	**294.2**	**100.9**

§ ACCOUNTING POLICIES

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

4.7

NET INTEREST-BEARING DEBT

DKK million	2020	2019
Interest-bearing liabilities, net	3,101.7	2,945.3
Pensions	289.3	281.7
Cash equivalents	-117.0	-897.5
Total	**3,274.0**	**2,329.5**

Financial Policy

According to the financial policy, the Group has a leverage ratio target of 2.5 (measured as net interest-bearing debt divided by EBITDA before special items) while maintaining flexibility to increase leverage temporarily, for example to pursue acquisitions. At 31 December 2020 the ratio was 1.8 (1.5).

4.8

CHANGES IN FINANCING LIABILITIES

DKK million	2020	2019
Balance at 1 January	2,915.6	2,658.1
Acquisition	17.9	-
Lease liabilities	51.2	305.4
New external funding	7,549.5	-
Repayment bank loans	-7,369.3	-81.3
Other financing	14.7	6.8
Exchange rate adjustment	-100.3	26.6
Carrying amount at 31 December	**3,079.3**	**2,915.6**

In 2020 the Group refinanced its debt in a new club deal financing agreement with a EUR 450 million five-year committed RCF and a EUR 300 million 18 months bridge loan. The bridge loan was repaid during the year with the issuance of a five-year corporate bond for a principal amount of EUR 300 million.

SECTION 5

5.1 BUSINESS COMBINATIONS

With effect from 2 January 2020, the Group acquired 100% of the shares in Agio Beheer B.V. (Agio Cigars) a leading European cigar company. The total consideration transferred of EUR 220 million was paid in cash.

Agio Cigars

Agio Cigars is a leading European cigar company with a strong cigar portfolio including key brands such as Mehari´s, Panter and Balmoral. The company was based in Duizel, the Netherlands and had approximately 3,200 full-time employees. Agio Cigars' annual net sales for 2019 were EUR 133 million (DKK 995 million) with a net profit of EUR 7 million (DKK 55 million).

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

Fair value of acquired net assets and recognised goodwill

Net assets have been adjusted to comply with the Group's accounting policies and financial reporting requirements. The calculated goodwill relates to synergies from integrating Agio Cigars into the existing divisions 'Europe Branded' and 'North America Branded & RoW' including optimisations within sales, marketing, procurement, workforce and manufacturing expertise.

Transaction costs

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

Impact on Consolidated Income Statement

The Financial Statements include net sales of DKK 971 million from the acquisition for the period 2 January to 31 December 2020. The disclosure of net profit is considered impracticable as the ongoing integration of Agio Cigars into the Group has resulted in consolidated operating expenses including synergies, where an Agio stand-alone result cannot be separated on a valid basis.

During 2020 impairment losses of DKK 35.2 million have been recognised in the income statement relating to property, plant and equiptment from the acquisition. The reason for the impairment losses is the Group's changes in the production footprint where one of the acquired factories will be closed.

KEY ACCOUNTING ESTIMATES

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

DKK million		2020
Trademarks		434.5
IT software		9.9
Property, plant and equipment		235.6
Right-of-use assets		17.9
Inventories		489.2
Trade receivables		119.4
Other receivables		7.3
Prepayments		4.4
Corporate tax		9.0
Total assets		**1,327.2**
Deferred tax liabilities		108.4
Pension obligations		37.7
Other provisions		7.2
Trade payables		32.5
Lease liabilities		17.9
Other liabilities		102.9
Total liabilities		**306.6**
Acquired net assets		**1,020.6**
Goodwill from acquisition		538.5
Acquisition (cash flow)		**1,559.1**
Cash and cash equivalents in acquired business		83.8
Consideration transferred		**1,642.9**

The recognised goodwill is not tax deductible.
To the provisional goodwill amount disclosed in the annual report of 2019 there have been minor changes based on the final measurement of required assets and the assumed liabilities.

§ ACCOUNTING POLICIES

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

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

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

Goodwill is initially measured at cost. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all assets acquired and all liabilities assumed, and the Group reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, the gain is recognised in the income statement. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination.

