OFFERING CIRCULAR

SCANDINAVIAN TOBACCO GROUP

Scandinavian Tobacco Group A/S

Offering of 35,600,000 Offer Shares

(a public limited company incorporated in Denmark registered under CVR no. 31 08 01 85)

This document (the "**Offering Circular**") relates to the initial public offering (the "**Offering**") of 35,600,000 existing ordinary shares (the "**Firm Shares**") in Scandinavian Tobacco Group A/S (the "**Company**") by Skandinavisk Holding II A/S ("**Skandinavisk Holding II**") and Swedish Match Cigars Holding AB ("**Swedish Match Cigars Holding**", and together with Skandinavisk Holding II, the "**Selling Shareholders**"). The Company will not receive any proceeds from the Offering.

The Offering consists of: (i) an initial public offering to retail and institutional investors in Denmark (the "**Danish Offering**"); (ii) a private placement in the United States only to persons who are "**qualified institutional buyers**" or "**QIBs**" (as defined in Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**")) in reliance on Rule 144A or pursuant to another available exemption from, or a transaction not subject to, the registration requirements under the U.S. Securities Act; and (iii) private placements to institutional investors in the rest of the world (together with the private placement contemplated under (ii) above, the "**International Offering**"). The Offering outside the United States will be made in compliance with Regulation S ("**Regulation S**") under the U.S. Securities Act.

Skandinavisk Holding II has granted an option to the Managers (as defined herein), exercisable in whole or in part by the Stabilising Manager (as defined herein), to purchase up to 4,400,000 additional Shares at the Offer Price (as defined below) (the "**Option Shares**", and together with the Firm Shares, the "**Offer Shares**"), from the first day of trading in, and official listing of, the Shares until the day 30 calendar days thereafter, solely to cover overallotments or other short positions, if any, in connection with the Offering (the "**Overallotment Option**"). In relation to the Overallotment Option, the Selling Shareholders have entered into an agreement pursuant to which, subject to certain conditions, Swedish Match Cigars Holding agrees to sell to Skandinavisk Holding II, and Skandinavisk Holding II agrees to purchase from Swedish Match Cigars Holding, at the Offer Price, such number of Shares that would result in the Selling Shareholders selling an equal number of Shares in the Offering (the "**Balancing Agreement**"). References in this Offering Circular to the "**Overallotment Option**" include any sale of Shares pursuant to the Balancing Agreement. As used herein, "**Shares**" refers to all outstanding shares in the Company at any given time.

Prior to the Offering, certain members of the Existing Board of Directors, the New Board of Directors, the Executive Management, the Key Employee (each as defined herein) and a limited number of other employees of the Company and its consolidated subsidiaries ("**STG**" or the "**Group**") have irrevocably undertaken to buy Offer Shares at the Offer Price up to a certain fixed investment amount for each eligible person. The number of Offer Shares that will be allocated to meet these orders will depend on the Offer Price. See "*The Offering—The Offering*".

Prospective investors are advised to examine all risks and legal requirements described in this Offering Circular that might be relevant in connection with an investment in the Offer Shares. Investing in the Offer Shares involves a high degree of risk. See "*Risk Factors*" for a discussion of certain risks that prospective investors should consider before investing in the Offer Shares.

PRICE RANGE: DKK 93 – DKK 110 PER OFFER SHARE

The price at which the Offer Shares will be sold (the "**Offer Price**") is expected to be between DKK 93 and DKK 110 per Offer Share (the "**Offer Price Range**") and will be determined through a book-building process. The Offer Price will be determined by the Selling Shareholders and the Company's board of directors (the "**Board of Directors**") in consultation with the Joint Global Coordinators, and is expected to be announced through Nasdaq Copenhagen A/S ("**Nasdaq Copenhagen**") no later than 8:00 a.m. (CET) on 10 February 2016. The Offer Price Range may be amended during the book-building process and, as a result, the Offer Price may be outside the Offer Price Range set forth in this Offering Circular, subject to any requirement to supplement the Offering and this Offering Circular.

The offer period (the "**Offer Period**") will commence on 28 January 2016 and will close no later than 9 February 2016 at 4:00 p.m. (CET). The Offer Period may be closed prior to 9 February 2016; however, the Offer Period will not be closed in whole or in part before 6 February 2016 at 00:01 a.m. (CET). The Offer Period in respect of applications for purchases of amounts up to, and including, DKK 3 million may be closed before the remainder of the Offering is closed. If the Offer Period is closed before 9 February 2016, the first day of trading in and official listing of the Shares on Nasdaq Copenhagen and the date of payment and settlement will be moved forward accordingly. Any such early closing, in whole or in part, would be announced through Nasdaq Copenhagen.

Prior to the Offering, there has been no public market for the Shares. Application has been made for the Shares to be admitted to trading and official listing on Nasdaq Copenhagen under the symbol "STG". The existing Shares are registered in the permanent ISIN DK0060696300. The first day of trading in, and official listing of, the Shares on Nasdaq Copenhagen is expected to be on 10 February 2016.

The Offer Shares are expected to be delivered against payment in immediately available funds in Danish kroner in book-entry form to investors' accounts with VP SECURITIES A/S ("**VP Securities**") and through the facilities of Euroclear Bank S.A./N.A. ("**Euroclear**"), as operator of the Euroclear System and Clearstream Banking, S.A. ("**Clearstream**"), starting on or around 12 February 2016. All dealings in the Offer Shares prior to settlement are for the account of, and at the sole risk of, the parties involved.

This Offering Circular has been prepared under Danish law in compliance with the requirements set out in the Consolidated Act no. 1530 of 2 December 2015 on Securities Trading, as amended (the "Danish Securities Trading Act"), the Executive Order no. 1257 of 6 November 2015 on prospectuses for securities admitted to trading in a regulated market and for offering to the public of securities of at least EUR 5,000,000 (the "Danish Executive Order on Prospectuses") as well as Commission Regulation (EC) no. 809/2004 of 29 April 2004, as amended (the "Prospectus Regulation"). This Offering Circular does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy any of the Offer Shares in any jurisdiction to any person to whom it would be unlawful to make such an offer in such jurisdiction.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and are being (i) sold in the United States only to persons who are QIBs in reliance on Rule 144A or pursuant to another available exemption from, or a transaction not subject to, the registration requirements under the U.S. Securities Act, and (ii) offered and sold outside the United States in compliance with Regulation S. Prospective investors are hereby notified that sellers of the Offer Shares may be relying on the exemption from the registration requirements of Section 5 of the U.S. Securities Act provided by Rule 144A. For certain restrictions on transfer of the Offer Shares, see "*Transfer Restrictions*". The distribution of this document and the offer of the Offer Shares in certain jurisdictions are restricted by law. Persons into whose possession this Offering Circular comes are required by the Company, the Selling Shareholders and the Managers to inform themselves about and to observe such restrictions. For a description of certain restrictions on offers of Offer Shares and on distribution of this document, see "*Selling Restrictions*".

Joint Global Coordinators and Joint Bookrunners

J.P. Morgan	Deutsche Bank	Nordea
Lead Global Coordinator	*Joint Global Coordinator*	*Joint Global Coordinator*

Co-Lead Manager

Carnegie

28 January 2016

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CERTAIN INFORMATION WITH REGARD TO THE OFFERING

In this Offering Circular, the "**Company**" refers to Scandinavian Tobacco Group A/S and "**STG**" and the "**Group**" refer to the Company and its consolidated subsidiaries, unless the context requires otherwise.

No representation or warranty, express or implied, is made by J.P. Morgan Securities Ltd. ("**J.P. Morgan**"), Deutsche Bank AG, London Branch ("**Deutsche Bank**") or Nordea Markets (division of Nordea Bank Danmark A/S) ("**Nordea**", and together with J.P. Morgan and Deutsche Bank, the "**Joint Global Coordinators**"), or Carnegie Investment Bank, filial af Carnegie Investment Bank AB (publ), Sverige ("**Carnegie**" or the "**Co-Lead Manager**", and together with the Joint Global Coordinators, the "**Managers**"), as to the accuracy or completeness of any information contained in this Offering Circular.

In connection with the Offering, the Company has prepared four versions of this offering document: (i) a prospectus in English for purposes of the Danish Offering (the "**English Language Offering Circular**"); (ii) an offering circular in Danish to be made available in connection with the Danish Offering (the "**Danish Offering Circular**"); (iii) an offering circular in English for use in the international private placement outside of Denmark and the United States (the "**International Offering Circular**"); and (iv) an offering circular in English in connection with the private placement in the United States (the "**U.S. Offering Circular**", and together with the English Language Offering Circular, the Danish Offering Circular and the International Offering Circular, the "**Offering Circular**"). The English Language Offering Circular has been prepared in compliance with the standards and requirements of Danish law. The English Language Offering Circular, the Danish Offering Circular, the International Offering Circular and the U.S. Offering Circular are equivalent except that: (i) the English Language Offering Circular includes a summary in Danish; (ii) the English Language Offering Circular and the Danish Offering Circular include an application form for the Danish Offering; (iii) the English Language Offering Circular, the Danish Offering Circular and the International Offering Circular contain a report from STG's auditors with respect to STG's "*Consolidated Prospective Financial Information*" that is required under the Prospectus Regulation, which report is not included or incorporated by reference in the U.S. Offering Circular; and (iv) the U.S. Offering Circular contains a description of the consolidated prospective financial information in the section "*Presentation of Financial and Certain Other Information*" in lieu of the report from STG's auditors discussed in (iii). In the event of any other discrepancy between the Danish Offering Circular, the International Offering Circular and the English Language Offering Circular, the English Language Offering Circular shall prevail. The U.S. Offering Circular shall be the prevailing version for any private placement to qualified institutional buyers in the United States as contemplated herein.

The Offering will be completed under Danish law, and none of the Selling Shareholders, the Managers or the Company has taken any action or will take any action in any jurisdiction, with the exception of Denmark, that is intended to result in a public offering of the Offer Shares.

Notice to Investors in the United States

The Offer Shares have not been recommended by any U.S. federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and are being: (i) sold in the United States only to persons who are QIBs in reliance on Rule 144A or pursuant to another available exemption from, or a transaction not subject to, the registration requirements under the U.S. Securities Act; and (ii) offered and sold outside the United States in compliance with Regulation S. Prospective investors are hereby notified that sellers of the Offer Shares may be relying on the exemption from the registration requirements of Section 5 of the U.S. Securities Act provided by Rule 144A. For certain restrictions on transfer of the Offer Shares, see "*Transfer Restrictions*".

In the United States, the U.S. Offering Circular is being furnished on a confidential basis solely for the purpose of enabling a prospective investor to consider purchasing the particular securities described herein. The information contained in the U.S. Offering Circular has been provided by the Company and other sources identified herein. Distribution of the U.S. Offering Circular to any person other than the offeree specified by the Managers or their representatives, and those persons, if any, retained to advise such offeree with respect thereto, is unauthorised, and any disclosure of its contents, without the Company's prior written consent, is prohibited. Any reproduction or distribution of the U.S. Offering Circular in the United States, in whole or in part, and any disclosure of its contents to any other person is prohibited. The U.S. Offering Circular is personal to each offeree and does not constitute an offer to any other person or to the public generally to acquire Offer Shares.

European Economic Area Restrictions

In any member state of the European Economic Area (the "**EEA**") other than Denmark (each a "**Relevant Member State**"), this Offering Circular is only addressed to, and is only directed at, investors in that Relevant Member State who fulfil the criteria for exemption from the obligation to publish a prospectus, including qualified investors, within the meaning of the Prospectus Directive as implemented in each such Relevant Member State.

This Offering Circular has been prepared on the basis that all offers of Offer Shares, other than the offer contemplated in Denmark, will be made pursuant to an exemption under the Prospectus Directive, as implemented in Relevant Member States, from the requirement to produce a prospectus for offers of Offer Shares. Accordingly any person making or intending to make any offer within the EEA of Offer Shares which is the subject of the placement contemplated in this Offering Circular should only do so in circumstances in which no obligation arises for the Company, any of the Selling Shareholders or any of the Managers to produce a prospectus for such offer. None of the Company, the Selling Shareholders or the Managers has authorised, nor does any of the Company, the Selling Shareholders or the Managers authorise, the making of any offer of Offer Shares through any financial intermediary, other than offers made by Managers which constitute the final placement of Offer Shares contemplated in this Offering Circular.

The Offer Shares have not been, and will not be, offered to the public in any Relevant Member State, excluding Denmark. Notwithstanding the foregoing, an offering of the Offer Shares may be made in a Relevant Member State:

(i) to any qualified investor as defined in the Prospectus Directive;

(ii) by the Managers to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive subject to obtaining the prior consent of the Joint Global Coordinators);

(iii) to investors who acquire securities for a total consideration of at least EUR 100,000 per investor, for each separate offer;

(iv) if the denomination per unit amounts to at least EUR 100,000; or

(v) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Offer Shares shall result in a requirement for the publication by the Company, any of the Selling Shareholders or any of the Managers of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Offer Shares so as to enable an investor to decide to purchase Offer Shares, as that definition may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. The expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the Amending Directive 2010/73/EU), and includes any relevant implementing measures in the Relevant Member State.

United Kingdom Restrictions

Offers of the Offer Shares pursuant to the Offering are only being made to persons in the United Kingdom who are "qualified investors" or otherwise in circumstances which do not require publication by the Company of a prospectus pursuant to section 85(1) of the U.K. Financial Services and Markets Act 2000.

This Offering Circular is only being distributed to, and is only directed at, and any investment or investment activity to which the Offering Circular relates is available only to, and will be engaged in only with persons who are investment professionals falling within Article 19(5) or fall within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc."), of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or other persons to whom such investment or investment activity may lawfully be made available (together, "**Relevant Persons**"). Persons who are not Relevant Persons should not take any action on the basis of the Offering Circular and should not act or rely on it.

Stabilisation

IN CONNECTION WITH THE OFFERING, NORDEA, AS STABILISING MANAGER (THE "**STABILISING MANAGER**"), OR ITS AGENTS, ON BEHALF OF THE MANAGERS, MAY ENGAGE IN TRANSACTIONS THAT STABILISE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE SHARES FOR UP TO 30 DAYS FROM THE COMMENCEMENT OF TRADING IN AND OFFICIAL LISTING OF THE SHARES ON NASDAQ COPENHAGEN. SPECIFICALLY, THE MANAGERS MAY OVER-ALLOT OFFER SHARES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SHARES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. THE STABILISING MANAGER AND ITS AGENTS ARE NOT REQUIRED TO ENGAGE IN ANY OF THESE ACTIVITIES AND, AS SUCH, THERE IS NO ASSURANCE THAT THESE ACTIVITIES WILL BE UNDERTAKEN; IF UNDERTAKEN, THE STABILISING MANAGER OR ITS AGENTS MAY END ANY OF THESE ACTIVITIES AT ANY TIME AND THEY MUST BE BROUGHT TO AN END AT THE END OF THE 30-DAY PERIOD MENTIONED ABOVE. SAVE AS REQUIRED BY LAW OR REGULATION, THE STABILISING MANAGER DOES NOT INTEND TO DISCLOSE THE EXTENT OF ANY STABILISATION TRANSACTIONS UNDER THE OFFERING. SEE "*PLAN OF DISTRIBUTION*".

RESPONSIBILITY STATEMENT

The Company's Responsibility

Scandinavian Tobacco Group A/S is responsible for this Offering Circular in accordance with Danish law.

The Company's Statement

We hereby declare that we, as the persons responsible for this Offering Circular on behalf of the Company, have taken all reasonable care to ensure that, to the best of our knowledge and belief, the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of its contents.

Søborg, 28 January 2016

Scandinavian Tobacco Group A/S

Board of Directors

Jørgen Tandrup *Chairman*	Conny Karlsson *Deputy Chairman*	Lars Dahlgren
Marlene Forsell	Fredrik Lagercrantz	Anders C. Obel
Tommy Pedersen	Henning Kruse Petersen	Kurt Asmussen *Employee Representative*
Hermod Hvid *Employee Representative*	Hanne Malling *Employee Representative*	Charlotte Nielsen *Employee Representative*

Jørgen Tandrup – Professional board member
Conny Karlsson – Professional board member
Lars Dahlgren – Chief Executive Officer of Swedish Match AB
Marlene Forsell – Chief Financial Officer of Swedish Match AB
Fredrik Lagercrantz – Senior Vice President Business Control of Swedish Match AB
Anders C. Obel – Chief Executive Officer of C.W. Obel A/S
Tommy Pedersen – Chief Executive Officer of The Augustinus Foundation
Henning Kruse Petersen – Professional board member
Kurt Asmussen – Technician
Hermod Hvid – International Business Manager
Hanne Malling – Trademark Manager
Charlotte Nielsen – Operator

Executive Management

Niels Frederiksen *Chief Executive Officer*	Sisse Fjelsted Rasmussen *Chief Financial Officer*	Vincent Crepy *Executive Vice President*
Christian Hother Sørensen *Executive Vice President*	Rob Zwarts *Executive Vice President*	

SUMMARY

The Danish summary below is a translation of the English summary below. In the event of any discrepancies between the Danish and the English version, the English version shall prevail.

Dansk Resumé

Det danske resumé nedenfor er en oversættelse af det engelske resumé, som begynder på side 21. I tilfælde af uoverensstemmelser mellem det danske og det engelske resumé, skal det engelske resumé have forrang.

Resuméer består af oplysningskrav, der benævnes "Elementer". Elementerne er nummereret i afsnit A–E (A.1–E.7). Dette resumé indeholder alle de Elementer, der skal være indeholdt i et resumé for denne type værdipapir og udsteder i henhold til prospektforordningen nr. 486/2012 med senere ændringer. Da nogle Elementer ikke kræves medtaget, kan der forekomme huller i nummereringen af Elementerne. Selv om et Element skal indsættes i resuméet på grund af typen af værdipapir og udsteder, er det muligt, at der ikke kan gives nogen relevante oplysninger om Elementet. I så fald indeholder resuméet en kort beskrivelse af Elementet med angivelsen "ikke relevant".

