

PROTOCOL OF ANNUAL GENERAL MEETING IN SCANDINAVIAN TOBACCO GROUP A/S

(CVR no. 31080185)

On 26 April 2017, at 4.30 pm. CET, the Annual General Meeting in Scandinavian Tobacco Group A/S (the "**Company**" or "**STG**") took place at "Axelborg", Copenhagen. The Board of Directors (with the exception of Dianne Blixt who was excused), the executive management and the auditor were present.

Jørgen Tandrup, chairman of the Board of Directors, welcomed the shareholders and others to the meeting.

Christian Lundgren had been appointed as chair of the meeting by the Board of Directors in accordance with Article 10.1 of the Articles of Association. The chair of the meeting noted that the General Meeting would, consistent with the Articles of Association, be conducted in English, however the Board of Directors had resolved that questions and comments could be made in the Danish language. The chair of the meeting would provide on-going summary translation of the business conducted. In addition, a full translation into Danish of the Board of Directors' report, cf. item 1 on the agenda, had been made available and would also be uploaded on the Company's website.

A total of 175 attendance cards had been issued. Present or represented were a total of 65,228,214 shares, equal to 65.2% of the total voting rights in the Company.

The chair of the meeting announced that the meeting had been duly convened and constituted a quorum for the transaction of business as set out in the agenda, and that the agenda, the full text of all proposals to be submitted to the General Meeting and the annual report including the audited financial statement etc. had been made available for inspection by the shareholders no less than three weeks before the date of the meeting.

The agenda was as follows:

1. Report of the Board of Directors on the Company's activities during the past financial year
2. Adoption of the audited annual report
3. Appropriation of profit or loss as recorded in the adopted annual report
4. Adoption of the remuneration of the Board of Directors and any board committees
5. Election of members to the Board of Directors
6. Election of auditor(s)
7. Any proposals by the Board of Directors and/or shareholders

1. Report of the Board of Directors on the Company's activities during the past financial year

The chairman of the Board of Directors, Jørgen Tandrup, and the CEO, Niels Frederiksen, presented the report of the Board of Directors.

The Chairman

Mr. Tandrup started by noting that this was his last report as chairman of STG and he was pleased to report that the Company is in good shape.

In STG's first year as a listed company, it delivered solid financial results. Revenue totalled DKK 6,746 million, a 0.2% improvement on 2015. The underlying business grew by 0.4%, net of currency fluctuations. The like-for-like EBITDA margin was up by 0.9 percentage point to 21.4%, whereas the net profit was DKK 681 million, an increase of 1.9% on 2015. In addition, STG delivered strong free cash flows. Mr. Tandrup noted that this met the overall guidance, which the company had provided to the market in November 2016. The chairman noted that the equity market had responded to the Company's performance by trading the shares up by approx. 25% since STG was listed on 10 February 2016. In addition, the Company paid dividends of DKK 5 per share in 2016.

Mr. Tandrup proceeded with an overview of the performance of each of STG's four main categories (handmade and machine-made cigars, pipe tobacco and fine-cut tobacco). Thereafter, the chairman laid out the Company's model for creating shareholder value, i.e. moderate growth, increasing earnings and strong cash flows. Mr. Tandrup noted that STG must also successfully contribute to industry consolidation by making value-adding acquisitions.

The chairman gave an overview of the Company's strategy, which is to win market share, globalise STG's business further and become ever more efficient. Mr. Tandrup noted that STG has had good results from investing in optimisation and efficiency enhancements. In 2015, STG launched an ambitious programme to optimise its costs and become more efficient. The programme is called the 140/500 programme. The name refers to DKK 140 million in cost cuts and DKK 500 million in inventory reductions on a like-for-like basis relative to 2014. STG has now implemented the initiatives and expect to complete the 140/500 programme in 2017, a year ahead of schedule. Through the programme, STG has simplified its production by considerably reducing the number of SKUs (Stock Keeping Units) in the product portfolio. Lastly, STG has adapted its network of factories and soon operates 12 instead of 14 sites. Mr. Tandrup thanked the employees affected by the closures for their strong commitment and loyal efforts, for many in many years. Mr. Tandrup noted that optimisation and efficiency improvement programmes such as the 140/500 programme have made STG a more profitable business and they have turned the Company into a stronger business. Such initiatives are a prerequisite if STG is to have the strength to leverage the opportunities for growth in all of its product categories.

Mr. Tandrup gave an overview of the Board of Directors' work in 2016 and presented the candidates for the Board nominated for election, including Mr. Henrik Brandt. Mr. Tandrup also noted that the board of directors had discussed management remuneration in the past year. The objective is to align management's remuneration with the Company's goals for value creation. For that purpose, the total remuneration package consists of a fixed basic salary and both short-term and long-term incentive programmes. The chairman confirmed that the remuneration of the Executive Board is consistent with the Company's remuneration policy and considered appropriate by the Board.