5.2
CASH FLOW ADJUSTMENTS

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

DKK million	2020	2019
Financial items	52.9	45.3
Share of profit of associated companies, net of tax	-18.7	-16.7
Income taxes	273.5	200.9
(Gains)/losses from sale of fixed assets	-	-46.6
Special items, paid	196.4	174.3
Other provisions movement	167.1	-80.9
Bad debt allowance and provision for obselete stock movements	24.7	2.5
Fair value adjustment acquisition	62.0	-
Other adjustments	16.2	12.4
Total	**774.1**	**291.2**

5.3
CONTINGENT LIABILITIES

GUARANTEE OBLIGATIONS
The Group has (via 3rd parties) issued guarantees totalling DKK 607.3 million (DKK 498.0 million), which are primarily issued towards local tax authorities in relation to excise and tax stamps.

LAWSUITS ETC.
From time to time the Group faces legal claims and disputes as part of the ordinary course of business, mainly related to employees and trademarks. Management continuously assesses the risks associated with the legal claims and disputes and their likely outcome. It is the opinion of Management that, apart from items recognised in the financial statements, the outcome of any of these legal claims and disputes is highly uncertain and/or cannot be reliably estimated in terms of amount or timing. The Group does not expect any of the pending claims or disputes to have a material impact on the consolidated financial statements.

DISCLOSURE REGARDING CHANGE OF CONTROL
The Group's loan facilities at financial institutions and issued bonds are subject to change of control clauses.

The Group's investments in associated companies are subject to change of control clauses.

5.4
RELATED-PARTY TRANSACTIONS

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

DKK million	2020	2019
Caribbean Cigar Holdings Group Co. S.A (associated company)		
Purchase of products by Scandinavian Tobacco Group	-106.9	-83.8

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

For information on remuneration to the Management of Scandinavian Tobacco Group A/S, please refer to note 2.2 and note 2.3. For an overview of Group companies, please refer to note 5.7. There have not been and there are no loans to key management personnel in 2020 or 2019.

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

OWNERSHIP AND CONSOLIDATED FINANCIAL STATEMENTS
For information concerning major shareholders, please refer to Shareholder information in the Management Report, page 50. No major shareholders have controlling influence on the Group.

5.5
EVENTS AFTER THE REPORTING PERIOD

The Group has not experienced any significant events after 31 December 2020 which have an impact on the Annual Report.

5.6
FEE TO STATUTORY AUDITOR

DKK million	2020	2019
Statutory audit	7.4	6.8
Audit-related services	0.4	0.3
Tax advisory services	0.4	0.6
Other services	1.4	4.2
Total fee to statutory auditors	**9.6**	**11.9**

Fees for other services in addition to the statutory audit of the financial statements, which were provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab to the Group amounted to DKK 0.8 million. Non-audit services in addition to the statutory audit of the financial statements comprise services relating to mergers and acquisitions as well as other general accounting and tax consultancy services.