Afsnit A – Indledning og advarsler

Element	Oplysningskrav	Oplysninger
A.1	Advarsel til investorer	Dette resumé bør læses som en indledning til Prospektet. Enhver beslutning om investering i de Udbudte Aktier bør træffes af investoren på baggrund af Prospektet som helhed. Den sagsøgende investor kan, hvis en sag vedrørende oplysningerne i Prospektet indbringes for en domstol i henhold til national lovgivning i medlemsstaterne i det Europæiske Økonomiske Samarbejdsområde være forpligtet til at betale omkostningerne i forbindelse med oversættelse af Prospektet, inden sagen indledes. Kun de personer, som har indgivet resuméet, herunder eventuelle oversættelser heraf, kan ifalde et civilretligt erstatningsansvar, men kun såfremt resuméet er misvisende, ukorrekt eller uoverensstemmende, når det læses sammen med de andre dele af Prospektet, eller ikke, når det læses sammen med Prospektets andre dele, indeholder nøgleoplysninger, således at investorerne lettere kan tage stilling til, om de vil investere i de Udbudte Aktier.
A.2	Tilsagn til formidlere	Ikke relevant. Der er ikke indgået nogen aftale vedrørende anvendelse af Prospektet i forbindelse med et efterfølgende salg eller en endelig placering af de Udbudte Aktier.

Afsnit B – Udsteder

Element	Oplysningskrav	Oplysninger
B.1	Juridisk navn og binavn	Selskabet er registreret med det juridiske navn Scandinavian Tobacco Group A/S. Selskabet driver endvidere virksomhed under binavnet Skandinavisk Tobakskompagni A/S.
B.2	Domicil, retlig form, indregistreringsland	Selskabet blev stiftet i Danmark den 28. november 2007 som et aktieselskab underlagt dansk ret og har hjemsted på adressen Sydmarken 42, 2860 Søborg.

Afsnit B – Udsteder

Element	Oplysningskrav	Oplysninger
B.3	Nuværende virksomhed og hovedvirksomhed	STG er en af verdens førende producenter af cigarer og traditionel pibetobak, og STG fremstiller desuden finskåren tobak og sælger tobaksrelateret tilbehør og optændingsprodukter. STG har en markedsførende position på markedet for maskinfremstillede cigarer i Europa, markedet for håndrullede cigarer i USA, internet- og katalogbaseret detailsalg af håndrullede cigarer i USA, markedet for traditionel pibetobak på globalt plan og udvalgte markeder for finskåren tobak. Mere end 70% af STG's nettoomsætning i 2014 stammede fra markeder, hvor STG har en markedsposition som nummer et eller to i segmentet, i hvert enkelt tilfælde målt på salgsvolumen.
		STG har et bredt udvalg af produkter inden for håndrullede cigarer, maskinfremstillede cigarer, pibetobak og finskåren tobak, og STG vurderer, at det er det eneste selskab i verden, der har et strategisk kernefokus på fremstilling og distribution inden for alle disse produktkategorier. STG's portefølje af varemærker omfatter mere end 200 etablerede internationale, regionale og lokale varemærker, der retter sig mod en bred vifte af forbrugersegmenter, lokale smagspræferencer og prispunkter fra premium- til valuesegmentet.
		Nedenstående tabel viser oplysninger om STG's segmenter:

	Segmenternes andel af nettoomsætningen for 1.–3. kvartal 2015 (pct.)	Udvalgte primære varemærker
Håndrullede cigarer	29,0	Macanudo, CAO, Punch[(1)], La Gloria Cubana[(1)], Cohiba[(1)], 5Vegas, Diesel
Maskinfremstillede cigarer	40,1	Café Crème, La Paz, Mercator, Colts, Captain Black, Break
Pibetobak	9,3	Captain Black, Erinmore, Borkum Riff, W.Ø. Larsen, Clan
Finskåren tobak	8,8	Bugler, Break, Escort, Bali Shag, Tiedemanns
Øvrige	12,8	–

(1) STG ejer varemærket i USA og har begrænset eller intet ejerskab til varemærket uden for USA.

STG's produkter sælges i mere end 100 lande. STG havde pr. 30. september 2015 18 salgskontorer og flere end 500 sælgere i Nordamerika, Europa, Australien og New Zealand, herunder lokale salgsorganisationer, der betjener kernemarkeder for cigarer, pibetobak og finskåren tobak, hvilket efter STG's vurdering er en optimal måde at nå ud til kunderne på. STG's salgsorganisation understøtter salget af STG's produkter gennem forskellige salgs- og distributionskanaler, herunder grossister, supermarkeder, tobaksforretninger, kiosker, spiritusforretninger, materialister, distributører, samarbejdspartnere, internet- og katalogbaseret detailsalg samt STG's egne butikker. Cigars International, som er STG's direkte markedsføringskanal for

Element	Oplysningskrav	Oplysninger
		internet- og katalogbaseret detailsalg af cigarer, pibetobak og tobaksrelateret tilbehør i USA, har en førende position inden for internet- og katalogbaseret detailsalg af håndrullede cigarer i USA. Det diversificerede mix i forhold til geografi og salgskanaler mindsker STG's afhængighed af enkeltmarkeder, enkelte salgskanaler og enkeltkunder. STG har i hele sin organisation omfattende viden og erfaring inden for områder som f.eks. tobak, indkøb og tobaksblandinger, udvikling af smagskombinationer, produktionsmetoder og emballage. Gennem aktiv anvendelse og overførsel af denne viden og erfaring mellem de forskellige segmenter udnytter STG sin interne knowhow til at skabe nye og attraktive produkter og til hurtigt at tilpasse sig ændringer i forbrugerpræferencer. STG har i de senere år med succes introduceret en række initiativer, herunder nye varemærker, produktvarianter og -koncepter, relancering af eksisterende varemærker og udvidelse af produktserier. Formålet med initiativerne er at imødekomme forbrugertrends og tilfredsstille forbrugernes nysgerrighed efter nye produkter og varianter og samtidig understøtte STG's førende markedspositioner, prissætningsmuligheder og organiske vækst. STG styrer desuden aktivt sin varemærkeportefølje, og de seneste eksempler herpå omfatter udnyttelse af varemærker på tværs af produktkategorier (f.eks. Captain Black), internationalisering af stærke lokale varemærker (f.eks. Colts) og andre aktiviteter, der har til formål at optimere STG's varemærkeportefølje. STG's globale produktionssetup består af 14 fabrikker i otte lande, herunder fabrikker i mange af verdens vigtigste regioner, hvor der dyrkes tobak, som f.eks. Den Dominikanske Republik, Honduras, Nicaragua og Indonesien, samt fabrikker i USA og EU tæt på de store forbrugsmarkeder. STG ejer endvidere 20% af Caribbean Cigar Holdings Group, S.A. ("**Caribbean Cigar**"), en af de største tobaksdyrkere i Centralamerika, som også er producent af håndrullede cigarer med aktiviteter i Honduras og Nicaragua. STG's lokale tilstedeværelse i regioner, hvor der dyrkes tobak, gør det muligt at være involveret i alle faser af STG's supply chain for tobak fra udvikling af frø til endeligt produkt. I kraft af denne tilstedeværelse og involvering kan STG fastholde kvaliteten af sine produkter og sikre adgang til en bred vifte af nye tobakker til udvikling af nye produkter. STG drager endvidere fordel af sin strategiske placering af mange arbejdstunge fremstillingsprocesser i disse lande, hvor lønomkostningerne er lave, og koncentrationen af sine mere automatiserede fremstillingsprocesser tæt på væsentlige forbrugsmarkeder, hvilket er med til at nedbringe produktionstiden og øge fleksibiliteten. **Væsentlige styrker** STG's strategi bygger på følgende væsentlige styrker: • Førende position inden for attraktive undersegmenter i tobaksbranchen • Anerkendt og diversificeret varemærkeportefølje

Afsnit B – Udsteder

Element	Oplysningskrav	Oplysninger
		• Adskillige muligheder for at skabe organisk vækst og stærke udviklingskompetencer • Løbende effektiviseringstiltag og arbejdskapitalinitiativer • Stærk platform til at bidrage til konsolidering af et fragmenteret marked • Erfarent ledelsesteam, som har leveret resultater og har en dyb indsigt i lovgivningen og en klar strategisk dagsorden for at fremme vækst og omkostningseffektivitet • Stærke historiske resultater med attraktivt aktionærafkast. **STG's forretningsstrategi** STG har identificeret følgende strategiske prioriteter: • Overgå det generelle marked der, hvor STG er til stede • Udbygge den globale tilstedeværelse • Forenkle forretningen med henblik på effektivitet • Ansvarliggørelse af medarbejdere for at sikre hurtighed, ansvar og motivation.
B.4a	Beskrivelse af de væsentligste nyere tendenser, der påvirker Selskabet og de sektorer, inden for hvilke Selskabet opererer	STG's produkter sælges på alle større geografiske markeder for STG's produktkategorier, herunder STG's geografiske kernemarkeder i USA og Europa, som udgjorde henholdsvis 34,1% og 50,0% af STG's nettoomsætning i 2014. Markedsvolumen og pristendenser, særligt på STG's geografiske kernemarkeder, påvirker STG's resultat. Siden 1990'erne har efterspørgslen efter tobaksprodukter i udviklede lande generelt været faldende. Efterspørgslen efter tobaksprodukter påvirkes af en række faktorer, herunder konjunkturnedgang, øget sundhedsbevidsthed, stigende priser på tobaksprodukter (f.eks. på grund af en stigning i punktafgifterne på tobak eller en ændring af punktafgifterne på forskellige kategorier af tobaksprodukter), rygebegrænsninger eller -forbud (f.eks. i det offentlige rum), lovgivning, der påvirker tobaksprodukter, deres emballage, præsentation eller salget til forbrugerne, demografiske forandringer eller en kombination af disse eller andre faktorer, som er uden for STG's kontrol. Inden for den brede kategori af tobaksprodukter adskiller STG's produktsegmenter og særligt undersegmenterne cigarer og traditionel pibetobak sig fra cigaretmarkedet på flere punkter. Det globale cigaretmarked er kendetegnet ved et homogent produkt, hvor smag og udseende stort set er ens over hele verden. Markederne for STG's produktsegmenter er derimod kendetegnet ved at være mere differentierede på grund af regionale forbrugs- og smagsforskelle. Eksempelvis opfattes visse cigarer – særligt håndrullede cigarer – som et økonomisk overkommeligt luksusprodukt, der appellerer til et andet forbrugersegment end cigaretter. Derudover er punktafgifterne på cigarer og pibetobak generelt lavere end på cigaretter.

Afsnit B – Udsteder

Element	Oplysningskrav	Oplysninger
		Håndrullede cigarer: I 2014 kunne mere end 60% af den globale salgsvolumen for håndrullede cigarer henføres til USA, hvor salgsvolumen stort set var uændret mellem 2012 og 2014, og denne tendens forventes at fortsætte på mellemlangt sigt. STG sælger også håndrullede cigarer uden for USA, men STG's salgsvolumen uden for USA har været relativt lav sammenlignet med salgsvolumen i USA. STG har kunnet hæve prisen på håndrullede cigarer hvert år i de præsenterede perioder, hvilket ifølge STG primært skyldes, at det er nye oplevelser og det sociale element i cigarrygning mere end prisen, der appellerer til forbrugere af håndrullede cigarer. *Maskinfremstillede cigarer:* Salgsvolumen for maskinfremstillede cigarer var faldende på mange markeder fra 2012 til 2014 og forventes fortsat at falde på en række større markeder mellem 2014 og 2018, herunder Frankrig, Tyskland og Storbritannien. Salgsvolumen for STG's maskinfremstillede cigarer i USA er fortsat relativt lav sammenlignet med salgsvolumen for maskinfremstillede cigarer uden for USA. STG har i de præsenterede perioder kunnet gennemføre årlige prisstigninger på maskinfremstillede cigarer, som stort set har været på linje med den generelle markedsudvikling. Prisstigningen varierer fra marked til marked og fra varemærke til varemærke, og når der skal træffes beslutning om en prisstigning, tager STG højde for konkurrencesituationen på det pågældende marked. *Pibetobak:* Salgsvolumen for traditionel pibetobak fortsatte den langvarige nedadgående tendens i perioden fra 2012 til 2014, særligt på kernemarkeder i Europa og i USA. Salgsvolumen for traditionel pibetobak på de europæiske kernemarkeder, herunder Tyskland og Storbritannien, forventes at fortsætte med at falde mellem 2014 og 2018. I USA har priserne og salgsvolumen for pibetobak været påvirket af udviklingen af "dual usage"-pibetobak (dvs. tobak, der kan ryges i en pibe, men som også kan anvendes af forbrugere af finskåren tobak). Dette har medført en væsentlig stigning i markedsvolumen for "dual usage"-pibetobak i USA. For STG har prisstigninger i de præsenterede perioder, helt eller delvist afhængigt af det enkelte marked, opvejet den generelle tendens med faldende volumen inden for traditionel pibetobak, og salgsvolumen for STG's pibetobak har draget fordel af den øgede efterspørgsel efter "dual usage"-pibetobak, til trods for at STG har en meget lille andel af markedet for "dual usage"-pibetobak. STG har historisk set kunnet hæve prisen på pibetobak på sine markeder som følge af høj forbrugerloyalitet inden for pibetobakskategorien. *Finskåren tobak:* I Europa var salgsvolumen for finskåren tobak uændret fra 2012 til 2014. Salgsvolumen i USA var faldende mellem 2012 og 2014, primært som følge af introduktionen af "dual usage"-pibetobak, som i stedet har bidraget til stigende salgsvolumen for pibetobak. STG har kunnet gennemføre årlige prisstigninger inden for kategorien finskåren tobak i USA samt på sine væsentlige europæiske markeder som f.eks. Tyskland, Danmark og Norge.

Afsnit B – Udsteder

Element	Oplysningskrav	Oplysninger
B.5	Beskrivelse af Koncernen og Selskabets plads i Koncernen	Selskabet er moderselskab i Koncernen. Tabellen nedenfor viser Selskabets væsentligste datterselskaber pr. prospektdatoen:

	Indregistrerings-land	Direkte eller indirekte ejer- og stemmeandel (pct.)
Scandinavian Tobacco Group Australia PTY Ltd	Australien	100
Scandinavian Tobacco Group Belux N.V.	Belgien	100
Scandinavian Tobacco Group Lummen N.V.	Belgien	100
Scandinavian Tobacco Group Canada Inc.	Canada	100
Scandinavian Tobacco Group Assens A/S	Danmark	100
Scandinavian Tobacco Group Denmark A/S	Danmark	100
Scandinavian Tobacco Group Nykøbing ApS	Danmark	100
Scandinavian Tobacco Group Deutschland GmbH	Tyskland	100
General Cigar Dominicana, S.A.S.	Den Dominikanske Republik	100
Scandinavian Tobacco Group Eersel B.V.	Holland	100
Scandinavian Tobacco Group Nederland B.V.	Holland	100
Scandinavian Tobacco Group United Kingdom Limited	Storbritannien	100
BPA Sales, LP	USA	100
General Cigar Co., Inc	USA	100
M&D Wholesale Distributors, Inc.	USA	100
Scandinavian Tobacco Group Lane Ltd.	USA	100

Element	Oplysningskrav	Oplysninger
B.6	Personer, som direkte eller indirekte har en andel i Selskabets kapital eller stemmerettigheder eller kontrollerer Selskabet	Pr. prospektdatoen ejer Skandinavisk Holding II 51% af Selskabets aktiekapital og stemmerettigheder, og Swedish Match Cigars Holding ejer 49% af Selskabets aktiekapital og stemmerettigheder. Aktierne er ikke inddelt i aktieklasser, og alle Aktier har samme rettigheder. Hver Aktie giver ret til én stemme på Generalforsamlingen. I forbindelse med Udbuddet udbyder de Sælgende Aktionærer 35.600.000 stk. Fast Udbudte Aktier. Selskabet modtager ikke noget provenu fra Udbuddet. Skandinavisk Holding II har givet Emissionsbankerne en Overallokeringsret, der kan udnyttes helt eller delvist af Stabiliseringsagenten, til at købe op til 4.400.000 stk. Overallokeringsaktier til Udbudskursen fra Aktiernes første handels- og officielle noteringsdag og indtil den 30. kalenderdag derefter, alene til dækning af eventuel overallokering eller andre korte positioner i forbindelse med Udbuddet. I forbindelse med Overallokeringsretten har de Sælgende Aktionærer indgået Udligningsaftalen, hvorefter Swedish Match Cigars Holding på visse betingelser accepterer at sælge det antal Aktier til Skandinavisk Holding II, og Skandinavisk Holding II accepterer at købe det antal Aktier fra Swedish Match Cigars Holding, til Udbudskursen, som bevirker, at de Sælgende Aktionærer sælger et lige antal Aktier i Udbuddet.

Afsnit B – Udsteder

Element	Oplysningskrav	Oplysninger
		Med undtagelse af ovenfor anførte er Selskabet ikke bekendt med nogen person, der direkte eller indirekte ejer en andel af Selskabets aktiekapital eller stemmerettigheder, der skal indberettes efter dansk ret. Pr. prospektdatoen ejer Augustinus Fonden og Det Obelske Familiefond ultimativt henholdsvis 65% og 35% af Skandinavisk Holding II, Selskabets kontrollerende aktionær.
B.7	Udvalgte regnskabs- og virksomhedsoplysninger	De sammenfattede konsoliderede regnskabsoplysninger nedenfor er uddraget af STG's ureviderede delårsregnskab for Koncernen for 1.–3. kvartal 2015, herunder ureviderede sammenligningsregnskabsoplysninger for Koncernen for 1.–3. kvartal 2014 (det "**Ureviderede Delårsregnskab for Koncernen**") og STG's reviderede koncernregnskaber for regnskabsårene 2014, 2013 og 2012 (de "**Reviderede Koncernregnskaber**" og sammen med det Ureviderede Delårsregnskab for Koncernen "**Koncernregnskaberne**"). Koncernregnskaberne er udarbejdet i overensstemmelse med International Financial Reporting Standards som godkendt af EU ("**IFRS**").