Mr. Tandrup finished his report by commenting on the potential for further dividend payments. He noted that supported not least by its significant inventory reductions, STG generated very strong free cash flows in 2016. As a result, the Company has successfully reduced its debt by a significant margin. At 31 December 2016, STG had a debt to adjusted EBITDA of 1.7. According to STG's financial policy, the target is a debt to adjusted EBITDA of about 2.5. In other words, the Company will still have significant cash holdings even after paying ordinary dividend of DKK 5.50 per share. Mr. Tandrup confirmed that the Board will continue to evaluate distribution of possible excess cash in relation to the third quarter announcement. If it becomes relevant it could take the form of either a share buyback or an extraordinary dividend.

Mr. Tandrup concluded by saying that he was grateful for the trust the shareholders and the Board of Directors had shown him while he had served as chairman. Mr. Tandrup thanked the employees, management, current and former board members, business partners and colleagues in the industry, noting that it had been a privilege to work with such highly competent, but also extremely loyal and committed people while he had been onboard with STG.

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The meeting applauded the presentation by Mr. Tandrup.

Niels Frederiksen

Mr. Frederiksen started by saying that 2016 was yet another year of considerable change. The Company achieved good results in 2016 despite the implementation of EU tobacco regulations and the FDA's new tobacco regulations in the United States. He noted that 2016 represented the best financial results in the history of STG for the second straight year.

Mr. Frederiksen noted that the Company had largely delivered on its guidance for 2016:

- The organic growth rate was 0.4% in 2016 compared with 0.3% in 2015. Revenue ended the year at DKK 6,746 million. That fell slightly short of expectations.
- EBITDA grew organically by 4.0%, lifting the EBITDA margin from 20.5% to 21.4%.
- While already high in 2015, STG's free cash flows climbed by 7.8% to DKK 1,139 million. The improvement was driven in particular by the DKK 261 million reduction of inventories. Relative to 31 December 2014, STG has now reduced inventories by a total of DKK 486 million, well ahead of plan.
- The sum of capital expenditure amounted to DKK 235 million.

With regard to revenue performance in 2016, relative to the previous year, revenue grew considerably in the handmade cigars and fine-cut tobacco categories, but fell in the machine-made cigars and pipe tobacco categories. Mr. Frederiksen commented on the development in each of STG's four product categories and continued by commenting that revenue expectations going into 2016 had proved to be a little higher than what was actually achieved. STG had guided for 1-3% revenue growth, but as it became clear that the Company would fail to meet that target, it guided for flat revenue growth in November. The reason was changing dynamics, especially in the European market for machine-made cigars. The EU countries had committed to implementing the new Tobacco Products Directive in their national legislation by 20 May 2016. Many of them failed to do so. Mr. Frederiksen noted that it is still too early to determine, whether the new directive will change tobacco consumption to any significant extent. However, the resulting legislation will impose costs and extra work on the companies in the industry. Being the largest player in its markets, STG believes it is best-positioned to address such challenges. However, it doesn't mean that STG won't be affected by the volatility and short-sighted changes occurring in the market.

In the USA, the FDA announced, unsurprisingly, new regulations governing cigars and pipe tobacco in May 2016. Mr. Frederiksen noted that by introducing these regulations, the FDA is markedly reducing the scope of any launch of new cigar or pipe tobacco products in the US market. Over time, this will change the dynamics of a market, but STG believes it is well-positioned in the market. Mr. Frederiksen mentioned that an interesting side effect of the new regulations in the United States is that they reduce the prospects of Cuban cigars gaining access to the US market.

Mr. Frederiksen confirmed that STG remains entirely focused on optimising and making the Company more efficient.

Mr. Frederiksen ended by confirming the Company's outlook for 2017.

The meeting applauded the presentation by Mr. Frederiksen.

The floor was opened for comments:

Claus Wiinblad, representing ATP, noted that 2016 had been an important year for STG and that the 2016 annual report represented a solid result of the Company. He welcomed the announcement made in November 2016 about acceleration of the cost optimisation programme. Mr. Wiinblad asked if the re-investments announced will adversely affect the potential for improving the margins. Furthermore, Mr. Wiinblad asked whether STG sees any potential for improving performance in the machine-made cigars segment, including in light of the market disruption caused by the new regulation. Mr. Wiinblad finally noted that it could be questioned whether the cash flow generation should lead to increased payment of dividends. However, ATP appreciates that STG's ability to work as an industry consolidator could warrant the Company to retain cash in order to pursue opportunities, and as such, ATP supports that no further dividend is being paid out for the moment. Mr. Wiinblad ended by thanking Mr. Tandrup for his contributions in services of STG and welcomed Mr. Henrik Brandt as a board member.