5.7

ENTITIES IN SCANDINAVIAN TOBACCO GROUP

Company	Country	Ownership	Activity: Production	Activity: Sales and marketing	Activity: Administration	Activity: Finance
PARENT COMPANY						
Scandinavian Tobacco Group A/S	Denmark	–		✓	✓	✓
SUBSIDIARIES BY REGION						
EUROPE						
Agio Cigars Belgium N.V.	Belgium	100%	✓			
Bogaert Cigars N.V.	Belgium	100%			✓	
Scandinavian Tobacco Group Belux N.V.	Belgium	100%		✓		
Scandinavian Tobacco Group Lummen N.V.	Belgium	100%	✓			
Scandinavian Tobacco Group Belgium Services N.V.	Belgium	100%			✓	
Scandinavian Tobacco Group Assens A/S	Denmark	100%	✓	✓	✓	
Scandinavian Tobacco Group Denmark A/S	Denmark	100%		✓		
Scandinavian Tobacco Group Nykøbing ApS	Denmark	100%			✓	
STG Finans ApS	Denmark	100%				✓
STG Latin Holding ApS	Denmark	100%			✓	
Peter Stokkebye Tobaksfabrik A/S	Denmark	100%		✓		
Scandinavian Tobacco Group France S.A.S.	France	100%		✓		
Scandinavian Tobacco Group Deutschland GmbH	Germany	100%		✓		
Scandinavian Tobacco Group Italy S.R.L.	Italy	100%		✓		
Scandinavian Tobacco Group Norway AS	Norway	100%		✓		
STG Portugal S.A.	Portugal	100%		✓		
Scandinavian Tobacco Group Spain S.A.U.	Spain	100%		✓		
Intermatch Sweden AB	Sweden	100%			✓	
STG Sweden AB	Sweden	100%		✓		
Agio Beheer B.V.	The Netherlands	100%			✓	
Agio Sigarenfabrieken N.V.	The Netherlands	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%				✓
STG Global Finance B.V.	The Netherlands	100%				✓
Scandinavian Tobacco Group Bethlehem Sales B.V.	The Netherlands	100%		✓	✓	
Scandinavian Tobacco Group United Kingdom Limited	United Kingdom	100%		✓		
ASIA						
Scandinavian Tobacco Group Hong Kong Limited	Hong Kong	100%		✓		
PT Scandinavian Tobacco Group Indonesia	Indonesia	100%	✓			
Agio Tobacco Processing Company Ltd.	Sri Lanka	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						
Agio Caribbean Tobacco Company Ltd.*	British Virgin Islands	100%	✓			
Scandinavian Tobacco Group Canada Holding Inc.	Canada	100%			✓	
Scandinavian Tobacco Group Canada Inc.	Canada	100%		✓		

5.7 (CONTINUED)

ENTITIES IN SCANDINAVIAN TOBACCO GROUP

			Activity			
Company	Country	Ownership	Production	Sales and marketing	Administration	Finance
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%			✓	
GCMM Co., Inc.	United States	100%			✓	
Club Macanudo (Chicago), Inc.	United States	100%		✓		
Club Macanudo, Inc.	United States	100%		✓		
Henri Wintermans Cigars USA, Inc.	United States	100%			✓	
Schell Acquistions Inc.	United States	100%		✓		
M&D Wholesale Distributors, Inc.	United States	100%		✓		
Bethlehem Shared Services, LLC	United States	100%			✓	
Bethlehem Sales, LLC	United States	100%			✓	
BPA Sales, LP	United States	100%		✓		
Bethlehem IP Holdings, LLC	United States	100%			✓	
LVPenn Sales, LLC	United States	100%		✓		
Scandinavian Tobacco Group Lane Holding, Inc.	United States	100%			✓	
Scandinavian Tobacco Group Lane Ltd	United States	100%		✓		
Cigar Smokers Restaurant Holdings, Inc.	United States	100%			✓	
Cigars International Texas, LLC	United States	100%		✓		
Bethlehem Restaurant Corporation, Inc.	United States	100%			✓	
CI Hamburg Superstore Lounge, LLC	United States	100%		✓		
CI Florida, LLC	United States	100%		✓		

			Activity			
Company	Country	Ownership	Production	Sales and marketing	Administration	Finance
Lilly Online, LLC	United States	100%		✓		
Insurgent Ventures Holdings, Inc.	United States	100%		✓		
Insurgent Ventures, Inc.	United States	100%		✓		
Royal Agio Cigars USA Inc.	United States	100%		✓		

*Doing business in the Dominican Republic.

5.8
EXPLANATION OF FINANCIAL RATIOS

GROSS MARGIN BEFORE SPECIAL ITEMS = Gross profit before special items / Net sales

EBIT MARGIN = EBIT / Net sales

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

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

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

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

EBITDA MARGIN BEFORE SPECIAL ITEMS = EBITDA before special items / Net sales

TAX PERCENTAGE = Tax / Profit before tax

EQUITY RATIO = Equity / Total assets

ROIC = EBIT / 12 months average invested capital*

ROIC EX. GOODWILL* = EBIT / 12 months average invested capital* ex. goodwill

ADJUSTED EARNINGS PER SHARE = Net profit adjusted for special items and fair value adjustments and currency gains/losses on financial items, net of tax / 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)