	1.–3. kvartal		**Regnskabsåret**		
	2015	**2014**	**2014**	**2013**	**2012**
	(urevideret)			**(revideret)**	
			(DKK mio.)		
RESULTATOPGØRELSE FOR KONCERNEN					
Nettoomsætning	4.965,4	4.495,8	6.126,0	5.925,3	5.978,0
Vareforbrug	(2.548,4)	(2.349,4)	(3.178,7)	(3.010,8)	(2.986,5)
Bruttoresultat	2.417,0	2.146,4	2.947,3	2.914,5	2.991,5
Andre eksterne omkostninger	(799,7)	(744,7)	(1.049,9)	(1.108,4)	(1.066,5)
Personaleomkostninger	(679,8)	(535,1)	(748,9)	(631,8)	(623,8)
Andre indtægter	1,3	0,7	28,7	0,3	0,1
Resultat før renter, skat, afskrivninger og amortiseringer (EBITDA)	938,8	867,3	1.177,2	1.174,6	1.301,3
Afskrivninger af materielle anlægsaktiver	(90,5)	(74,4)	(102,0)	(128,8)	(125,0)
Resultat før renter, skat og amortiseringer af immaterielle aktiver (EBITA)	848,3	792,9	1.075,2	1.045,8	1.176,3
Amortiseringer af immaterielle aktiver	(137,5)	(122,8)	(167,5)	(271,1)	(244,9)
Resultat før renter og skat (EBIT)	710,8	670,1	907,7	774,7	931,4
Resultatandel efter skat i associerede virksomheder	7,0	3,6	6,2	5,4	11,9
Finansielle indtægter	15,5	17,0	29,1	5,7	5,4
Finansielle omkostninger	(75,5)	(70,8)	(97,4)	(110,1)	(106,1)
Resultat før skat	657,8	619,9	845,6	675,7	842,6
Skat af periodens resultat	(164,4)	(158,3)	(205,8)	(102,9)	(224,4)
Periodens resultat	493,4	461,6	639,8	572,8	618,2

Nettoomsætning

STG's nettoomsætning i perioden 1.–3. kvartal 2015 udgjorde DKK 4.965,4 mio., svarende til en stigning på DKK 469,6 mio., eller 10,4%, i forhold til DKK 4.495,8 mio. i perioden 1.–3. kvartal 2014. STG's justerede nettoomsætning i perioden 1.–3. kvartal 2015 udgjorde DKK 4.972,3 mio. Engangsposter i perioden 1.–3. kvartal 2015 vedrørte hensættelser til returnerede produkter som følge af indførelsen af et forbud mod bestemte smagsstoffer i Canada. STG har ikke foretaget korrektioner til nettoomsætningen for engangsposter for de andre præsenterede perioder.

STG's nettoomsætning i regnskabsåret 2014 udgjorde DKK 6.126,0 mio., svarende til en stigning på DKK 200,7 mio., eller 3,4%, i forhold til DKK 5.925,3 mio. i regnskabsåret 2013, hvilket var et fald på DKK 52,7 mio., eller 0,9%, i forhold til DKK 5.978,0 mio. i regnskabsåret 2012.

Bruttoresultat

STG's bruttoresultat i perioden 1.–3. kvartal 2015 udgjorde DKK 2.417,0 mio., svarende til en stigning på DKK 270,6 mio., eller 12,6%, i forhold til DKK 2.146,4 mio. i perioden 1.–3. kvartal 2014. STG's justerede bruttoresultat i perioden 1.–3. kvartal 2015 udgjorde DKK 2.460,7 mio. Engangsposter i perioden 1.–3. kvartal 2015 vedrørte primært hensættelser til ukurante varer som følge af lovgivningsmæssige ændringer. STG foretog ingen korrektioner til bruttoresultatet i perioden 1.–3. kvartal 2014.

STG's bruttoresultat i regnskabsåret 2014 udgjorde DKK 2.947,3 mio., svarende til en stigning på DKK 32,8 mio., eller 1,1%, i forhold til DKK 2.914,5 mio. i regnskabsåret 2013, hvilket var et fald på DKK 77,0 mio., eller 2,6%, i forhold til DKK 2.991,5 mio. i regnskabsåret 2012. STG's justerede bruttoresultat i regnskabsåret 2012 udgjorde DKK 2.969,7 mio. Engangsposter i regnskabsåret 2012 vedrørte tilbageførsel af hensættelser efter sammenslutningen med Swedish Match. STG foretog ingen korrektioner til bruttoresultatet for engangsposter for regnskabsårene 2014 og 2013.

Resultat før renter, skat, afskrivninger og amortiseringer (EBITDA)

STG's EBITDA i perioden 1.–3. kvartal 2015 udgjorde DKK 938,8 mio., svarende til en stigning på DKK 71,5 mio., eller 8,2%, i forhold til DKK 867,3 mio. i perioden 1.–3. kvartal 2014. STG's justerede EBITDA i perioden 1.–3. kvartal 2015 udgjorde DKK 1.050,6 mio., svarende til en stigning på DKK 170,6 mio., eller 19,4%, i forhold til DKK 880,0 mio. i perioden 1.–3. kvartal 2014. Engangsposter i perioden 1.–3. kvartal 2015 vedrørte omstruktureringsomkostninger, transaktionsomkostninger og hensættelser til ukurante varer, og engangsposter i perioden 1.–3. kvartal 2014 vedrørte omstruktureringsomkostninger.

STG's EBITDA i regnskabsåret 2014 udgjorde DKK 1.177,2 mio., svarende til en stigning på DKK 2,6 mio., eller 0,2%, i forhold til DKK 1.174,6 mio. i regnskabsåret 2013, hvilket var et fald på DKK 126,7 mio., eller 9,7%, i forhold til DKK 1.301,3 mio. i regnskabsåret 2012. STG's justerede EBITDA i regnskabsåret 2014 udgjorde DKK 1.246,6 mio., svarende til en stigning på DKK 48,5 mio., eller 4,0%, i forhold til DKK 1.198,1 mio. i regnskabsåret 2013, hvilket var et fald på DKK 70,1 mio., eller 5,5%, i forhold til DKK 1.268,2 mio. i regnskabsåret 2012. Engangsposter i regnskabsåret 2014 vedrørte omstruktureringsomkostninger, transaktionsomkostninger og gevinster fra salg af bygninger, engangsposter i regnskabsåret 2013 vedrørte omstruktureringsomkostninger, og engangsposter i regnskabsåret 2012 vedrørte tilbageførsel af hensættelser efter sammenslutningen med Swedish Match samt gevinster fra salg af bygninger.

Seneste udvikling

Siden 30. september 2015 har STG's virksomhed fortsat udviklet sig i overensstemmelse med de fremadrettede konsoliderede finansielle oplysninger for 2015. Generelt anslås STG's nettoomsætning for 2015 at være nogenlunde på niveau med tendenserne i 1.–3. kvartal 2015. Det anslås, at den justerede EBITDA-margin for 2015 vil være på niveau med 2014, men at den vil falde marginalt i forhold til niveauet for 1.–3. kvartal 2015.

Afsnit B – Udsteder

	Pr. 30. september 2015	Pr. 31. december 2014	2013	2012
	(urevideret)	(revideret)		
		(DKK mio.)		
BALANCE				
AKTIVER				
Immaterielle aktiver				
Goodwill	4.434,6	4.205,3	3.874,5	3.974,4
Varemærker	3.339,6	3.352,1	3.133,7	3.404,6
Øvrige immaterielle aktiver(1)	306,0	332,7	370,8	412,7
Immaterielle aktiver i alt	8.080,2	7.890,1	7.379,0	7.791,7
Materielle anlægsaktiver				
Grunde og bygninger	673,3	678,6	565,0	579,7
Produktionsanlæg og maskiner	339,6	339,1	247,7	254,6
Øvrige materielle anlægsaktiver(2)	273,9	185,2	299,0	157,1
Materielle anlægsaktiver i alt	1.286,8	1.202,9	1.111,7	991,4
Øvrige anlægsaktiver				
Øvrige anlægsaktiver i alt	273,2	282,6	180,8	194,2
Anlægsaktiver i alt	9.640,2	9.375,6	8.671,5	8.977,3
Omsætningsaktiver				
Varebeholdninger	3.093,2	3.099,2	2.926,9	2.780,7
Tilgodehavender				
Tilgodehavender fra salg og tjenesteydelser	832,4	811,1	817,1	971,8
Øvrige tilgodehavender(3)	373,6	295,0	316,0	321,5
Tilgodehavender i alt	1.206,0	1.106,1	1.133,1	1.293,3
Likvide beholdninger	291,2	581,0	464,3	684,2
Omsætningsaktiver i alt	4.590,4	4.786,3	4.524,3	4.758,2
Aktiver i alt	14.230,6	14.161,9	13.195,8	13.735,5
PASSIVER				
Egenkapital i alt	8.688,7	9.087,0	8.332,8	8.424,9
Banklån	3.311,4	2.307,5	2.756,5	3.008,9
Udskudte skatteforpligtelser	726,9	694,3	519,3	582,2
Øvrige langfristede forpligtelser(4)	326,5	319,3	311,9	399,3
Langfristede forpligtelser i alt	4.364,8	3.321,1	3.587,7	3.990,4
Banklån	–	650,8	221,9	232,0
Gæld til leverandører	319,4	375,9	359,9	352,6
Øvrige kortfristede forpligtelser(5)	857,7	727,1	693,5	735,6
Kortfristede forpligtelser i alt	1.177,1	1.753,8	1.275,3	1.320,2
Forpligtelser i alt	5.541,9	5.074,9	4.863,0	5.310,6
Passiver i alt	14.230,6	14.161,9	13.195,8	13.735,5

(1) Øvrige immaterielle aktiver omfatter IT-software og andre immaterielle aktiver.
(2) Øvrige materielle anlægsaktiver omfatter inventar, driftsmateriel og installationer, indretning af lejede lokaler og materielle anlægsarbejder under udførelse.
(3) Øvrige tilgodehavender omfatter tilgodehavender fra datterselskaber, acontoskat, forudbetalinger og andre tilgodehavender.
(4) Øvrige langfristede forpligtelser omfatter pensionsforpligtelser, andre hensættelser og øvrige forpligtelser.
(5) Øvrige kortfristede forpligtelser pr. 30. september 2015 omfatter kreditfaciliteter og øvrige forpligtelser. Øvrige kortfristede forpligtelser pr. 31. december 2014, 2013 og 2012 omfatter skatteforpligtelser, andre hensættelser og øvrige forpligtelser.

Afsnit B – Udsteder

STG's samlede aktiver udgjorde pr. 30. september 2015 DKK 14.230,6 mio. mod DKK 14.161,9 mio. pr. 31. december 2014, DKK 13.195,8 mio. pr. 31. december 2013 og DKK 13.735,5 mio. pr. 31. december 2012.

	1.–3. kvartal		Regnskabsåret		
	2015	2014	2014	2013	2012
	(urevideret)		(revideret)		
			(DKK mio.)		
PENGESTRØMSOPGØRELSE FOR KONCERNEN					
Pengestrømme fra driftsaktivitet	896,7	737,9	1.056,0	744,8	716,4
Pengestrømme fra investeringsaktivitet	(165,8)	(458,9)	(471,2)	(317,7)	(388,2)
Pengestrømme fra finansieringsaktivitet	(1.028,9)	(263,5)	(468,2)	(647,0)	(595,7)
Periodens ændring i likvider, netto . .	(298,0)	15,5	116,7	(219,9)	(267,5)
Likvider, netto pr. 1. januar	581,0	464,3	464,3	684,2	951,7
Periodens ændring i likvider, netto . .	(298,0)	15,5	116,7	(219,9)	(267,5)
Likvider, netto ved periodens udgang	283,0	479,8	581,0	464,3	684,2

Element	Oplysningskrav	Oplysninger
B.8	Udvalgte vigtige proforma-regnskabsoplysninger	Ikke relevant. Der er ingen ændringer, som kræver, at proforma-regnskabsoplysninger skal medtages i Prospektet.
B.9	Resultatforventninger eller -prognoser	For 2015 forventer STG høj encifret vækst i den rapporterede nettoomsætning og en justeret EBITDA-margin nogenlunde på niveau med 2014. STG forventer organiske vækstrater (dvs. vækst eksklusive virksomhedsopkøb og valutakurseffekter) for 2016 i intervallet 1–3% for justeret nettoomsætning og 3–5% for korrigeret EBITDA. ***Ovennævnte udsagn er fremadrettede udsagn. Fremadrettede udsagn er baseret på skøn og forudsætninger og er forbundet med kendte og ukendte risici, usikkerheder og andre væsentlige forhold, der kan få STG's faktiske resultater, udvikling eller præstationer eller branchens resultater til at afvige væsentligt fra det, der er udtrykt eller underforstået i forbindelse med disse fremadrettede udsagn. Hvis en eller flere af disse risikofaktorer eller usikkerheder udløses, eller hvis en underliggende forudsætning viser sig at være forkert, kan STG's faktiske finansielle stilling eller resultater afvige væsentligt fra det, der er udtrykt eller underforstået i forbindelse med sådanne udsagn.***
B.10	Forbehold i revisionspåtegningen vedrørende historiske finansielle oplysninger	Ikke relevant. Revisionspåtegningen for det Reviderede Koncernregnskab i Prospektet indeholder ingen forbehold.
B.11	Forklaring, hvis Selskabets arbejdskapital ikke er tilstrækkelig til at dække Selskabets nuværende behov	Ikke relevant. Det er Selskabets vurdering, at arbejdskapitalen pr. prospektdatoen er tilstrækkelig til at dække finansieringsbehovet i mindst 12 måneder fra prospektdatoen.

Afsnit C – Værdipapirer

Element	Oplysningskrav	Oplysninger
C.1	En beskrivelse af typen og klassen af Udbudte Aktier, herunder fondskode	Aktierne, herunder de Udbudte Aktier, er ikke inddelt i aktieklasser. Udbudte Aktier (permanent ISIN-kode): DK0060696300 Nasdaq Copenhagen-symbol: "STG"
C.2	Valuta for de Udbudte Aktier	De Udbudte Aktier er denomineret i danske kroner.
C.3	Antallet af udstedte og fuldt indbetalte Aktier og af udstedte, men ikke fuldt indbetalte Aktier	Pr. prospektdatoen udgør Selskabets aktiekapital DKK 100.000.000 fordelt på 100.000.000 stk. aktier à nominelt DKK 1,00. Alle Aktier er udstedt og fuldt indbetalt.
C.4	En beskrivelse af Aktiernes rettigheder	Alle Aktier, herunder de Udbudte Aktier, har samme rettigheder som alle øvrige Aktier, herunder med hensyn til stemmeret, fortegningsret, indløsning, konvertering og restriktioner eller begrænsninger i overensstemmelse med Vedtægterne eller med hensyn til ret til udbytte eller provenu i tilfælde af opløsning eller likvidation. Hver Aktie giver ejeren ret til én stemme på Selskabets generalforsamling ("**Generalforsamlingen**").
C.5	En beskrivelse af eventuelle indskrænk-ninger i Aktiernes omsættelighed	Ikke relevant. Aktierne er omsætningspapirer, og der gælder ingen indskrænkninger i Aktiernes omsættelighed i henhold til Selskabets vedtægter ("**Vedtægterne**") eller dansk ret.
C.6	Optagelse til handel på et reguleret marked	Aktierne har ikke været handlet offentligt før Udbuddet. Aktierne er søgt optaget til handel og officiel notering på Nasdaq Copenhagen under symbolet "STG" i den permanente ISIN-kode DK0060696300. Optagelse til handel og officiel notering af Aktierne på Nasdaq Copenhagen forudsætter bl.a., at Nasdaq Copenhagen godkender fordelingen af de Udbudte Aktier og sammensætningen af den Nye Bestyrelse (som defineret heri). Den første handels- og officielle noteringsdag for de Aktier, der er registreret i den permanente ISIN-kode på Nasdaq Copenhagen, forventes at være den 10. februar 2016. Hvis Udbudsperioden lukkes før den 9. februar 2016, vil Aktiernes første handels- og officielle noteringsdag på Nasdaq Copenhagen samt datoen for betaling og afvikling blive fremrykket tilsvarende.
C.7	En beskrivelse af udbyttepolitik	Bestyrelsen har vedtaget en udbyttepolitik med en målsætning for udbytteprocenten på mindst 70% af årets nettoresultat for Koncernen. Udlodning til aktionærer kan også ske i form af Selskabets køb af egne Aktier. Pr. prospektdatoen er Bestyrelsen på vegne af Selskabet bemyndiget til at købe egne Aktier, i det omfang Selskabets besiddelse af egne Aktier ikke på noget tidspunkt overstiger 10% af Selskabets aktiekapital. Købskursen må ikke afvige mere end 10% fra børskursen på Nasdaq Copenhagen på købstidspunktet. Bemyndigelsen er gældende indtil den 31. december 2020.