In answering these questions, Mr. Tandrup noted that re-investments must be measured in light of the wish to ensure long-term earnings potential. Mr. Frederiksen confirmed this view and noted that in a declining overall market, one has to focus on costs, market shares and the potential for price increases without losing the customers. Mr. Frederiksen confirmed that the machine-made cigars segment is an area of concern for STG.

Per Juul, representing the Danish Shareholders' Association, noted that 2016 was a good year for the shareholders as the total return was 24 percent. The Company seems in good progress when seen in the light of a no-growth industry. For the shareholders, the biggest uncertainty seems to be the risk that STG will not be able to maintain revenue growth. Mr. Juul asked what makes STG confident that it will be able to grow revenue in the medium term in light of harsher regulations, higher taxes and customers getting older. Further, Mr. Juul asked whether the shareholders can expect an extra dividend later this year. Mr. Juul thanked Mr. Tandrup and Marlene Forsell for their services and welcomed Mr. Brandt as a new board member. Mr. Juul ended by suggesting that the Company publishes a short Danish version of the annual report.

Mr. Tandrup and Mr. Frederiksen answered the questions raised by Mr. Juul. Reference is made to the above comments about revenue growth. As for the potential for further dividends, Mr. Tandrup confirmed that STG wishes to have cash available to pursue potential acquisitions. Mr. Frederiksen stated that the Company considered its policy with regard to publishing Danish language of the interim financial reports but not of the annual report a fair balance.

The General Meeting took due notice of the report.

2. Adoption of the audited annual report

The chair of the General Meeting asked the General Meeting whether it could adopt the 2016 annual report.

The General Meeting approved the annual report.

3. Appropriation of profit or loss as recorded in the adopted annual report

The Board of Directors had proposed to the General Meeting that for the financial year 2016 the Company pays a dividend of DKK 5.50 per share of DKK 1.

The proposal was adopted by the General Meeting.

4. Adoption of the remuneration of the Board of Directors and any board committees

The Board of Directors had proposed to the General Meeting that compensation for the Board of Directors for the financial year 2017 be adopted based on a base annual fee of DKK 400,000 to each member. Furthermore, under this proposal, the chairman will receive three times the base annual fee and the vice-chairman will receive 1.75 times the base annual fee. The chairman of the Audit Committee will receive a fee corresponding to 75% of the base annual fee for members of the Board of Directors. Other members of the Audit Committee will receive a fee corresponding to 37.5% of the base annual fee for members of the Board of Directors. The members of each of the Remuneration Committee and Nomination Committee will receive a fee corresponding to 12.5% of the base annual fee for members of the Board of Directors. The chairman of each of the Remuneration Committee and Nomination Committee will receive a fee corresponding to 25% of the base annual fee for members of the Board of Directors. The fees for the chairmen and members of the committees are in addition to their fees as chairman, vice-chairman or member of the Board of Directors.

The proposal was adopted by the General Meeting.

5. Election of members to the Board of Directors

In accordance with Article 11.1 of the Articles of Association, all members of the Board of Directors elected by the General Meeting were up for election. The Board of Directors had received notice that Jørgen Tandrup and Marlene Forsell wished to resign from the Board of Directors. The Board of Directors had proposed that Henrik Brandt be elected as new member of the Board of Directors and that Nigel Northridge, Conny Karlsson, Søren Bjerre-Nielsen, Dianne Neal Blixt, Luc Missorten and Henning Kruse Petersen be re-elected as members of the Board of Directors. Information about the nominated candidates had been enclosed with the notice convening the General Meeting and had also been made available at the Company's website (www.st-group.com).

The proposal was adopted by the General Meeting.

Following the election of the new Board of Directors, Mr. Tandrup thanked Ms. Forsell for her services and welcomed Mr. Brandt to the Board.

6. Election of auditor(s)

The Board of Directors had proposed that PricewaterhouseCoopers Statsautoriseret Revisionspartnerskab be re-elected as auditor of the Company.

The proposal was adopted by the General Meeting.


7. Any proposals by the Board of Directors and/or shareholders

There were no proposals made by the Board of Directors or by the shareholders to be decided upon by the General Meeting.

Mr. Nigel Northridge took the floor and thanked the shareholders for the confidence they had shown in electing the new Board of Directors. Mr. Northridge gave a summary of and warmly thanked Mr. Tandrup for his services to STG.

The meeting was adjourned at 6 pm CET.

As chair of the meeting



Christian Lundgren