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

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

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

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

FINANCIAL STATEMENTS

THE PARENT COMPANY

FINANCIAL STATEMENTS OF THE PARENT COMPANY

NOTES

1 JANUARY - 31 DECEMBER

INCOME STATEMENT - PARENT COMPANY

DKK million	Note	2020	2019
Other income		**332.2**	**283.5**
Other external costs		-175.5	-140.7
Staff costs	2	-157.9	-124.1
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**-1.2**	**18.7**
Depreciation	3	-5.1	-5.6
Earnings before interest, tax and amortisation (EBITA)		**-6.3**	**13.1**
Amortisation	3	-10.9	-15.1
Earnings before interest and tax (EBIT)		**-17.2**	**-2.0**
Result of investments in affiliated companies, net of tax	4	351.5	405.4
Financial income	5	188.1	123.6
Financial costs	6	-191.9	-116.4
Profit before tax		**330.5**	**410.6**
Income taxes	7	8.2	-5.5
Net profit for the year		**338.7**	**405.1**

DKK million	Note	2020	2019
DISTRIBUTION OF PROFIT			
Proposed distribution of profit:			
Proposed dividend		650.0	610.0
Retained earnings		-311.3	-204.9
Total		**338.7**	**405.1**

BALANCE SHEET AT 31 DECEMBER - PARENT COMPANY

DKK million	Note	2020	2019
ASSETS			
Other intangible assets		45.7	28.7
Intangible assets	8	**45.7**	**28.7**
Equipment, tools and fixtures	9	0.5	0.7
Leasehold improvements	9	2.7	2.6
Right-of-use assets	10	32.0	36.6
Property, plant and equipment		**35.2**	**39.9**
Deferred income tax assets	7	8.4	-
Investments in affiliated companies	11	9,242.2	11,305.3
Other financial fixed assets		-	1.7
Financial fixed assets		**9,250.6**	**11,307.0**
Fixed assets		**9,331.5**	**11,375.6**
Receivables from affiliated companies		2,858.4	1,989.2
Other receivables		0.2	4.7
Income tax receivable		45.5	59.8
Prepayments	12	19.5	18.3
Total receivables		**2,923.6**	**2,072.0**
Cash and cash equivalents		**-**	**841.7**
Current Assets		**2,923.6**	**2,913.7**
Assets		**12,255.1**	**14,289.3**

DKK million	Note	2020	2019
EQUITY, PROVISIONS AND LIABILITIES			
Share capital		100.0	100.0
Retained earnings		5,076.0	5,835.5
Treasury shares		-227.7	-35.0
Proposed dividend		650.0	610.0
Equity		**5,598.3**	**6,510.5**
Deferred income tax liabilities	7	-	14.2
Other provisions	13	2.5	3.4
Provisions		**2.5**	**17.6**
Bank loans		636.0	2,682.1
Lease liabilities	14	32.0	29.7
Other liabilities		19.0	31.4
Long-term liabilities		**687.0**	**2,743.2**
Credit facilities		38.3	-
Liabilities to affiliated companies		5,765.9	4,896.3
Trade creditors		47.0	35.2
Lease liabilities	14	1.3	4.5
Other provisions	13	2.0	10.7
Other liabilities		112.8	71.3
Current liabilities		**5,967.3**	**5,018.0**
Liabilities		**6,654.3**	**7,761.2**
Equity, provisions and liabilities		**12,255.1**	**14,289.3**
Contingent liabilities	15		
Financial instruments	16		
Related-party transactions	17		
Fee to statutory auditor	18		
Ownership	19		

1 JANUARY - 31 DECEMBER

STATEMENT OF CHANGES IN EQUITY - PARENT COMPANY

DKK million	Share capital	Retained earnings	Treasury shares	Proposed dividend	Total
Equity at 1 January 2020	100.0	5,835.5	-35.0	610.0	6,510.5
Cash flow hedges	-	0.8	-	-	0.8
Tax of cash flow hedges	-	-0.2	-	-	-0.2
Purchase of treasury shares	-	-	-196.9	-	-196.9
Share-based payments	-	20.6	-	-	20.6
Settlement of vested PSUs	-	-4.2	4.2	-	-
Settlement in cash of vested PSUs	-	-1.3	-	-	-1.3
Equity movement in subsidiaries	-	7.0	-	-	7.0
Foreign exchange adjustments of net investments in foreign subsidiaries	-	-472.6	-	-	-472.6
Dividend paid to shareholders	-	-	-	-610.0	-610.0
Dividend, treasury shares	-	1.7	-	-	1.7
Profit / loss for the year	-	-311.3	-	650.0	338.7
Equity at 31 December 2020	**100.0**	**5,076.0**	**-227.7**	**650.0**	**5,598.3**