Afsnit C – Værdipapirer

Element	Oplysningskrav	Oplysninger
		Betaling af udbytte samt størrelsen af og tidspunktet for udbyttebetalingen afhænger af en række forhold, herunder fremtidig indtjening, resultat, finansielle forhold, generelle samfundsøkonomiske og forretningsmæssige forhold, fremtidsudsigter, strategiske initiativer som f.eks. M&A-aktiviteter eller større investeringer, der vedtages af Bestyrelsen, og andre forhold, som Bestyrelsen måtte finde relevante, samt gældende myndigheds- og lovgivningsmæssige krav. Desuden pålægger vilkårene og betingelserne i Låneaftalen (som defineret i dette Prospekt) visse begrænsninger i Selskabets mulighed for at deklarere og udbetale udbytte på grundlag af forholdet mellem STG's nettogæld og EBITDA. Der kan ikke gives sikkerhed for, at der i et givent år vil blive foreslået aktietilbagekøb eller deklareret udbytte, eller at Selskabets økonomiske resultater vil gøre det muligt at overholde udbyttepolitikken eller foretage en eventuel forhøjelse af udbytteprocenten. Selskabets evne til at betale udbytte eller købe egne aktier kan blive forringet som følge af forskellige faktorer, herunder hvis nogle af de risici, der fremgår af dette Prospekt, skulle indtræffe. Endvidere kan Bestyrelsen til enhver tid ændre udbyttepolitikken. I september 2015, godkendte Bestyrelsen udbetaling af et ekstraordinært kontant udbytte på DKK 900 mio. (svarende til DKK 9,00 pr. Aktie), der blev udbetalt til de Sælgende Aktionærer. For regnskabsårene 2014, 2013 og 2012 har Selskabet deklareret og udbetalt henholdsvis DKK 427 mio. (svarende til DKK 4,27 pr. Aktie), DKK 382 mio. (svarende til DKK 3,82 pr. Aktie) og DKK 412 mio. (svarende til DKK 4,12 pr. Aktie) i udbytte til de Sælgende Aktionærer.

Afsnit D – Risici

Element	Oplysningskrav	Oplysninger

D.1	Nøgleoplysninger om de vigtigste risici, der er specifikke for STG eller STG's branche	*En investering i aktier som f.eks. de Udbudte Aktier indebærer en væsentlig økonomisk risiko. En investering i de Udbudte Aktier indebærer risici, herunder risici vedrørende STG's branche og virksomhed, som bør overvejes nøje, inden der træffes en beslutning om køb af Udbudte Aktier.*
		
		De risici, der vedrører STG's branche omfatter, men er ikke begrænset til følgende:
		
		• STG oplever i stigende grad regulering af tobaksprodukter, som kan få væsentlig negativ indvirkning på STG's virksomhed, finansielle stilling og resultat, herunder:
		    • Det nye tobaksvaredirektiv (2014/40/EU) ("**Tobaksvaredirektivet**"), der skal implementeres i hver EU-medlemsstats nationale lovgivning senest i maj 2016
		    • Det forslag, som fra de amerikanske sundhedsmyndigheder Food and Drug Administration ("**FDA**") offentliggjorde i 2014 og som vil udvide tilsynsmyndighedens regulatoriske magt til også at omfatte cigarer og pibetobak (de såkaldte "**Deeming Regulations**"). Høringsperioden for de foreslåede Deeming Regulations udløb i august 2014, og FDA forventes i nær fremtid at offentliggøre den endelige version af Deeming Regulations (1. kvartal 2016 eller senere).

Afsnit D – Risici		
Element	**Oplysningskrav**	**Oplysninger**
		• Ændrede punktafgifter på tobaksprodukter og særligt en ensretning af punktafgifterne på tværs af forskellige kategorier af tobaksprodukter kan få væsentlig negativ indvirkning på efterspørgslen efter STG's produkter. • Et væsentligt fald i efterspørgslen efter den type tobaksprodukter, som STG fremstiller, kan særligt på visse af STG's geografiske kernemarkeder få væsentlig negativ indvirkning på STG's resultat. • Hvis den amerikanske embargo mod Cuba ophæves, kan det få væsentlig negativ indvirkning på STG's cigarsalg i USA. • En overtrædelse af korruptions- eller bestikkelseslovgivning og -bestemmelser kan få væsentlig negativ indvirkning på STG's virksomhed, finansielle stilling og resultat. • STG's aktiviteter er underlagt økonomiske sanktioner og handelssanktioner, og STG's procedurer for selskabsledelse og overholdelse af compliance-krav vil muligvis ikke kunne forhindre en overtrædelse af sådanne sanktioner. • Da STG har aktiviteter og salg i en lang række lande, kan STG blive påvirket af den økonomiske, regulatoriske og politiske udvikling samt af naturkatastrofer og konflikter. **De risici, der vedrører STG's virksomhed omfatter, men er ikke begrænset til følgende:** • STG's mærker udgør væsentlige aktiver i STG's forretning, og et ændret renommé for STG's mærker kan få væsentlig negativ indvirkning på STG's virksomhed. • De markeder, som STG opererer på, er meget konkurrenceprægede, hvilket kan få væsentlig negativ indvirkning på STG's virksomhed, finansielle stilling og resultat. • Hvis der opstår afbrydelser i STG's produktleverancer til et eller flere markeder, kan det få væsentlig negativ indvirkning på STG's virksomhed, finansielle stilling og resultat. • Såfremt STG ikke formår at reagere rettidigt på ændringer i forbrugernes efterspørgsel og tendenser i markedet, kan det få væsentlig negativ indvirkning på STG's virksomhed, finansielle stilling og resultat. • STG vil muligvis ikke kunne fastholde væksten i sin nettoomsætning i overensstemmelse med sin strategi. • De effektiviseringstiltag og arbejdskapitalinitiativer, som STG har foretaget eller planlægger at foretage, vil muligvis ikke kunne gennemføres som planlagt eller inden for den aktuelt forventede tidshorisont og/eller vil muligvis ikke føre til de forventede omkostningsbesparelser eller arbejdskapitalreduktioner. • Vekslende tilgængelighed af råtobak og udsving i prisen på råtobak kan få væsentlig negativ indvirkning på STG's virksomhed, finansielle stilling og resultat. • Overtrædelse af tredjemands immaterielle rettigheder eller beskyldninger om sådanne overtrædelser kan få væsentlig negativ indvirkning på STG's virksomhed, finansielle stilling og resultat. • STG vil muligvis ikke kunne administrere og beskytte sine immaterielle rettigheder.

Afsnit D – Risici

Element	Oplysningskrav	Oplysninger
		• Valutakursudsving kan få væsentlig negativ indvirkning på STG's virksomhed, finansielle stilling og resultat. • STG's immaterielle aktiver, herunder dets goodwill og varemærker, udgør en væsentlig del af STG's samlede aktiver, og en nedskrivning af immaterielle aktiver kan få væsentlig negativ indvirkning på STG's finansielle stilling og resultat. • STG er eksponeret mod risici i forbindelse med sine pensionsforpligtelser. • Ændringer i dansk eller udenlandsk skatte- og afgiftslovgivning eller compliancekrav eller den praktiske fortolkning og administration heraf kan få væsentlig negativ indvirkning på STG's virksomhed, finansielle stilling og resultat. • De betingelser, der gælder for STG's finansieringsaftaler, kan begrænse STG's kommercielle og økonomiske fleksibilitet. • Et nedbrud i STG's eller tredjemands produktion eller en forstyrrelse af lagerdriften kan få væsentlig negativ indvirkning på STG's virksomhed, finansielle stilling og resultat. • STG er afhængig af et mindre antal centrale ledere og nøglemedarbejdere og vil muligvis have vanskeligt ved at tiltrække og ansætte nye kvalificerede medarbejdere. • Arbejdsnedlæggelser eller andre faglige forhold kan få væsentlig negativ indvirkning på STG's virksomhed, finansielle stilling og resultat. • STG's afhængighed af tredjemand kan få væsentlig negativ indvirkning på STG's virksomhed, finansielle stilling og resultat. • Nedbrud i IT-systemer eller en IT-sikkerhedsbrist kan få væsentlig negativ indvirkning på STG's virksomhed, finansielle stilling og resultat. • STG's risikostyringspolitikker vil muligvis ikke være tilstrækkelige. • STG's forsikringspolicer yder begrænset dækning, hvilket medfører, at STG muligvis ikke har dækning for visse risici. • STG kan blive mødt med krav vedrørende de sundhedsmæssige konsekvenser, der er forbundet med brug af tobaksprodukter, og sådanne krav kan ikke forsikres. • De fremadrettede konsoliderede finansielle oplysninger, der indgår i dette Prospekt, kan afvige væsentligt fra STG's faktiske resultater, og investor bør ikke tillægge disse oplysninger uforholdsmæssig megen vægt.

Afsnit D – Risici

Element	Oplysningskrav	Oplysninger
D.3	Nøgleoplysninger om de vigtigste risici vedrørende de Udbudte Aktier	*Ud over risici vedrørende STG's branche og virksomhed er de Udbudte Aktier forbundet med risici, som bør overvejes nøje, inden der træffes en beslutning om at købe Udbudte Aktier, herunder:* • Efter Udbuddet vil de Sælgende Aktionærer fortsat være væsentlige aktionærer i Selskabet og kan kontrollere eller på anden måde påvirke vigtige handlinger, som Selskabet foretager, på en måde, som muligvis ikke er forenelig med Selskabets minoritetsaktionærers interesser. • Aktierne har ikke tidligere været handlet offentligt, der vil måske ikke opstå et likvidt marked for Aktierne, og kursen på Aktierne kan være volatil og svinge betydeligt som reaktion på forskellige faktorer. • Fremtidige salg af Aktier efter Udbuddet kan medføre et fald i Aktiernes markedskurs. • Valutakursudsving kan få væsentlig negativ indvirkning på værdien af en aktiebeholdning eller værdien af udloddet udbytte. • Amerikanske og andre udenlandske ejere af Aktier vil muligvis ikke kunne udnytte fortegningsrettigheder eller deltage i fremtidige fortegningsemissioner. • Investors rettigheder som aktionærer vil være underlagt dansk ret og adskiller sig i visse henseender fra aktionærers rettigheder i henhold til andre landes lovgivning.

Afsnit E – Udbud

Element	Oplysningskrav	Oplysninger
E.1	Udbuddets samlede nettoprovenu og anslåede udgifter	Selskabet modtager ikke noget provenu i forbindelse med de Sælgende Aktionærers salg af Udbudte Aktier i Udbuddet. Udgifter vedrørende Udbuddet, herunder provisioner og honorarer (faste og diskretionære), der skal betales til Emissionsbankerne, afholdes af de Sælgende Aktionærer. De Sælgende Aktionærer har endvidere indgået aftale om at betale salgsprovision til de kontoførende institutter (medmindre det pågældende kontoførende institut er en Emissionsbank) svarende til 0,25% af Udbudskursen på de Udbudte Aktier, der tildeles i forbindelse med ordrer for beløb op til og med DKK 3 mio. afgivet gennem de pågældende kontoførende institutter (undtagen Emissionsbankerne). Visse udgifter vedrørende Aktiernes optagelse til handel og officiel notering på Nasdaq Copenhagen skal betales af Selskabet. Selskabets udgifter i forbindelse med Udbuddet forventes at udgøre mellem DKK 44 mio. og DKK 58 mio. baseret på Udbudskursintervallet primært vedrørende den Ekstraordinære Bonusordning (som defineret heri) og det Eksisterende LTIP (som defineret heri). DKK 24,5 mio. af disse anslåede udgifter blev indregnet i STG's koncernbalance pr. 30. september 2015.

Afsnit E – Udbud

Element	Oplysningskrav	Oplysninger
E.2a	Baggrund for Udbuddet og anvendelse af provenu, forventet nettoprovenu	Optagelse af Aktierne til handel og officiel notering på Nasdaq Copenhagen i forbindelse med Udbuddet forventes at give et solidt grundlag for fremtidig vækst ved at forøge Selskabets synlighed, forbedre evnen til at tiltrække og fastholde nøglemedarbejdere og brede aktionærkredsen ud, blandt andre fordele ved at være et børsnoteret selskab.
E.3	Udbudsbetingelser	De Sælgende Aktionærer udbyder i alt 35.600.000 stk. Fast Udbudte Aktier, ekskl. eventuelle Aktier i henhold til Overallokeringsretten. Skandinavisk Holding II har givet Emissionsbankerne en Overallokeringsret, der kan udnyttes helt eller delvist af Stabiliseringsagenten, til at købe op til 4.400.000 stk. Overallokeringsaktier til Udbudskursen fra Aktiernes første handels- og officielle noteringsdag og indtil den 30. kalenderdag derefter, alene til dækning af eventuel overallokering eller andre korte positioner i forbindelse med Udbuddet. I forbindelse med Overallokeringsretten har de Sælgende Aktionærer indgået Udligningsaftalen, hvorefter Swedish Match Cigars Holding på visse betingelser accepterer at sælge det antal Aktier til Skandinavisk Holding II, og Skandinavisk Holding II accepterer at købe det antal Aktier fra Swedish Match Cigars Holding, til Udbudskursen, som bevirker, at de Sælgende Aktionærer sælger et lige antal Aktier i Udbuddet. Udbuddet består af: 1) et offentligt udbud til private og institutionelle investorer i Danmark, 2) en privatplacering i USA udelukkende til personer, der er “qualified institutional buyers” eller “QIBs” i medfør af Rule 144A, eller i medfør af en anden undtagelse fra, eller i en transaktion, der ikke er underlagt, registreringskravene i U.S. Securities Act, og 3) privatplaceringer til institutionelle investorer i resten af verden. Udbuddet uden for USA foretages i henhold til Regulation S. Udbudskursen forventes at udgøre mellem DKK 93 og DKK 110 pr. Udbudt Aktie og vil blive fastlagt ved bookbuilding. Udbudskursen fastlægges af de Sælgende Aktionærer og Bestyrelsen i samråd med Joint Global Coordinators og forventes offentliggjort via Nasdaq Copenhagen senest kl. 8.00 (dansk tid) den 10. februar 2016. Udbudskursintervallet kan til enhver tid ændres i løbet af Udbudsperioden. Resultatet af Udbuddet, Udbudskursen og tildelingsgrundlaget forventes offentliggjort via Nasdaq Copenhagen senest kl. 8.00 (dansk tid) den 10. februar 2016. Hvis Udbudsperioden lukkes før den 9. februar 2016, vil offentliggørelsen af Udbudskursen og tildelingen blive rykket tilsvarende frem. Hvis Udbudskursintervallet bliver ændret, vil Selskabet udsende en meddelelse via Nasdaq Copenhagen og offentliggøre et prospekttillæg. Efter offentliggørelse af det pågældende prospekttillæg vil investorer, der har indleveret købsordrer på Udbudte Aktier i Udbudsperioden have to børsdage til at tilbagekalde deres ordre som helhed. I så fald vil meddelelsen om Udbudskursen først blive offentliggjort, når fristen for udnyttelse af retten til tilbagekaldelse er udløbet. Udbudsperioden løber fra og med den 28. januar 2016 til og med senest kl. 16.00 (dansk tid) den 9. februar 2016. Udbudsperioden kan lukkes før den 9. februar 2016. Hel eller delvis lukning af

Element	Oplysningskrav	Oplysninger
		Udbudsperioden vil dog tidligst finde sted den 6. februar 2016 kl. 00.01 (dansk tid). Hvis Udbuddet lukkes før den 9. februar 2016, vil Aktiernes første handels- og officielle noteringsdag på Nasdaq Copenhagen samt datoen for betaling og afvikling blive fremrykket tilsvarende. Udbudsperioden for købsordrer for beløb til og med DKK 3 mio. kan lukkes før resten af Udbuddet efter Joint Global Coordinators' skøn, hvis de vurderer, at de modtagne ordrer er tilstrækkelige til at lukke bookbuildingen. En sådan førtidig hel eller delvis lukning offentliggøres i givet fald via Nasdaq Copenhagen. Der skal som minimum købes 1 stk. Udbudt Aktie. Der gælder intet maksimum for køb i Udbuddet. Antallet af aktier begrænses dog til antallet af Udbudte Aktier i Udbuddet. Forud for Udbuddet har visse medlemmer af den Eksisterende Bestyrelse, den Nye Bestyrelse, Direktionen, Nøglemedarbejderen og et begrænset antal af STG's øvrige medarbejdere uigenkaldeligt påtaget sig at erhverve Udbudte Aktier til Udbudskursen op til et bestemt investeringsbeløb for hver berettiget person. Det antal Udbudte Aktier, der vil blive fordelt for at opfylde disse ordrer, afhænger af Udbudskursen. Købsordrer fra investorer for beløb til og med DKK 3 mio. skal afgives på den ordreblanket, der er indeholdt i det Engelsksprogede Prospekt. Ordreblanketten skal indsendes til investors eget kontoførende institut i løbet af Udbudsperioden eller en eventuelt kortere periode, der måtte blive offentliggjort via Nasdaq Copenhagen. Ordrer er bindende og kan ikke ændres eller annulleres efter afgivelse. Ordrer kan afgives med en maksimumkurs pr. Udbudt Aktie i danske kroner. Hvis Udbudskursen overstiger den maksimumkurs pr. Udbudt Aktie, der er anført på ordreblanketten, vil den pågældende investor ikke blive tildelt Udbudte Aktier. Hvis der ikke er angivet en maksimumkurs pr. Udbudt Aktie, anses ordren for at være afgivet til Udbudskursen. Alle ordrer, der er afgivet til en kurs lig med Udbudskursen eller en højere kurs, afregnes til Udbudskursen efter eventuel tildeling. Ordrer skal afgives for et antal Udbudte Aktier eller for et samlet beløb afrundet til nærmeste kronebeløb. Der kan kun indleveres én ordreblanket for hver VP-konto. For bindende ordrer indsendes den udfyldte og underskrevne ordreblanket til investors eget kontoførende institut i så god tid, at det kontoførende institut kan behandle og fremsende ordreblanketten, således at den er Nordea Bank Danmark A/S i hænde senest kl. 16.00 (dansk tid) den 9. februar 2016 eller på et eventuelt tidligere tidspunkt, hvor Udbuddet lukkes. Investorer, som ønsker at afgive købsordrer for beløb over DKK 3 mio., kan tilkendegive deres interesse til en eller flere af Emissionsbankerne i løbet af Udbudsperioden. Disse investorer kan i Udbudsperioden ændre eller tilbagekalde deres interessetilkendegivelser, men disse interessetilkendegivelser bliver bindende ordrer ved udløbet af Udbudsperioden. Hvis det samlede antal Aktier, der afgives ordrer for i Udbuddet, er højere end antallet af Udbudte Aktier, vil der ske enten matematisk eller diskretionær reduktion afhængig af, om ordren er for et beløb, der er større eller mindre end DKK 3 mio.

Afsnit E – Udbud

Element	Oplysningskrav	Oplysninger
		Ordrer og interessetilkendegivelser medfører muligvis ikke tildeling af Udbudte Aktier. Efter Udbudsperiodens udløb modtager investorerne en opgørelse over det eventuelle antal Udbudte Aktier, der er tildelt dem, og værdien heraf til Udbudskursen, medmindre andet er aftalt mellem investor og det relevante kontoførende institut. De Udbudte Aktier forventes leveret elektronisk gennem VP Securities, Euroclear og Clearstream omkring den 12. februar 2016 mod kontant betaling i danske kroner. Hvis kursfastsættelse og tildeling i Udbuddet sker før den 9. februar 2016, vil Aktiernes første handels- og officielle noteringsdag på Nasdaq Copenhagen samt datoen for betaling og afvikling blive fremrykket tilsvarende. Al handel med de Udbudte Aktier forud for afvikling sker for de involverede parters egen regning og risiko. Udbuddet kan tilbagekaldes af Selskabet, de Sælgende Aktionærer eller Joint Global Coordinators til enhver tid, før kursfastsættelse og tildeling i Udbuddet har fundet sted. Hvis Udbuddet trækkes tilbage, vil det straks blive offentliggjort via Nasdaq Copenhagen.
E.4	Væsentlige interesser i Udbuddet, herunder interessekonflikter	J.P. Morgan, Deutsche Bank og Nordea er Joint Global Coordinators i Udbuddet, og Carnegie er Co-Lead Manager i Udbuddet og er sammen med Joint Global Coordinators Emissionsbanker i Udbuddet. Visse Emissionsbanker og deres respektive tilknyttede virksomheder har fra tid til anden været involveret i og kan i fremtiden blive involveret i forretningsbankvirksomhed, investeringsbankvirksomhed og finansielle rådgivningstransaktioner og -ydelser som led i deres almindelige aktiviteter med Selskabet eller de Sælgende Aktionærer eller enhver af Selskabets eller de Sælgende Aktionærers respektive nærtstående parter. For visse af disse transaktioner og ydelser gælder det, at deling af information generelt er underlagt restriktioner af hensyn til fortrolighed, interne procedurer eller gældende regler og forskrifter. Emissionsbankerne har modtaget og vil modtage sædvanligt honorar og provision for sådanne transaktioner og ydelser og vil muligvis få interesser, der ikke er forenelige med eller potentielt kunne være i modstrid med potentielle investorers og Selskabets interesser. Nordea Bank Danmark A/S er desuden en af långiverne i forbindelse med Låneaftalen. Selskabet er ikke bekendt med nogen mulig interesse eller interessekonflikt for fysiske eller juridiske personer, der er involveret i Udbuddet, og som måtte have en væsentlig interesse i Udbuddet og Selskabets optagelse af Aktierne til handel og officiel notering på Nasdaq Copenhagen.
E.5	Sælgende Aktionærers lockup-aftaler	De Sælgende Aktionærer, Skandinavisk Holding II og Swedish Match Cigars Holding, udbyder op til 40.000.000 stk. Udbudte Aktier, herunder Aktier, der er omfattet af Overallokeringsretten. Skandinavisk Holding II er et selskab, der er stiftet og registreret i henhold til lovgivningen i Danmark med CVR-nr. 83 33 62 18 og hjemsted på adressen Sydmarken 42, 2860 Søborg.

Afsnit E – Udbud

Element	Oplysningskrav	Oplysninger
		Swedish Match Cigars Holding er et selskab, der er stiftet og registreret i henhold til lovgivningen i Sverige med selskabsregistreringsnr. 556367-1253 og hjemsted på adressen Sveavägen 44, 118 85 Stockholm, Sverige. Efter gennemførelse af Udbuddet vil Swedish Match Cigars Holding eje 31.200.000 stk. Aktier, svarende til 31,2% af Selskabets aktiekapital og stemmerettigheder, og Skandinavisk Holding II vil eje 33.200.000 stk. Aktier svarende til 33,2% af Selskabets aktiekapital og stemmerettigheder, forudsat Overallokeringsretten ikke udnyttes. Hvis Overallokeringsretten udnyttes fuldt ud, vil Swedish Match Cigars Holding eje 29.000.000 stk. Aktier svarende til 29,0% af Selskabets aktiekapital og stemmerettigheder, og Skandinavisk Holding II vil eje 31.000.000 stk. Aktier svarende til 31,0% af Selskabets aktiekapital og stemmerettigheder, efter gennemførelse af Udbuddet. De Sælgende Aktionærer har indgået aftale med Emissionsbankerne om, at de i en periode på 180 dage fra første handels- og officielle noteringsdag for Aktierne, undtagen som anført nedenfor, ikke uden Joint Global Coordinators' forudgående skriftlige samtykke vil 1) udbyde, pantsætte, sælge, indgå aftale om at sælge, sælge nogen option eller indgå aftale om at købe, købe nogen option eller indgå aftale om at sælge, tildele nogen option, ret eller warrant til at købe, udlåne, foranledige at Selskabet udsteder eller på anden måde, direkte eller indirekte, overdrager eller afhænder (eller offentliggøre en sådan disposition) nogen af Aktierne eller værdipapirer, der kan konverteres til, udnyttes til eller ombyttes til Aktierne, 2) indgå nogen swap eller anden disposition, der helt eller delvist overdrager nogen af de økonomiske konsekvenser i forbindelse med ejerskab af Aktierne, uanset om sådanne transaktioner beskrevet under 1) eller 2) afregnes ved levering af Aktier eller sådanne andre værdipapirer, kontant eller på anden måde, eller 3) fremsætte forslag til aktionærerne om at iværksætte noget af ovenstående. Foranstående gælder ikke 1) salg af de Udbudte Aktier i Udbuddet, 2) udlån af Aktier i henhold til aktielånsaftalen, 3) salg af Aktier i henhold til Udligningsaftalen eller 4) overdragelse af Aktier til de direkte eller indirekte eksisterende aktionærer i de Sælgende Aktionærer i forbindelse med eller som følge af eventuelt udbytte eller anden udlodning eller eventuel likvidation, opløsning, omstrukturering eller anden lignende begivenhed, der påvirker de Sælgende Aktionærer eller nogen af disses tilknyttede virksomheder, forudsat at de pågældende aktionærer i de Sælgende Aktionærer, der modtager Aktierne som led i en sådan udlodning eller anden begivenhed, skal være underlagt ovennævnte begrænsninger, såfremt en sådan udlodning eller anden begivenhed sker i de Sælgende Aktionærers lockup-periode på 180 dage. Medlemmerne af Bestyrelsen, Direktionen, Nøglemedarbejderen og et begrænset antal øvrige medarbejdere har desuden indgået aftale med Selskabet om, at de i en periode på 365 dage efter Aktiernes første handels- og officielle noteringsdag i alt væsentligt er underlagt de samme lockup-begrænsninger som de Sælgende Aktionærer, som anført

Element	Oplysningskrav	Oplysninger
		ovenfor, i forhold til Aktier erhvervet i Udbuddet. Ud over ovenstående undtagelser gælder de lockup-forpligtelser, der er aftalt med medlemmerne af Bestyrelsen, Direktionen, Nøglemedarbejderen og øvrige omfattede personer, ikke for 1) overdragelse af nogle eller alle Aktierne til en ægtefælle, et barn eller til en juridisk enhed, som et medlem af Bestyrelsen, Direktionen, Nøglemedarbejderen eller øvrige omfattede personer enten alene eller sammen med en anden nærtstående part har bestemmende indflydelse over, 2) modtagelse af restricted stock units eller aktier i et aktiebaseret incitamentsprogram, 3) overdragelse af nogle eller alle Aktierne, som følge af dødsfald eller permanent invaliditet eller afbrydelse af ansættelse i en fortløbende periode på mindst 16 uger på grund af invaliditet eller sygdom eller 4) pantsætning af nogen Aktier til eller til fordel for et pengeinstitut for et beløb, der er lånt af det pågældende pengeinstitut til finansiering af køb af Aktier med visse begrænsninger. For så vidt angår 1) forudsættes det dog, at den overdragende part vil gøre sig alle rimelige anstrengelser for at få modtageren til at underskrive en erklæring vedrørende Aktierne om at ville overholde de samme lockup-betingelser. Skandinavisk Holding II har i henhold til en aktielånsaftale indgået aftale om at stille op til 4.400.000 stk. Overallokeringsaktier til rådighed for Emissionsbankerne med henblik på levering af de Udbudte Aktier til investorer i forbindelse med Overallokeringsretten. I forbindelse med Overallokeringsretten har de Sælgende Aktionærer indgået Udligningsaftalen, hvorefter Swedish Match Cigars Holding på visse betingelser accepterer at sælge det antal Aktier til Skandinavisk Holding II, og Skandinavisk Holding II accepterer at købe det antal Aktier fra Swedish Match Cigars Holding, til Udbudskursen, som bevirker, at de Sælgende Aktionærer sælger et lige antal Aktier i Udbuddet.
E.6	Beløb og procentdel for umiddelbar udvanding som følge af Udbuddet	Ikke relevant. Der vil ikke blive udstedt nye Aktier i forbindelse med Udbuddet.
E.7	Anslåede udgifter, som investor pålægges af Selskabet eller de Sælgende Aktionærer	Ikke relevant. Hverken Selskabet, de Sælgende Aktionærer eller Emissionsbankerne vil pålægge investorerne udgifter. Investorerne skal afholde sædvanlige transaktions- og ekspeditionsgebyrer, der opkræves af deres kontoførende institut.

English Summary

Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A–E (A.1–E.7). This summary contains all the Elements required to be included in a summary for this type of security and issuer under the Prospectus Regulation no. 486/2012, as amended. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of security and issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of "not applicable".

Section A – Introduction and warnings

Element	Disclosure requirement	Disclosure
A.1	Warning to investors	This summary should be read as an introduction to this Offering Circular. Any decision to invest in the Offer Shares should be based on consideration of the Offering Circular as a whole by the investor. Where a claim relating to the information contained in the Offering Circular is brought before a court, the plaintiff investor might, under the national legislation of the EEA member states, have to bear the costs of translating this Offering Circular before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of the Offering Circular or it does not provide, when read together with the other parts of the Offering Circular, key information in order to aid investors when considering whether to invest in the Offer Shares.
A.2	Consent for intermediaries	Not applicable. No agreement has been made in regard to use of the Offering Circular in connection with a subsequent resale or final placement of the Offer Shares.

Section B – Issuer

Element	Disclosure requirement	Disclosure
B.1	Legal and commercial name	The Company is registered with the legal name Scandinavian Tobacco Group A/S. The Company also carries on business under the secondary name Skandinavisk Tobakskompagni A/S.
B.2	Domicile, legal form, country of incorporation	The Company was incorporated in Denmark on 28 November 2007 as a public limited company governed by Danish law and has its registered office at Sydmarken 42, DK-2860 Søborg, Denmark.
B.3	Current operations and principal activities	STG is a world leading producer of cigars and traditional pipe tobacco and STG also produces fine-cut tobacco and sells tobacco-related accessories and fire lighting products. STG holds market leading positions in the machine-made cigar market in Europe, the handmade cigar market in the United States, online and catalogue retail sales of handmade cigars in the United States, the traditional pipe tobacco market globally and selected fine-cut tobacco markets. More than 70 percent of STG's net sales for 2014 were derived from markets in which it held a number one or two market position within the segment, in each case measured by sales volumes.

Element	Disclosure requirement	Disclosure
		STG offers a comprehensive range of handmade cigars, machine-made cigars, pipe tobacco and fine-cut tobacco products, and STG believes it is the only company globally with a core strategic focus on production and distribution in all of these product categories. STG's brand portfolio includes more than 200 international, regional and locally established brands that target a wide range of consumer segments, local taste preferences and price points from premium to value.

The following table sets forth information on STG's segments:

	Segment contribution to net sales for the first nine months of 2015	Selected key brands
	(percent)	
Handmade cigars	29.0	Macanudo, CAO, Punch[(1)], La Gloria Cubana[(1)], Cohiba[(1)], 5Vegas, Diesel
Machine-made cigars . .	40.1	Café Crème, La Paz, Mercator, Colts, Captain Black, Break
Pipe tobacco	9.3	Captain Black, Erinmore, Borkum Riff, W.Ø. Larsen, Clan
Fine-cut tobacco	8.8	Bugler, Break, Escort, Bali Shag, Tiedemanns
Other	12.8	n/a

(1) STG owns the brand in the United States and has limited or no ownership of the brand outside of the United States.

STG's products are sold in more than 100 countries. STG has 18 sales offices and over 500 sales representatives across North America, Europe, Australia and New Zealand (as at 30 September 2015), including local sales organisations serving key cigar, pipe tobacco and fine-cut tobacco markets, which STG believes is the optimal way to reach its customers. STG's sales organisation supports the sale of STG's products through various sales and distribution channels, including wholesalers, supermarkets, tobacconists, convenience stores, liquor stores, drug stores, distributors, partners, online and catalogue retail, and its brick-and-mortar retail locations. Cigars International, STG's online and catalogue direct marketing business for cigars, pipe tobacco and tobacco-related accessories in the United States, holds the leading position in online and catalogue retail of handmade cigars in the United States. The diversified geographic and channel mix limits STG's dependence on any single market, channel or customer.

STG has extensive knowledge and experience in areas such as tobacco purchasing and blending, development of flavour combinations, production methods and packaging throughout its organisation. By actively utilising and transferring this knowledge and experience among segments, STG leverages its internal know-how to create new and appealing products and to quickly adapt to changes in consumer preferences. STG has launched

Element	Disclosure requirement	Disclosure
		several successful initiatives in recent years, including new brands, product variants and concepts, relaunches of existing brands and product line extensions. These initiatives are aimed at meeting consumer trends and curiosity for new products and variants while supporting STG's leading market positions, pricing terms and organic growth. STG also actively manages its brand portfolio, with recent examples including leveraging brands across product categories (*e.g.*, Captain Black), internationalising strong local brands (*e.g.*, Colts) and other activities aimed at optimising its brand portfolio. STG's global production footprint consists of 14 facilities in eight countries, including facilities in many of the significant tobacco growing regions, the Dominican Republic, Honduras, Nicaragua and Indonesia, as well as facilities in the United States and the EU close to major consumption markets. STG also owns 20 percent of Caribbean Cigar Holdings Group, S.A. ("**Caribbean Cigar**"), one of the largest tobacco growers in Central America and a producer of handmade cigars with operations in Honduras and Nicaragua. STG's local presence in tobacco growing regions enables it to be involved in all stages of the tobacco supply chain from seed development to the final product. Through this access and involvement, STG can maintain the quality of its products and secure access to a wide range of tobaccos to develop new products. STG also benefits from strategically locating many of the labour-intensive production processes in these countries as they have low labour costs, while concentrating more automated production processes close to core consumption markets in order to reduce lead times and increase flexibility. **Key Strengths** STG's strategy is built on the following key strengths: • Global leader in attractive sub-segments of the tobacco industry. • Recognised and diversified brand portfolio. • Multiple avenues for organic growth and strong innovation capabilities. • Ongoing efficiency measures and working capital initiatives. • Strong platform to act as a consolidator in a fragmented category. • Experienced management team with a track record of delivery, deep understanding of regulation and a clear strategic agenda to drive growth and cost efficiency. • Strong financial track record with attractive shareholder return. **STG's Business Strategy** STG has identified the following strategic priorities: • Outperform the overall market where it competes.

Section B – Issuer

Element	Disclosure requirement	Disclosure
		• Globalise the geographic footprint. • Simplify for efficiency. • Empower for speed, accountability and motivation.
B.4a	Description of the most significant recent trends affecting STG and the industries in which it operates	STG's products are sold in all major geographic markets for its product categories, including its core geographic markets of the United States and Europe, which accounted for 34.1 percent and 50.0 percent, respectively, of STG's net sales for 2014. Market volume and price trends, especially in STG's core geographic markets, affect STG's results of operations. Since the 1990s, there has been a general decline in demand for tobacco products in developed countries. Demand for tobacco products is affected by a number of factors, including factors such as an economic contraction, increasing health awareness, increases in the prices of tobacco products (*e.g.*, due to tobacco excise tax increases or changes in the excise taxes levied on the different categories of tobacco products), restrictions or bans on smoking (*e.g.*, in public places), regulation affecting tobacco products, their packaging, presentation or sale to consumers, demographic changes, or a combination of any of these or other factors that are outside of STG's control. Within the broad tobacco products category, STG's product segments, and the cigar and traditional pipe tobacco sub-segments in particular, differ from the cigarette market in several areas. The global cigarette market is characterised by a homogenous product where taste and appearance are broadly the same across the world. The markets for STG's product segments, on the other hand, are characterised as more differentiated due to regional consumption and taste differences. For example, some cigars – in particular handmade cigars – are seen as affordable luxury consumer products appealing to a different consumer demographic than cigarettes. In addition, excise taxes are generally lower for cigars and pipe tobacco than for cigarettes. *Handmade cigars:* In 2014, more than 60 percent of global handmade cigar sales volumes were in the United States, where sales volumes overall were largely flat between 2012 and 2014 and the trend is expected to continue in the medium term. STG also sells handmade cigars outside the United States, but STG's sales volumes outside the United States have been relatively small compared to its sales volumes in the United States. STG has been able to increase the prices of its handmade cigars annually during the periods under review, mainly driven, STG believes, by the fact that consumers of handmade cigars are typically motivated by new experiences and the social element of cigar smoking rather than the price. *Machine-made cigars:* Machine-made cigar sales volumes have declined in many markets between 2012 and 2014 and are expected to continue to decline in a number of large markets, such as France, Germany and the United Kingdom, between 2014 and 2018. STG's machine-made cigar sales volumes in the United States remain relatively small compared to its machine-made cigar sales volumes outside the United States.