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

DKK million	Share capital	Retained earnings	Treasury shares	Proposed dividend	Total
Equity at 1 January 2019	100.0	5,935.8	-40.5	600.0	6,595.3
Cash flow hedges	-	-28.3	-	-	-28.3
Tax of cash flow hedges	-	6.2	-	-	6.2
Share-based payments	-	9.3	-	-	9.3
Settlement of vested PSUs	-	-5.5	5.5	-	-
Equity movement in subsidiaries	-	-24.5	-	-	-24.5
Foreign exchange adjustments of net investments in foreign subsidiaries	-	145.4	-	-	145.4
Dividend paid to shareholders	-		-	-600.0	-600.0
Dividend, treasury shares	-	2.0	-	-	2.0
Profit / loss for the year	-	-204.9	-	610.0	405.1
Equity at 31 December 2019	**100.0**	**5,835.5**	**-35.0**	**610.0**	**6,510.5**

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

NOTE 1
ACCOUNTING POLICIES

§ ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

Defined benefit pension plans
In relation to defined benefit plans, the Company follows the requirements in the Danish Financial Statements Act (dated 1 July 2015 for financial statements starting 1 January 2016), meaning that actuarial gains and losses are recognised directly in other comprehensive income instead of directly in the income statement. For the monetary impact, please refer to the statement of changes in equity and Group note 3.9.

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 is not recognised as a liability in the balance sheet, but directly in the statement of equity. For the monetary impact, please refer to the statement of changes in equity and note 2.

NOTE 2
STAFF COSTS

DKK million	2020	2019
Salaries	148.1	115.8
Pensions	9.5	8.0
Social security costs	0.3	0.3
Total	**157.9**	**124.1**
Average number of employees	**107**	**97**

Remuneration of the board of directors and executive board*
Total fees to the Board of Directors and Executive Board amounted to DKK 79.4 million (DKK 53.4 million).

2020

DKK million Executive Board	Salary and benefits	Bonus	Pension	Extraordinary remuneration /stay-on and loyalty bonus	Share-based incentive programme	Total
Niels Frederiksen	7.5	4.0	-	2.0	6.3	19.8
Marianne Rørslev Bock	4.5	2.2	-	-	1.2	7.9
Total Executive Management	**12.0**	**6.2**	**-**	**2.0**	**7.5**	**27.7**
Other key management**	29.4	7.8	0.7	0.6	6.5	45.0
Total Executive Board	**41.4**	**14.0**	**0.7**	**2.6**	**14.0**	**72.7**

* Executive Board comprises the Executive Management (registered members) and other key management (not registered members).
**Includes severance pay in the amount of DKK 16.2 million related to salaries and benefits, DKK 1.9 million related to bonus, DKK 0.6 million related to stay-on and loyalty bonus and DKK 4.1 million related to sharebased incentive programme.

NOTE 2 (CONTINUED)

STAFF COSTS

2019

DKK million

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

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

DKK thousand

Board of Directors	Position	Joined the Board	Left the Board	Board	Committees	Total
Nigel Northridge	Chairman	Apr 2016		1,200	200	1,400
Henrik Brandt	Vice-chairman	Apr 2017		800	100	900
Marlene Forsell	Board member	Apr 2019		400	300	700
Dianne Neal Blixt	Board member	Feb 2016		400	150	550
Luc Missorten	Board member	Feb 2016		400	250	650
Anders Obel	Board member	Apr 2018		400	-	400
Claus Gregersen	Board member	Apr 2019		400	100	500
Hanne Malling	Employee represen.	Oct 2010		400	-	400
Lindy Larsen	Employee represen.	Jul 2016		400	-	400
Mogens Olsen	Employee represen.	Jul 2017		400	-	400
Total 2020				**5,200**	**1,100**	**6,300**
Total 2019				**5,101**	**1,075**	**6,176**

Social security taxes and similar taxes:
In addition to the above remuneration to the Board of Directors, the company may pay social security taxes and similar taxes imposed by non-Danish authorities in relation to the remuneration. In 2020 the company paid DKK 404 thousand compared to DKK 287 thousand in 2019.