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Element	Disclosure requirement	Disclosure
		STG has been able to apply annual price increases for machine-made cigars during the periods under review, largely in line with the market development. The amount of the price increases varies between markets and brands and, when deciding on the level of any increase, STG takes into account the competitive position in the relevant market. *Pipe tobacco:* Traditional pipe tobacco sales volumes continued their long-term decline between 2012 and 2014, especially in core European markets and the United States. Traditional pipe tobacco sales volumes in core European markets, including Germany and the United Kingdom, are expected to continue to decline between 2014 and 2018. In the United States, prices and sales volumes for pipe tobacco have been impacted by the development of "dual-usage" pipe tobacco (*i.e.*, tobacco that can be consumed in a pipe, but also can be used by fine-cut tobacco consumers). This has resulted in a significant increase in the "dual-usage" pipe tobacco market volumes in the United States. For STG, price increases during the periods under review have, partially or wholly depending on the market, offset the overall declining volume trend in traditional pipe tobacco, and STG's pipe tobacco sales volumes have benefitted from the increasing demand for "dual-usage" pipe tobacco despite STG having a very small share of the "dual-usage" pipe tobacco market. STG has historically been able to increase the price of pipe tobacco in its markets due to high consumer loyalty in the pipe tobacco category. *Fine-cut tobacco:* In Europe, fine-cut tobacco sales volumes have been flat between 2012 and 2014. In the United States, sales volumes have decreased between 2012 and 2014, driven mainly by the emergence of the "dual-usage" pipe tobacco market, which instead has contributed to the increasing pipe tobacco sales volumes. STG has been able to apply annual price increases within the fine-cut tobacco category in the United States as well as in its significant European markets such as Germany, Denmark and Norway.

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Element	Disclosure requirement	Disclosure
B.5	Description of the Group and the Company's position within the Group	The Company is the parent company of the Group. The following table sets forth the Company's material subsidiaries as at the date of this Offering Circular:

	Country of incorporation	Direct or indirect ownership interest and voting rights
		(percent)
Scandinavian Tobacco Group Australia PTY Ltd	Australia	100
Scandinavian Tobacco Group Belux N.V.	Belgium	100
Scandinavian Tobacco Group Lummen N.V.	Belgium	100
Scandinavian Tobacco Group Canada Inc.	Canada	100
Scandinavian Tobacco Group Assens A/S	Denmark	100
Scandinavian Tobacco Group Denmark A/S	Denmark	100
Scandinavian Tobacco Group Nykøbing ApS	Denmark	100
Scandinavian Tobacco Group Deutschland GmbH	Germany	100
General Cigar Dominicana, S.A.S.	Dominican Republic	100
Scandinavian Tobacco Group Eersel B.V.	The Netherlands	100
Scandinavian Tobacco Group Nederland B.V.	The Netherlands	100
Scandinavian Tobacco Group United Kingdom Limited	United Kingdom	100
BPA Sales, LP	United States	100
General Cigar Co., Inc	United States	100
M&D Wholesale Distributors, Inc.	United States	100
Scandinavian Tobacco Group Lane Ltd.	United States	100

Element	Disclosure requirement	Disclosure
B.6	Persons who, directly or indirectly, have an interest in the Company's capital or voting rights or have control over the Company	As at the date of this Offering Circular, Skandinavisk Holding II owns 51 percent of the Company's share capital and voting rights, and Swedish Match Cigars Holding owns 49 percent of the Company's share capital and voting rights. The Shares are not divided into share classes and all Shares rank *pari passu*. Each Share entitles its holder to one vote at General Meetings. In the Offering, the Selling Shareholders are offering 35,600,000 Firm Shares. The Company will not receive any proceeds from the Offering. Skandinavisk Holding II has granted an Overallotment Option to the Managers, exercisable in whole or in part by the Stabilising Manager, to purchase up to 4,400,000 Option Shares at the Offer Price, from the first day of trading in, and official listing of, the Shares until the day 30 calendar days thereafter, solely to cover overallotments or other short positions, if any, incurred in

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Element	Disclosure requirement	Disclosure
		connection with the Offering. In relation to the Overallotment Option, the Selling Shareholders have entered into the Balancing Agreement pursuant to which, subject to certain conditions, Swedish Match Cigars Holding agrees to sell to Skandinavisk Holding II, and Skandinavisk Holding II agrees to purchase from Swedish Match Cigars Holding, at the Offer Price, such number of Shares that would result in the Selling Shareholders selling an equal number of Shares in the Offering. Other than as set out above, the Company is not aware of any person who, directly or indirectly, owns an interest in the Company's share capital or voting rights that is notifiable under Danish law. As at the date of this Offering Circular, The Augustinus Foundation and The Obel Family Foundation ultimately own 65 percent and 35 percent, respectively, of Skandinavisk Holding II, the controlling shareholder of the Company.
B.7	Selected financial and business information	The summary consolidated financial information set forth below has been derived from STG's unaudited consolidated interim financial statements as at and for the nine months ended 30 September 2015, including unaudited consolidated comparative interim financial information for the nine months ended 30 September 2014 (the "**Unaudited Consolidated Interim Financial Statements**"), and STG's audited consolidated financial statements as at and for the years ended 31 December 2014, 2013 and 2012 (the "**Audited Consolidated Financial Statements**", and together with the Unaudited Consolidated Interim Financial Statements, the "**Consolidated Financial Statements**"). The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**").

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	For the nine months ended 30 September		For the year ended 31 December		
	2015	2014	2014	2013	2012
	(unaudited)			(audited)	
	(DKK in millions)				
CONSOLIDATED INCOME STATEMENT DATA					
Net sales	4,965.4	4,495.8	6,126.0	5,925.3	5,978.0
Cost of goods sold	(2,548.4)	(2,349.4)	(3,178.7)	(3,010.8)	(2,986.5)
Gross profit	2,417.0	2,146.4	2,947.3	2,914.5	2,991.5
Other external costs	(799.7)	(744.7)	(1,049.9)	(1,108.4)	(1,066.5)
Staff costs	(679.8)	(535.1)	(748.9)	(631.8)	(623.8)
Other income	1.3	0.7	28.7	0.3	0.1
Earnings before interest, tax, depreciation and amortisation (EBITDA)	938.8	867.3	1,177.2	1,174.6	1,301.3
Depreciation	(90.5)	(74.4)	(102.0)	(128.8)	(125.0)
Earnings before interest, tax and amortisation (EBITA)	848.3	792.9	1,075.2	1,045.8	1,176.3
Amortisation	(137.5)	(122.8)	(167.5)	(271.1)	(244.9)
Earnings before interest and tax (EBIT)	710.8	670.1	907.7	774.7	931.4
Share of profit of associated companies, net of tax	7.0	3.6	6.2	5.4	11.9
Financial income	15.5	17.0	29.1	5.7	5.4
Financial costs	(75.5)	(70.8)	(97.4)	(110.1)	(106.1)
Profit before tax	657.8	619.9	845.6	675.7	842.6
Income taxes	(164.4)	(158.3)	(205.8)	(102.9)	(224.4)
Net profit for the period	493.4	461.6	639.8	572.8	618.2

Net Sales

STG's net sales for the nine months ended 30 September 2015 were DKK 4,965.4 million, an increase of DKK 469.6 million, or 10.4 percent, as compared to DKK 4,495.8 million for the nine months ended 30 September 2014. STG's adjusted net sales for the nine months ended 30 September 2015 were DKK 4,972.3 million. The nonrecurring items for the nine months ended 30 September 2015 related to provisions made for products returned as a result of the implementation of a ban on certain flavourings in Canada. STG did not make any adjustments to net sales for nonrecurring items for the other periods under review.

STG's net sales for the year ended 31 December 2014 were DKK 6,126.0 million, an increase of DKK 200.7 million, or 3.4 percent, as compared to DKK 5,925.3 million for the year ended 31 December 2013, which was a decrease of DKK 52.7 million, or 0.9 percent, as compared to DKK 5,978.0 million for the year ended 31 December 2012.

Gross Profit

STG's gross profit for the nine months ended 30 September 2015 was DKK 2,417.0 million, an increase of DKK 270.6 million, or 12.6 percent, as compared to DKK 2,146.4 million for the nine months ended 30 September 2014. STG's adjusted gross profit for the nine months ended 30 September 2015 was DKK 2,460.7 million. The nonrecurring items for the nine months ended 30 September 2015 related mainly to provisions for obsolete stock due to regulatory changes. STG did not make any adjustments to gross profit for the nine months ended 30 September 2014.

STG's gross profit for the year ended 31 December 2014 was DKK 2,947.3 million, an increase of DKK 32.8 million, or 1.1 percent, as compared to DKK 2,914.5 million for the year ended 31 December 2013, which was a decrease of DKK 77.0 million, or 2.6 percent, as compared to DKK 2,991.5 million for the year ended 31 December 2012. STG's adjusted gross profit for the year ended 31 December 2012 was DKK 2,969.7 million. The nonrecurring items for the year ended 31 December 2012 related to reversal of provision following the combination with Swedish Match. STG did not make any adjustments to gross profit for nonrecurring items for the years ended 31 December 2014 and 2013.

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)

STG's EBITDA for the nine months ended 30 September 2015 was DKK 938.8 million, an increase of DKK 71.5 million, or 8.2 percent, as compared to DKK 867.3 million for the nine months ended 30 September 2014. STG's adjusted EBITDA for the nine months ended 30 September 2015 was DKK 1,050.6 million, an increase of DKK 170.6 million, or 19.4 percent, as compared to DKK 880.0 million for the nine months ended 30 September 2014. The nonrecurring items for the nine months ended 30 September 2015 related to restructuring expenses, transaction expenses and provisions for obsolete stock, and the nonrecurring items for the nine months ended 30 September 2014 related to restructuring expenses.

STG's EBITDA for the year ended 31 December 2014 was DKK 1,177.2 million, an increase of DKK 2.6 million, or 0.2 percent, as compared to DKK 1,174.6 million for the year ended 31 December 2013, which was a decrease of DKK 126.7 million, or 9.7 percent, as compared to DKK 1,301.3 million for the year ended 31 December 2012. STG's adjusted EBITDA for the year ended 31 December 2014 was DKK 1,246.6 million, an increase of DKK 48.5 million, or 4.0 percent, as compared to DKK 1,198.1 million for the year ended 31 December 2013, which was a decrease of DKK 70.1 million, or 5.5 percent, as compared to DKK 1,268.2 million for the year ended 31 December 2012. The nonrecurring items for the year ended 31 December 2014 related to restructuring expenses, transaction expenses and gains from sale of buildings, the nonrecurring items for the year ended 31 December 2013 related to restructuring expenses and the nonrecurring items for the year ended 31 December 2012 related to reversal of provisions following the combination with Swedish Match and gains from sale of buildings.

Current Trading

Since 30 September 2015, STG's business has continued to perform in line with the consolidated prospective financial information for 2015. In general, STG's net sales for 2015 are estimated to be broadly in line with the trends seen in the first nine months of 2015. Adjusted EBITDA margin for 2015 is estimated to be in line with 2014, but to contract slightly as compared to the first nine months of 2015.

	As at 30 September 2015	As at 31 December 2014	2013	2012
	(unaudited)	(audited)		
	(DKK in millions)			
BALANCE SHEET DATA				
ASSETS				
Intangible assets				
Goodwill	4,434.6	4,205.3	3,874.5	3,974.4
Trademarks	3,339.6	3,352.1	3,133.7	3,404.6
Other intangible assets(1)	306.0	332.7	370.8	412.7
Total intangible assets	8,080.2	7,890.1	7,379.0	7,791.7
Property, plant and equipment				
Land and buildings	673.3	678.6	565.0	579.7
Plant and machinery	339.6	339.1	247.7	254.6
Other property, plant and equipment(2)	273.9	185.2	299.0	157.1
Total property, plant and equipment	1,286.8	1,202.9	1,111.7	991.4
Other non-current assets				
Total other non-current assets	273.2	282.6	180.8	194.2
Total non-current assets	9,640.2	9,375.6	8,671.5	8,977.3
Current assets				
Inventories	3,093.2	3,099.2	2,926.9	2,780.7
Receivables				
Trade receivables	832.4	811.1	817.1	971.8
Other receivables(3)	373.6	295.0	316.0	321.5
Total receivables	1,206.0	1,106.1	1,133.1	1,293.3
Cash and cash equivalents	291.2	581.0	464.3	684.2
Total current assets	4,590.4	4,786.3	4,524.3	4,758.2
Total assets	14,230.6	14,161.9	13,195.8	13,735.5
EQUITY AND LIABILITIES				
Total equity	8,688.7	9,087.0	8,332.8	8,424.9
Bank loans	3,311.4	2,307.5	2,756.5	3,008.9
Deferred income tax liabilities	726.9	694.3	519.3	582.2
Other non-current liabilities(4)	326.5	319.3	311.9	399.3
Total non-current liabilities	4,364.8	3,321.1	3,587.7	3,990.4
Bank loans	–	650.8	221.9	232.0
Trade payables	319.4	375.9	359.9	352.6
Other current liabilities(5)	857.7	727.1	693.5	735.6
Total current liabilities	1,177.1	1,753.8	1,275.3	1,320.2
Total liabilities	5,541.9	5,074.9	4,863.0	5,310.6
Total equity and liabilities	14,230.6	14,161.9	13,195.8	13,735.5

(1) Other intangible assets includes IT software and other intangible assets.
(2) Other property, plant and equipment includes equipment, tools and fixture, leasehold improvements and construction in progress.
(3) Other receivables includes receivables from affiliated companies, prepaid corporate tax, prepayments and other receivables.
(4) Other non-current liabilities includes pension obligations, other provisions and other liabilities.
(5) Other current liabilities as at 30 September 2015 includes credit facilities and other liabilities. Other current liabilities as at 31 December 2014, 2013 and 2012 includes corporate tax liabilities, other provisions and other liabilities.

STG's total assets as at 30 September 2015 were DKK 14,230.6 million, as compared to DKK 14,161.9 million as at 31 December 2014, DKK 13,195.8 million as at 31 December 2013 and DKK 13,735.5 million as at 31 December 2012.

Section B – Issuer

	For the nine months ended 30 September		For the year ended 31 December		
	2015	2014	2014	2013	2012
	(unaudited)		(audited)		
	(DKK in millions)				
CONSOLIDATED CASH FLOW STATEMENT DATA					
Cash flow from operating activities	896.7	737.9	1,056.0	744.8	716.4
Cash flow from investing activities	(165.8)	(458.9)	(471.2)	(317.7)	(388.2)
Cash flow from financing activities	(1,028.9)	(263.5)	(468.2)	(647.0)	(595.7)
Net cash flow for the period	(298.0)	15.5	116.7	(219.9)	(267.5)
Cash and cash equivalents, net at 1 January	581.0	464.3	464.3	684.2	951.7
Net cash flow for the period	(298.0)	15.5	116.7	(219.9)	(267.5)
Cash and cash equivalents, net at the end of the period	283.0	479.8	581.0	464.3	684.2

Element	Disclosure requirement	Disclosure
B.8	Selected key pro forma financial information	Not applicable. No changes requiring pro forma financial information to be included in the Offering Circular exist.
B.9	Profit forecast or estimate	For 2015, STG expects reported net sales growth in the high single digits and an adjusted EBITDA margin broadly in line with 2014. STG expects organic growth rates (*i.e.*, growth excluding acquisitions and currency effects) for 2016 to be in the range of 1 to 3 percent for adjusted net sales and 3 to 5 percent for adjusted EBITDA. ***The above statements constitute forward-looking statements. Any forward-looking statements are based on estimates and assumptions and subject to known and unknown risks, uncertainties and other important factors that could cause STG's actual results, performance, achievements or industry results, to differ materially from that expressed or implied by such forward-looking statements. Should one or more of these risks or uncertainties materialise, or should any underlying assumptions prove to be incorrect, STG's actual financial condition or results of operations could differ materially from what is expressed or implied by such statements.***
B.10	Qualifications in the audit report on the historical financial information	Not applicable. The audit report on the Audited Consolidated Financial Statements included in this Offering Circular has been issued without any qualifications.
B.11	Explanation if the Company's working capital is not sufficient for the Company's present requirements	Not applicable. The Company believes that, as of the date of this Offering Circular, its working capital is adequate to meet its financing requirements for at least twelve months following the date of this Offering Circular.

Section C – Securities

Element	Disclosure requirement	Disclosure
C.1	Description of the type and the class of the Offer Shares, including any security identification number	The Shares, including the Offer Shares, are not divided into share classes. Offer Shares (permanent ISIN code): DK0060696300 Nasdaq Copenhagen symbol: "STG"
C.2	Currency of the Offer Shares	The Offer Shares are denominated in Danish kroner.
C.3	Number of Shares issued and fully paid and issued but not fully paid	As at the date of this Offering Circular, the Company's share capital is DKK 100,000,000 divided into 100,000,000 shares with a nominal value of DKK 1.00 each. All Shares are issued and fully paid up.
C.4	Description of the rights attached to the Shares	All Shares, including the Offer Shares, rank *pari passu* with all other Shares, including in respect of voting rights, pre-emption rights, redemption, conversion and restrictions or limitations according to the Articles of Association or eligibility to receive dividend or proceeds in the event of dissolution and liquidation. Each Share entitles its holder to one vote at general meetings of shareholders of the Company (the "**General Meeting**").
C.5	Description of any restrictions on the free transferability of the Shares	Not applicable. The Shares are negotiable instruments and no restrictions under the articles of association of the Company (the "**Articles of Association**") or Danish law apply to the transferability of the Shares.
C.6	Admission to trading on a regulated market	Prior to the Offering, there has been no public market for the Shares. Application has been made for the Shares to be admitted to trading and official listing on Nasdaq Copenhagen under the symbol "STG" in the permanent ISIN DK0060696300. The admission to trading and official listing of the Shares on Nasdaq Copenhagen is subject to, among other things, Nasdaq Copenhagen's approval of the distribution of the Offer Shares and the composition of the New Board of Directors (as defined herein). The first day of trading in and official listing of the Shares registered in the permanent ISIN on Nasdaq Copenhagen is expected to be on 10 February 2016. If the Offer Period is closed before 9 February 2016, the first day of trading in and official listing of the Shares on Nasdaq Copenhagen and the date of payment and settlement will be moved forward accordingly.
C.7	Description of dividend policy	The Board of Directors has adopted a dividend policy with a target payout ratio of at least 70 percent of consolidated net profit for the year. Distributions to shareholders may also be effected by way of the Company's acquisition of own Shares. As at the date of this Offering Circular, the Board of Directors on behalf of the Company is authorised to purchase treasury Shares to the extent that the Company's holding of treasury Shares at no time exceeds 10 percent of the Company's share capital. The purchase price may not deviate by more than 10 percent from the quoted price on Nasdaq Copenhagen at the time of the purchase. The authorisation is valid until 31 December 2020. Payment of dividends, and the amounts and timing thereof, will depend on a number of factors, including future revenue, profits, financial conditions, general economic and business conditions, future prospects, strategic initiatives such as M&A activities or

Section C – Securities

Element	Disclosure requirement	Disclosure
		large scale investments decided upon by the Board of Directors, and such other factors as the Board of Directors may deem relevant as well as applicable legal and regulatory requirements. In addition, the terms and conditions of the Facilities Agreement (as defined herein) impose certain limitations on the Company's ability to declare and pay dividends based on STG's net debt to EBITDA ratio. There can be no assurance that in any given year a dividend or share buyback will be proposed or declared or that the Company's financial performance will allow it to adhere to the dividend policy or any increase in the payout ratio. The Company's ability to pay dividends or buy back shares may be impaired as a result of various factors, including materialisation of any of the risks described in this Offering Circular. Furthermore, the dividend policy is subject to change as decided by the Board of Directors from time to time. In September 2015, the Board of Directors approved the payment of an extraordinary dividend of DKK 900 million in cash (equal to DKK 9.00 per Share), which has been paid to the Selling Shareholders. In respect of the financial years 2014, 2013 and 2012, the Company declared and paid to the Selling Shareholders DKK 427 million (equal to DKK 4.27 per Share), DKK 382 million (equal to DKK 3.82 per Share) and DKK 412 million (equal to DKK 4.12 per Share) in dividends, respectively.

Section D – Risks

Element	Disclosure requirement	Disclosure

D.1	Key information on the key risks that are specific to STG or its industry	*An investment in equity securities such as the Offer Shares involves a high degree of financial risk. There are risks associated with an investment in the Offer Shares, including risks relating to STG's industry and business, that prospective investors should consider carefully before deciding to purchase any Offer Shares.*
		
		The risks relating to STG's industry include, but are not limited to:
		
		• STG faces increasing tobacco product related regulation, which could have a material adverse effect on its business, financial condition and results of operations, including:
		  • the new EU Tobacco Products Directive (2014/40/EU) (the "**TPD**") to be implemented by each member state by May 2016; and
		  • the proposed rule published by the U.S. Food and Drug Administration (the "**FDA**") in 2014 that would extend its tobacco regulatory power to also cover cigars and pipe tobacco products (the "**Deeming Regulations**"). The commentary period for the proposed Deeming Regulations ended in August 2014, and the FDA is expected to publish the final version of the Deeming Regulations in the near future (first quarter of 2016 or later);
		
		• changes in excise tax rates on tobacco products, in particular alignment of excise tax rates across tobacco product

Section D – Risks		
Element	**Disclosure requirement**	**Disclosure**
		categories, could have a material adverse effect on demand for STG's products; • a substantial decline in demand for the types of tobacco products that STG produces, especially in certain of STG's key geographic markets, could have a material adverse effect on STG's results of operations; • if the U.S. embargo on Cuba were to be lifted, it could have a material adverse effect on STG's cigar sales in the United States; • violation of anti-corruption or anti-bribery laws and regulations could have a material adverse effect on STG's business, financial condition and results of operations; • STG's activities are subject to economic and trade sanction regimes and its governance and compliance processes may not prevent violations of such sanctions; and • because STG has operations and sales in numerous countries, it may be influenced by economic, regulatory and political developments, natural disasters and conflicts. **The risks relating to STG's business include, but are not limited to:** • STG's brands are key assets of its business and changes in the reputations of its brands could have a material adverse effect on STG's business; • competition in the markets in which STG operates is intense and could have a material adverse effect on STG's business, financial condition and results of operations; • if the supply of STG's products to one or more markets were to be interrupted, it could have a material adverse effect on STG's business, financial condition and results of operations; • failure by STG to respond to changes in consumer demands and market trends in a timely manner could have a material adverse effect on STG's business, financial condition and results of operations; • STG may not be able to maintain its net sales growth in accordance with its strategy; • the efficiency measures and working capital initiatives that STG has taken, or plans to take, may not be completed in the manner or within the timeframe currently expected and/or may not lead to the contemplated cost savings or working capital reductions; • fluctuations in the availability of tobacco leaf and in tobacco leaf prices could have a material adverse effect on STG's business, financial condition and results of operations; • breaches of third-party intellectual property rights or accusations of such breaches could have a material adverse effect on STG's business, financial condition and results of operations;

Section D – Risks

Element	Disclosure requirement	Disclosure
		• STG could fail to manage and protect its intellectual property rights; • currency fluctuations could have a material adverse effect on STG's business, financial condition and results of operations; • STG's intangible assets, including goodwill and trademarks, constitute a significant portion of its total assets, and impairment of intangible assets would have a material adverse effect on STG's financial condition and results of operations; • STG is exposed to risks in connection with its pension commitments; • changes in Danish or foreign direct or indirect tax laws or compliance requirements, or the practical interpretation and administration thereof, could have a material adverse effect on STG's business, financial condition and results of operations; • the terms of STG's financing arrangements may limit its commercial and financial flexibility; • disruption to STG's and third parties' production and storage facilities could have a material adverse effect on STG's business, financial condition and results of operations; • STG relies on a limited number of key executives and employees and may experience difficulty in attracting and hiring qualified new personnel; • work stoppages and other labour matters could have a material adverse effect on STG's business, financial condition and results of operations; • STG's dependence on third parties could have a material adverse effect on STG's business, financial condition and results of operations; • disruptions in information technology systems or a security breach could have a material adverse effect on STG's business, financial condition and results of operations; • STG's risk management policies may not be adequate; • STG's insurance policies provide limited coverage, potentially leaving it uninsured against some risks; • STG could face claims regarding the health consequences associated with the use of tobacco products and such claims cannot be covered by insurance; and • STG's prospective consolidated financial information included in this Offering Circular may differ materially from its actual results and investors should not place undue reliance on it.

Section D – Risks

Element	Disclosure requirement	Disclosure
D.3	Key information on the key risks relating to the Offer Shares	*In addition to risks relating to STG's industry and business, there are risks relating to the Offer Shares, which prospective investors should consider carefully before deciding to purchase any Offer Shares, including:* • following the Offering, the Selling Shareholders will continue to be significant shareholders in the Company and may control or otherwise influence important actions the Company takes in a way that may not be aligned with the interests of the Company's minority shareholders; • the Shares have not previously been publicly traded, a liquid market for the Shares may not develop, and the price of the Shares may be volatile and fluctuate significantly in response to various factors; • future sales of Shares after the Offering may cause a decline in the market price of the Shares; • currency fluctuations could have a material adverse effect on the value of shareholdings or dividends paid; • U.S. and other non-Danish holders of Shares may not be able to exercise pre-emptive rights or participate in any future rights offerings; and • investors' rights as shareholders will be governed by Danish law and differ in some respects from the rights of shareholders under the laws of other countries.

Section E – Offer

Element	Disclosure requirement	Disclosure
E.1	Total net proceeds of the Offering and estimated expenses	The Company will not receive any of the proceeds from the sale of the Offer Shares by the Selling Shareholders in the Offering. Expenses in relation to the Offering, including commissions and fees (fixed and discretionary) to be paid to the Managers, are payable by the Selling Shareholders. Further, the Selling Shareholders have agreed to pay a selling commission to the account holding banks (unless such account holding bank is a Manager) equivalent to 0.25 percent of the Offer Price of the Offer Shares that are allocated in respect of purchase orders of up to and including DKK 3 million submitted through the relevant account holding banks (except for the Managers). Certain expenses in relation to the admission to trading and official listing of the Shares on Nasdaq Copenhagen are payable by the Company. The expenses payable by the Company in connection with the Offering are expected to amount to between DKK 44 million and DKK 58 million based on the Offer Price Range relating primarily to the Extraordinary Bonus Programme (as defined herein) and the Existing LTIP (as defined herein). Of these estimated expenses, DKK 24.5 million was accrued on STG's consolidated balance sheet as at 30 September 2015.
E.2a	Reasons for the Offering and use of proceeds, estimated net amount of	The admission to trading and official listing of the Shares on Nasdaq Copenhagen in connection with the Offering is expected to provide a strong platform for future growth by enhancing the

Section E – Offer

Element	Disclosure requirement	Disclosure
	the proceeds	visibility of the Company, further improve the ability to attract and retain key employees and diversify the shareholder base, among other benefits of being a listed company.
E.3	Terms and conditions of the Offering	The Selling Shareholders are offering in aggregate 35,600,000 Firm Shares, excluding any Shares subject to the Overallotment Option. Skandinavisk Holding II has granted an Overallotment Option to the Managers, exercisable in whole or in part by the Stabilising Manager, to purchase up to 4,400,000 Option Shares at the Offer Price, from the first day of trading in, and official listing of, the Shares until the day 30 calendar days thereafter, solely to cover overallotments or other short positions, if any, incurred in connection with the Offering. In relation to the Overallotment Option, the Selling Shareholders have entered into the Balancing Agreement pursuant to which, subject to certain conditions, Swedish Match Cigars Holding agrees to sell to Skandinavisk Holding II, and Skandinavisk Holding II agrees to purchase from Swedish Match Cigars Holding, at the Offer Price, such number of Shares that would result in the Selling Shareholders selling an equal number of Shares in the Offering. The Offering consists of: (i) a public offering to retail and institutional investors in Denmark; (ii) a private placement in the United States only to persons who are qualified institutional buyers or QIBs in reliance on Rule 144A or pursuant to another available exemption from, or a transaction not subject to, the registration requirements under the U.S. Securities Act; and (iii) private placements to institutional investors in the rest of the world. The Offering outside the United States will be made in compliance with Regulation S. The Offer Price is expected to be between DKK 93 and DKK 110 per Offer Share and will be determined through a book-building process. The Offer Price will be determined by the Selling Shareholders and the Board of Directors in consultation with the Joint Global Coordinators, and is expected to be announced through Nasdaq Copenhagen no later than 8:00 a.m. (CET) on 10 February 2016. The Offer Price Range may be amended at any time during the Offer Period. It is expected that the result of the Offering, the Offer Price and the basis of the allocation will be announced through Nasdaq Copenhagen no later than 8:00 a.m. (CET) on 10 February 2016. If the Offer Period is closed before 9 February 2016, the announcement of the Offer Price and allocation will be brought forward accordingly. If the Offer Price Range is amended, the Company will make an announcement through Nasdaq Copenhagen and publish a supplement to this Offering Circular. Following publication of the relevant supplement, investors who have submitted orders to purchase Offer Shares in the Offer Period will have two trading days to withdraw their offer, in its entirety. In such circumstances, the announcement of the Offer Price will not be published until the period for exercising such withdrawal rights has ended. The Offer Period will commence on 28 January 2016 and will close no later than 9 February 2016 at 4:00 p.m. (CET). The

Element	Disclosure requirement	Disclosure
		Offer Period may be closed prior to 9 February 2016; however, the Offer Period will not be closed in whole or in part before 6 February 2016 at 00:01 a.m. (CET). If the Offering is closed before 9 February 2016, the first day of trading in and official listing of the Shares on Nasdaq Copenhagen and the date of payment and settlement will be moved forward accordingly. The Offer Period in respect of applications for purchases of amounts up to, and including, DKK 3 million may be closed before the remainder of the Offering is closed at the discretion of the Joint Global Coordinators, if they deem the orders received sufficient to close the book-building process. Any such earlier closing, in whole or in part, will be announced through Nasdaq Copenhagen. The minimum purchase amount is one Offer Share. No maximum purchase amount applies to the Offering. However, the number of shares is limited to the number of Offer Shares in the Offering. Prior to the Offering, certain members of the Existing Board of Directors, the New Board of Directors, the Executive Management, the Key Employee and a limited number of other employees of STG have irrevocably undertaken to buy Offer Shares at the Offer Price up to a certain fixed investment amount for each eligible person. The number of Offer Shares that will be allocated to meet these orders will depend on the Offer Price. Applications by investors to purchase amounts of up to and including DKK 3 million should be made by submitting the application form enclosed in the English Language Offering Circular to the investor's own account holding bank during the Offer Period or such shorter period as may be announced through Nasdaq Copenhagen. Applications are binding and cannot be altered or cancelled following their submission. Applications may specify a maximum price per Offer Share in Danish kroner. If the Offer Price exceeds the maximum price per Offer Share specified in the application form, then no Offer Shares will be allocated to the investor. Where no maximum price per Offer Share has been indicated, applications will be deemed to be made at the Offer Price. All applications made at a price equivalent to the Offer Price, or a higher price, will be settled at the Offer Price following allotment, if any. Applications should be made for a number of Offer Shares or for an aggregate amount rounded to the nearest Danish krone amount. Only one application will be accepted from each account in VP Securities. For binding orders, the application form must be submitted to the investor's own account holding bank in complete and executed form in due time to allow the investor's own account holding bank to process and forward the application to ensure that it is in the possession of Nordea Bank Danmark A/S, no later than 4:00 p.m. (CET) on 9 February 2016, or such earlier time at which the Offering is closed. Investors who wish to apply to purchase amounts of more than DKK 3 million can indicate their interest to one or more of the Managers during the Offer Period. During the Offer Period, such investors can change or withdraw their declarations of interest,

Element	Disclosure requirement	Disclosure
		but these declarations of interest become binding applications at the end of the Offer Period. In the event that the total number of Shares applied for in the Offering exceeds the number of Offer Shares, reductions will be made either mathematically or on a discretionary basis depending on whether the application amounts to more or less than DKK 3 million. Orders and indications of interest may not result in an allocation of Offer Shares. Following the expiration of the Offer Period, investors will receive a statement indicating the number of Offer Shares allocated, if any, and the equivalent value at the Offer Price, unless otherwise agreed between the investor and the relevant account holding bank. The Offer Shares are expected to be delivered in book entry form through the facilities of VP Securities, Euroclear and Clearstream on or around 12 February 2016 against payment in immediately available funds in Danish kroner. If pricing and allocation of the Offering takes place before 9 February 2016, the first date of trading in and official listing of the Shares on Nasdaq Copenhagen and the date of payment and settlement will be brought forward accordingly. All dealings in the Offer Shares prior to settlement will be for the account of and at the sole risk of the parties involved. The Offering may be withdrawn by the Company, the Selling Shareholders or the Joint Global Coordinators at any time before pricing and allocation of the Offering has taken place. If the Offering is withdrawn, it will be announced immediately through Nasdaq Copenhagen.
E.4	Material interests in the Offering including conflicts of interest	J.P. Morgan, Deutsche Bank and Nordea are acting as Joint Global Coordinators in the Offering and Carnegie is acting as Co-Lead Manager in the Offering and, together with the Joint Global Coordinators, are the Managers in the Offering. Certain Managers and their respective affiliates have from time to time been engaged in, and may in the future engage in, commercial banking, investment banking and financial advisory transactions and services in the ordinary course of their business with the Company or the Selling Shareholders or any of the Company's or the Selling Shareholders' respective related parties. With respect to certain of these transactions and services, the sharing of information is generally restricted for reasons of confidentiality, internal procedures or applicable rules and regulations. The Managers have received and will receive customary fees and commissions for these transactions and services and may come to have interests that may not be aligned or could potentially conflict with the interests of prospective investors and the Company. In addition, Nordea Bank Danmark A/S is among the lenders under the Facilities Agreement. The Company is not aware of any other potential interest, or conflict of interest, of natural or legal persons involved in the Offering who may have a material interest in the Offering and the Company's admission to trading and official listing of the Shares on Nasdaq Copenhagen.