NOTE 3
DEPRECIATION AND AMORTISATION

DKK million	2020	2019
Depreciation		
Equipment tools and fixtures	0.2	-
Leasehold improvements	0.3	-
Right-of-use assets	4.6	5.6
Total	**5.1**	**5.6**
Amortisation		
Other intangible assets	10.9	15.1
Total	**10.9**	**15.1**

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

DKK million	2020	2019
Result of investments in affiliated companies, net of tax	351.5	405.4
Total	**351.5**	**405.4**

NOTE 5
FINANCIAL INCOME

DKK million	2020	2019
Interest on deposits in financial institutions, etc.	0.5	4.1
Interest on balances with affiliated companies	43.6	83.3
Exchange gains, net	144.0	36.2
Total	**188.1**	**123.6**

NOTE 6
FINANCIAL COSTS

DKK million	2020	2019
Interest on debt to financial institutions, etc.	66.2	59.5
Interest on balances with affiliated companies	21.3	41.0
Other financing costs	13.8	7.6
Lease interest costs	0.4	0.1
Exchange losses, net	90.2	8.2
Total	**191.9**	**116.4**

NOTE 7
INCOME TAXES

DKK million	2020	2019
Current income tax	14.4	-3.6
Deferred income tax	-22.6	9.0
Adjustment regarding prior years, current income tax	-	6.3
Adjustment regarding prior years, deferred income tax	-	-6.2
Total	**-8.2**	**5.5**

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

DKK million	2020	2019
BREAKDOWN OF DEFERRED INCOME TAX:		
Intangible assets	4.3	5.1
Property, plant and equipment	-1.8	-0.5
Receivables	-4.5	13.4
Other liabilities	-6.4	-3.8
Total	**-8.4**	**14.2**
BREAKDOWN OF INCOME TAXES:		
Tax calculated at 22% of profit before tax	72.7	86.5
TAX EFFECT OF:		
Adjustment regarding prior years	-	0.1
Non-deductable costs	-3.7	4.2
Result of investments in affiliated companies	-77.2	-85.3
Total	**-8.2**	**5.5**
Deferred income tax 1 January	14.2	11.4
Deferred income tax in income statement	-22.6	2.8
Deferred income tax at 31 December	**-8.4**	**14.2**

NOTE 8
INTANGIBLE ASSETS

2020

DKK million	Other intangible assets
Accumulated cost at 1 January	126.1
Addition	27.9
Accumulated cost at 31 December	154.0
Accumulated amortisation at 1 January	97.4
Amortisation	10.9
Accumulated amortisation at 31 December	108.3
Carrying amount at 31 December	**45.7**

NOTE 9
PROPERTY, PLANT AND EQUIPMENT

2020

DKK million	Equipment, tools and fixtures	Leasehold improvements	Total
Accumulated cost at 1 January	0.7	2.6	3.3
Additions	0.0	0.4	0.4
Accumulated cost at 31 December	0.7	3.0	3.7
Accumulated depreciation at 1 January	0.0	0.0	0.0
Depreciation	0.2	0.3	0.5
Accumulated depreciation at 31 December	0.2	0.3	0.5
Carrying amount at 31 December	**0.5**	**2.7**	**3.2**

NOTE 10
RIGHT-OF-USE ASSETS

DKK million	Land, buildings, offices and warehouses	Cars	Total
Carrying amount at 1 January 2020	**33.6**	**3.0**	**36.6**
Additions	-	0.3	0.3
Disposals	-	-0.3	-0.3
Depreciation	-3.4	-1.2	-4.6
Carrying amount at 31 December 2020	**30.2**	**1.8**	**32.0**

The following amounts are recognised in the income statement:

DKK million	2020	2019
Depreciation expense of right-of-use assets	4.6	5.6
Interest expense on lease liabilities	0.4	0.1
Total amount recognised in the income statement	**5.0**	**5.7**

The Parent Company had total cash outflows for leases of DKK 1.3 million (DKK 6.1 million) in 2020.

NOTE 11
INVESTMENTS IN AFFILIATED COMPANIES

DKK million	2020	2019
Accumulated cost at 1 January	14,083.9	14,082.1
Additions	1,379.8	2.5
Disposals	-32.5	-0.7
Accumulated cost at 31 December	15,431.2	14,083.9
Accumulated revaluation and impairment at 1 January	-2,778.6	-3,107.3
Dividends	-3,297.8	-155.7
Currency translation	-472.6	145.4
Equity adjustments	7.0	-24.5
Profit after tax	351.5	405.4
Disposals	1.5	-41.9
Accumulated revaluation and impairment at 31 December	-6,189.0	-2,778.6
Carrying amount at 31 December	**9,242.2**	**11,305.3**

Goodwill of DKK 2,749.6 million (DKK 2,621.3 million) is included in the carrying amount at 31 December 2020.

NOTE 11 (CONTINUED)

INVESTMENTS IN AFFILIATED COMPANIES

Investments in affiliated companies can be specified as follows:

Name	Country	Ownership
Scandinavian Tobacco Group Australia Pty Ltd	Australia	100%
Scandinavian Tobacco Group Assens A/S	Denmark	100%
Scandinavian Tobacco Group Denmark A/S	Denmark	100%
STG Finans ApS	Denmark	100%
STG Latin Holding ApS	Denmark	100%
General Cigar Dominicana S.A.S.	The Dominican Republic	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%
STG Global Finance B.V.	The Netherlands	100%
Scandinavian Tobacco Group Norway AS	Norway	100%
STG Portugal S.A.	Portugal	100%
Scandinavian Tobacco Group Spain S.A.U.	Spain	100%
Intermatch Sweden AB	Sweden	100%
STG Sweden AB	Sweden	100%
Cigar Smokers Restaurant Holdings, Inc.	United States	100%
Insurgent Ventures Holdings, Inc.	United States	100%
Scandinavian Tobacco Group Lane Holding, Inc.	United States	100%
Scandinavian Tobacco Group US Holding, Inc.	United States	100%

For a complete list of all entities in the Group please refer to Group note 5.7.

NOTE 12

PREPAYMENTS

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

NOTE 13

OTHER PROVISIONS

2020

DKK million	Other provisions
Balancing at 1 January	14.1
Utilised during the year	-9.6
Balance at 31 December	**4.5**
Expected due:	
Within 1 year	2.0
Between 1 and 5 years	-
After 5 years	2.5
Total	**4.5**

NOTE 14

LEASE LIABILITIES

2020

DKK million	Lease liabilities
Expected due:	
Within 1 year	1.3
Between 1 and 5 years	17.8
After 5 years	14.2
Total	**33.3**

NOTE 15

CONTINGENT LIABILITIES

Guarantee obligations
The Company has guarantee obligations totalling DKK 603 million at 31 December 2020 (DKK 498 million).

Parent Company guarantees
Scandinavian Tobacco Group A/S has guaranteed the EUR 300 million bond issued by the wholly-owned subsidiary STG Global Finance B.V.

NOTE 16

FINANCIAL INSTRUMENTS

Reference is made to Group note 4.2.

NOTE 17

RELATED-PARTY TRANSACTIONS

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

The income statement includes the following transactions with related parties:

DKK million	2020	2019
Affiliated companies		
Services provided by Scandinavian Tobacco Group A/S	338.5	289.5
Services provided to Scandinavian Tobacco Group A/S	-5.0	-6.0
Financial income	43.6	83.3
Financial cost	-21.3	-41.0

For information on remuneration to the Management of Scandinavian Tobacco Group A/S, please refer to note 2. For an overview of affiliated companies, please refer to note 11. There have not been and there are no loans to key management personnel in 2020 or 2019.

NOTE 18

FEE TO STATUTORY AUDITOR

DKK million	2020	2019
Statutory audit	1.6	1.7
Audit-related services	0.2	0.1
Tax advisory services	0.1	0.1
Other services	0.4	3.9
Total	**2.3**	**5.8**

NOTE 19

OWNERSHIP

As of 1 February 2020 the following investors have reported holdings of more than 5% of Scandinavian Tobacco Group's share capital/voting rights:

Chr. Augustinus Fabrikker Aktieselskab	> 25%
C.W.Obel A/S	> 10%
Parvus Asset Management Europe Limited	> 5%

MANAGEMENT'S STATEMENT

The Executive Management and the Board of Directors have today considered and adopted the Annual Report of Scandinavian Tobacco Group A/S for the financial year 1 January – 31 December 2020.

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. The Management Report is also prepared in accordance with Danish disclosure requirements for listed companies.

In our opinion, the Consolidated Financial Statements and the Financial Statements give a true and fair view of the financial position at 31 December 2020 of the Group and the Parent Company and of the results of the Group and Parent Company's operations and consolidated cash flows for the financial year 1 January – 31 December 2020.

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

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

Gentofte, 10 March 2021

EXECUTIVE MANAGEMENT

Niels Frederiksen
CEO

Marianne Rørslev Bock
CFO

BOARD OF DIRECTORS

Nigel Northridge
Chairman

Henrik Brandt
Vice-Chairman

Marlene Forsell

Dianne Neal Blixt

Luc Missorten

Anders Obel

Claus Gregersen

Lindy Larsen

Hanne Malling

Mogens Olsen

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Scandinavian Tobacco Group A/S

OUR OPINION

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2020 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2020 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 2020 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2020 in accordance with the Danish Financial Statements Act.

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

What we have audited

The Consolidated Financial Statements of Scandinavian Tobacco Group A/S for the financial year 1 January to 31 December 2020 comprise the statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the statement of changes in group equity and the notes, including summary of significant accounting policies.

The Parent Company Financial Statements of Scandinavian Tobacco Group A/S for the financial year 1 January to 31 December 2020 comprise the income statement, the balance sheet, the statement of changes in equity and the notes, including summary of significant accounting policies.

Collectively referred to as the "Financial Statements".

BASIS FOR OPINION

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

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

Independence

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

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

Appointment

Following the admission of shares of Scandinavian Tobacco Group A/S for the listing on Nasdaq Copenhagen, we were first appointed auditors of Scandinavian Tobacco Group A/S on 26 April 2017. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 4 years, including the financial year 2020.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2020. 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 STRATEGIC TRADEMARKS WITH INDEFINITE LIVES The principal risks are in relation to Management's assessment of the future timing and amount of cash flows that are used to project the recoverability of the carrying amount of goodwill and strategic trademarks with indefinite lives. There are specific risks related to macroeconomic conditions and volatile earnings caused by volume decline, intensified competition and changed regulations in key markets. Management prepared a re-allocation of the value of the goodwill to the new operating segments based on the relative fair values of the new operating segments as of 2020. Values for strategic trademarks with indefinite life are separately tested for impairment. Bearing in mind the generally long-lived nature of the assets, the significant assumptions are Management's view of prices, volumes, discount rates and terminal growth rates as well as the judgement in defining and allocating costs to each of the cash-generating units (CGUs). We focused on this area, as there is a high level of subjectivity exercised by Management in determining significant assumptions and estimating cash flows. The key assumptions and accounting treatment are described in Section 3.1 'Intangible Assets' in the Consolidated Financial Statements.	We assessed the new definition of the CGUs and the re-allocation of goodwill, net assets and cash flows to the new operating segments. Further, we obtained the impairment tests of goodwill and strategic trademarks with indefinite lives. We considered the appropriateness of Management's defined CGUs within the business. We evaluated whether there were factors requiring Management to change its definition. We examined the methodology used by Management to assess the carrying amount of goodwill and strategic trademarks with indefinite lives assigned to CGUs. We challenged the significant assumptions for the cash flow forecasts applied by Management. We also evaluated the appropriateness of the significant assumptions regarding prices, volumes, discount rates and terminal growth rates as well as assessed Management's sensitivity calculation across the CGUs. We assessed the impairment models applied and tested the mathematical accuracy of the relevant value-in-use models prepared by Management and assessed the appropriateness of the disclosures. We made use of our internal valuation specialists in the audit.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

STATEMENT ON MANAGEMENT REPORT

Management is responsible for Management Report.

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

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

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

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

MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Hellerup, 10 March 2021

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