Section E – Offer

Element	Disclosure requirement	Disclosure
E.5	Selling Shareholders and Lock-up Arrangements	The Selling Shareholders, Skandinavisk Holding II and Swedish Match Cigars Holding, are offering up to 40,000,000 Offer Shares, including Shares subject to the Overallotment Option. Skandinavisk Holding II is a company incorporated and registered under the laws of Denmark with CVR no. 83 33 62 18, having its registered address at Sydmarken 42, DK-2860 Søborg, Denmark. Swedish Match Cigars Holding is a company incorporated and registered under the laws of Sweden with company registration number 556367-1253, having its registered address at Sveavägen 44, SE-118 85 Stockholm, Sweden. Upon the completion of the Offering, Swedish Match Cigars Holding will own 31,200,000 Shares, corresponding to 31.2 percent of the Company's share capital and voting rights, and Skandinavisk Holding II will own 33,200,000 Shares, corresponding to 33.2 percent of the Company's share capital and voting rights, assuming no exercise of the Overallotment Option. Assuming the Overallotment Option is exercised in full, Swedish Match Cigars Holding will own 29,000,000 Shares, corresponding to 29.0 percent of the Company's share capital and voting rights, and Skandinavisk Holding II will own 31,000,000 Shares, corresponding to 31.0 percent of the Company's share capital and voting rights upon the completion of the Offering. The Selling Shareholders have agreed with the Managers that they will not, except as set forth below, for a period of 180 days from the first day of trading and official listing of the Shares, without the prior written consent of the Joint Global Coordinators: (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, cause the Company to issue, or otherwise transfer or dispose of (or publicly announce such action), directly or indirectly, any of the Shares, or any securities convertible into or exercisable or exchangeable for the Shares; (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares, whether any such transactions described in clause (i) or (ii) above are to be settled by delivery of the Shares or such other securities, in cash or otherwise; or (iii) submit to the shareholders a proposal to effect any of the foregoing. The foregoing will not apply to (i) the sale of the Offer Shares in the Offering; (ii) the lending of Shares under the share lending agreement; (iii) the sale of any Shares pursuant to the Balancing Agreement; or (iv) the transfer of Shares to the direct or indirect existing shareholders of the Selling Shareholders in connection with or arising out of any dividend or other distribution, or any liquidation, dissolution, reorganisation or other similar event affecting the Selling Shareholders or any of their affiliates; provided, however that if any such distribution or other event takes place during the 180 day lock-up period of the Selling Shareholders the restrictions set forth above shall apply to such shareholders of the Selling Shareholders receiving the Shares as part of any such distribution or other event.

Section E – Offer

Element	Disclosure requirement	Disclosure
		In addition, the members of the Board of Directors, Executive Management, the Key Employee and a limited number of other employees have agreed with the Company that, for a period of 365 days from the first day of trading and official listing of the Shares, they will be subject to materially the same lock-up restrictions as the Selling Shareholders set forth above in respect of any Shares acquired in the Offering. In addition to the exceptions set out above, the lock-up obligations agreed by the members of the Board of Directors, Executive Management, the Key Employee and other eligible persons, will not apply to (i) the transfer of any or all of the Shares to a spouse, child or any legal entity over which a member of the Board of Directors, Executive Management, the Key Employee or other eligible persons alone or together with any other related party has or have a controlling influence, (ii) the receipt of restricted stock units or shares in any share-based incentive programmes, (iii) the transfer of any or all of the Shares as a result of death, permanent disability or an interruption in employment for a continuous period of not less than 16 weeks due to disability or illness or (iv) the pledge any Shares to or in favour of a financial institution for such amount as was borrowed from such financial institution to finance the purchase of Shares, subject to certain restrictions; provided, however, with respect to (i), that the transferring party will use all reasonable endeavours to procure the transferee to execute a deed of adherence with respect to the Shares containing the same lock-up terms. Skandinavisk Holding II has pursuant to a share lending agreement agreed to make available to the Managers up to 4,400,000 Option Shares for purposes of delivery of the Offer Shares to investors in connection with the Overallotment Option. In relation to the Overallotment Option, the Selling Shareholders have entered into the Balancing Agreement pursuant to which, subject to certain conditions, Swedish Match Cigars Holding agrees to sell to Skandinavisk Holding II, and Skandinavisk Holding II agrees to purchase from Swedish Match Cigars Holding, at the Offer Price, such number of Shares that would result in the Selling Shareholders selling an equal number of Shares in the Offering.
E.6	The amount and percentage of immediate dilution resulting from the Offering	Not applicable. No new Shares will be issued in connection with the Offering.
E.7	Estimated expenses charged to the investor by the Company or the Selling Shareholders	Not applicable. None of the Company, the Selling Shareholders or the Managers will charge expenses to investors. Investors will have to bear customary transaction and handling fees charged by their account-keeping financial institution.

RISK FACTORS

An investment in the Offer Shares involves a high degree of financial risk. Prospective investors should carefully consider all information in this Offering Circular, including the risks described below, before they decide to buy Offer Shares. This section addresses both general risks associated with the industry in which STG operates and the specific risks associated with its business. If any such risks were to materialise, STG's business, financial condition and results of operations could be materially and adversely affected, resulting in a decline in the value of the Offer Shares. Further, this section describes certain risks relating to the Offering that could also adversely affect the value of the Offer Shares.

The risks discussed below are those that STG currently views as material, but these are not the only risks that STG faces. Additional risks and uncertainties, including risks that are not known to STG at present or that it currently deems immaterial, may also arise or become material in the future, which could lead to a decline in the value of the Offer Shares. The risk factors described below are not listed in any order of priority with regard to their significance or probability.

Risks Relating to STG's Industry

STG faces increasing tobacco product related regulation, which could have a material adverse effect on its business, financial condition and results of operations.

Overview

For decades, the advertising, sale and consumption of tobacco products have been subject to regulatory measures from governments and health officials due to the health risks associated with smoking. This has resulted in substantial restrictions on the product design, development, content, production, labelling, packaging, distribution, promotion, marketing, advertising, display, sale and consumption of tobacco products.

The World Health Organization's (the "**WHO**") Framework Convention on Tobacco Control (the "**FCTC**") is an international public health treaty that establishes a global agenda to regulate tobacco in an effort to reduce tobacco consumption. As at the date of this Offering Circular, 180 governments worldwide have ratified the FCTC. The FCTC has led to increased efforts by tobacco control advocates and public health organisations to reduce the supply of and demand for tobacco products, encourage governments to further regulate the tobacco industry and exclude the industry from consultation processes. The WHO and anti-smoking groups also seek to diminish the social acceptability of smoking. STG expects further tobacco regulation in most of the markets in which it operates, driven by guidelines and protocols derived from the FCTC and by other tobacco regulatory measures undertaken by the EU, the FDA and other domestic regulators.

The vast majority of the countries in which STG operates have implemented regulation on tobacco products. The content, scope and method of the restrictions vary under each country's national law, but most regulation or potential regulatory initiatives can be categorised as follows:

- *Products:* regulation on use of ingredients and product design, as well as reporting and disclosure obligations (*e.g.*, ingredients and sales volumes);
- *Packaging and labelling:* regulation on health warnings, including pictorial health warnings, rotating health warnings, size and placement of health warnings, use of descriptors and other information on the packaging (*e.g.*, banning taste references and requiring standardised or "plain" packaging, which limit the ability to fully utilise trademarks and other intellectual property rights);
- *Promotion and advertising:* regulation on communication to consumers regarding tobacco products (*e.g.*, banning advertising in printed and electronic media and at the point of sale);
- *Presentation and purchase:* regulation on the locations where tobacco products are sold and the manner in which tobacco products are displayed at the point of sale (*e.g.*, requiring that tobacco products not be visible to the consumer, such as beneath the counter or in a closed gantry);
- *Price:* regulation that has implications on the retail prices of tobacco products (*e.g.*, excise taxes); and
- *Consumption:* regulations and restrictions, including bans, on smoking in public, workplaces, bars and restaurants.

These types of tobacco-control regulations may impact STG's ability to compete and differentiate its products, entail substantial costs for STG, adversely impact STG's results of operations and increase operational complexity. Further, taking into account the significant number of regulations that apply to STG's businesses across the world, it is possible that STG may be subject to claims for breach of such regulations, and there may be financial costs and reputational impacts related to such claims.

The New EU Tobacco Products Directive

For the first nine months of 2015, 39.3 percent of STG's net sales were derived from the EU. The majority of STG's net sales in the EU derive from machine-made cigars, and STG also sells pipe tobacco, fine-cut tobacco, handmade cigars and tobacco-related accessories in the EU.

In May 2014, the TPD, which regulates the manufacture, presentation and sale of tobacco products in the EU, was published. The TPD replaces the previous tobacco product directive in place since 2001. The TPD must be implemented into national law by each EU member state by May 2016 (with respect to the non-EU EEA member states, the deadline for implementation has not yet been determined). The process of implementing the TPD into most member states' national law is expected to be completed close to the deadline in May 2016 set by the TPD, and the final form of member states' legislation will be unknown until it is implemented. Therefore, it is challenging for industry participants to prepare for the implementation of the TPD, including preparing products, packaging and production and managing stocks.

The TPD includes new and more restrictive measures on how tobacco products can be produced, presented and sold compared to the current tobacco products directive and aims to align the regulation of tobacco products across the EU member states. For example, the TPD bans the use of any packaging or tobacco product elements or features, including product names and symbols, that refer to taste, smell or any flavouring, or resemble a food product. In certain respects, the TPD regulates cigars and pipe tobacco differently than cigarettes and fine-cut tobacco. For instance, the EU member states may exempt cigars and pipe tobacco from certain labelling requirements as consumption of these products is more limited and consumers are generally older. Member states may also under certain circumstances and in order to protect public health adopt regulation more stringent than the requirements set forth in the TPD. The TPD will require STG to take a number of measures, most important of which for STG pertain to the packaging and labelling of, and reporting on the use of ingredients in, tobacco products. The required changes to STG's products and product packaging, including the bans on the use of any packaging or tobacco product elements or features, including product names and symbols, that refer to taste, smell or any flavouring, or resemble a food product, could adversely affect the brand recognition of STG's products and lead to decreases in STG's market shares and sales volumes and impairments of the values of any brands that could be banned. Such changes could also result in some consumers quitting smoking.

Pursuant to the TPD, EU member states may allow products that are produced or released for free circulation before 20 May 2016 to be placed on the market until 20 May 2017. All products produced on or after 20 May 2016 must be compliant with the TPD. STG has devoted and continues to spend significant resources in the preparation for the changes that are expected to follow from the implementation of the TPD. STG is redesigning all packaging for its products sold in the EU market to comply with the new labelling requirements and, for example, the new ban on any references to taste and smell. STG is also revising packaging formats and types where the TPD makes it technically or economically unfeasible to utilise the current packaging formats, including due to minimum product volume requirements for packaging. In order to accommodate the new packaging formats, STG will introduce new machinery and also rebuild existing machinery. As part of its ongoing initiatives to further reduce complexity in its supply chain, optimise efficiency and prepare for the implementation of the TPD, STG is in the process of reducing the total number of product configurations in the machine-made cigars, pipe tobacco and fine-cut tobacco segments by almost 40 percent by discontinuing approximately 45 percent of its machine-made cigar product configurations and approximately 27 percent of its pipe tobacco and fine-cut tobacco product configurations.

Due to the uncertainty regarding the final form of legislation that will be adopted in each member state, STG's preparations may result in packaging that is not compliant in one or more member states, and STG may incur additional costs redesigning the affected packaging. Furthermore, if STG is unable to supply one or more of its products to the market due to a need to redesign the packaging or for other reasons, STG could lose market share and sales volumes. Furthermore, non-TPD-compliant products that are not sold by 20 May 2017 (or such earlier date as adopted by individual member states) may be returned to STG by its retailer, wholesaler and distributor customers (even though STG is not legally obliged to accept such returns) or STG may be unable to sell them prior to the deadline, and STG may need to write off such unsold or returned inventory. STG is focused on managing its inventory of products and packaging materials in connection with the implementation of the TPD in order to minimise the level of inventory write-offs. However, as the final implementation and interpretation of the TPD is subject to uncertainty, STG may need to write off more inventory than currently estimated and provided for on STG's consolidated balance sheet as at 30 September 2015 (recorded under provision for obsolete stock).

STG also faces the risk that its interpretation of the TPD, as implemented under the national laws of the EU member states, may be challenged. If STG's interpretation of any such provision differs from that of the relevant regulatory authority, STG may be required to recall non-compliant products from the market, which could involve significant expenses, fines and write-downs of the recalled products and any non-compliant inventory. Furthermore, STG would be unable to supply the market until the product is made compliant with the TPD, which could involve loss of market share and revenue. Furthermore, individual member states could claim that one or more of STG's brands refer to taste, smell or flavourings or resemble food products. If any such claim were to be upheld, STG would not be able to utilise the trademark in question in the relevant member state and STG may need to rebrand the affected products in such member state, which would entail additional costs and STG's competitive position could be adversely affected by the loss of brand awareness. In addition, STG could be required to write down the value of non-compliant products and packaging materials in its inventory as well as the value of the relevant trademark (see also "*—Risks Relating to STG's Business—STG's intangible assets, including goodwill and trademarks, constitute a significant portion of its total assets, and impairment of intangible assets would have a material adverse effect on STG's financial condition and results of operations*" below). Any of the above could have a material adverse effect on STG's business, financial condition and results of operations.

Tobacco Product Regulation in the United States

For the first nine months of 2015, 40.6 percent of STG's net sales were derived from the United States. Although the majority of STG's net sales in the United States are derived from sales of handmade cigars, STG also sells fine-cut tobacco, pipe tobacco, machine-made cigars and tobacco-related accessories in the United States.

Since 2009, the FDA has had the power to regulate the production, distribution and marketing of tobacco products pursuant to the Family Smoking Prevention and Tobacco Control Act, as amended (the "**Tobacco Control Act**"). This authority has been utilised to regulate cigarettes, fine-cut tobacco and smokeless tobacco products, and is currently applicable to STG's fine-cut tobacco operations, but does not, as at the date of this Offering Circular, apply to STG's cigar and pipe tobacco businesses. As at the date of this Offering Circular, the most significant impact of the Tobacco Control Act on STG is the requirement for FDA review of a fine-cut tobacco product before it is offered for sale. The Tobacco Control Act provides four different paths for a product to enter or remain on the market, with the two that have been relevant for STG being:

- *grandfathered products:* a product that has been on the market unchanged since 15 February 2007 may remain on the market without FDA review; and
- *substantial equivalence:* a product that has been introduced or modified since 15 February 2007 must be "substantially equivalent" to a grandfathered product (*i.e.*, the new or modified product must be the "same" as the grandfathered product or any differences must not "raise different questions of public health"). The FDA determines substantial equivalence based on a substantial equivalent report submitted by a company. Products that were on the market as of 22 March 2011 may remain on the market while FDA considers the substantial equivalence report. No new "substantially equivalent" product may be introduced into the market after 22 March 2011 until receiving FDA approval.

In 2014, the FDA published the proposed Deeming Regulations, which would extend the FDA's tobacco regulatory power to also cover cigars and pipe tobacco products and would, therefore, regulate STG's businesses within these segments in the United States. As with cigarettes, fine-cut tobacco and other previously regulated tobacco products, cigars and pipe tobacco products would, according to the proposed Deeming Regulations, be subject to extensive regulation and require FDA review before they enter the market. The commentary period for the proposed Deeming Regulations ended in August 2014, and the FDA is expected to publish the final version of the Deeming Regulations in the near future (first quarter of 2016 or later). However, the content of the final Deeming Regulations remains uncertain as at the date of this Offering Circular and, therefore, the impact on STG is unknown. For example, it is unknown whether all cigars will be treated equally under the Deeming Regulations or if certain cigars (*e.g.*, handmade cigars, larger cigars or more expensive cigars) will be exempt from certain parts of the regulations, as was presented as an option by the FDA when it published its proposed Deeming Regulations for comments in 2014. Further, the ban on characterising flavours applicable to currently regulated products would not automatically be applied to cigars and pipe tobacco. However, the contents of the final Deeming Regulations will not be known until they are published. Internet and mail order sales of tobacco products, including cigars and pipe tobacco, are allowed in the United States, and such sales would not be affected by the proposed Deeming Regulations. However, restrictions on internet or mail order sale of tobacco products could be adopted in the future.

In the proposed Deeming Regulations, the FDA left unchanged the 15 February 2007 grandfather date utilised for cigarettes, fine-cut tobacco and other products first regulated in 2009. Depending on the grandfather date in the final Deeming Regulations, a substantial number of STG's products may have been introduced after the grandfather date. Accordingly, STG may have to submit substantial equivalence reports for a substantial number of its products if it wants to continue to market such products, which would involve significant time and expense. The FDA has a significant backlog of pending substantial equivalence applications under the current regulations, and the process for obtaining FDA rulings on any applications that STG would submit could be lengthy. However, the products should be able to remain on the market while the application is pending. As a consequence of the Deeming Regulations and depending on the final grandfather date, there is a risk that STG will have to discontinue a significant number of its existing cigar and pipe tobacco products in the United States and that STG's ability to introduce new products will be restricted. This could have a material adverse effect on STG's business, financial condition and results of operations.

The United States has tobacco regulation at both the federal and state level. State level regulation includes restrictions on where smoking is permitted and a minimum age requirement to purchase tobacco products. Each state has legislation that prohibits smoking indoors in public places, which often extends to parks or other outside public spaces. Further, some states regulate smoking indoors in private spaces, recently including bans on smoking in cars while children are present. The federal minimum age to purchase tobacco products is 18 years. Many municipalities and states have over the past few years raised the minimum age to purchase tobacco products above 18 years to as high as 21 years, which is consistent with the federal minimum age requirement to purchase alcohol.

Federal and state regulation may in the future become materially more restrictive, which could result in a substantial decline in the demand for tobacco products generally or require producers (including STG) to review and adapt their product portfolio as a result of restrictions or bans. Complying with new regulatory requirements could also increase STG's costs, including costs related to increased complexity and to ensure regulatory compliance. Any of these could have a material adverse effect on STG's business, financial condition and results of operations.

Australia

Australia is one of STG's addressed markets and has implemented various regulatory measures on tobacco. Australia has required the use of "plain" packaging for all tobacco products since December 2012, thus only allowing the name of the product to be printed in a standard font on the standard olive green pack. Comprehensive smoking bans in hospitality venues are in place in Australia and certain Australian states also regulate public smoking in non-workplace environments, such as outdoor dining areas, parks, beaches, balconies and cars carrying children. Furthermore, the majority of Australian states have banned flavours in cigarettes that give an "overtly" fruit-flavoured taste and some are considering further regulatory options. The ban may be extended to cigars in the future. In addition, all Australian states have implemented bans on the display of tobacco products at the point of sale. Any further regulation affecting STG's products in Australia could have a material adverse effect on STG's business, financial condition and results of operations.

Canada

Canada is one of STG's addressed markets and is a key operating market for STG's machine-made cigars segment. In Canada, the production and sale of cigarettes, small cigars and blunt wraps with characterising flavours is banned. Furthermore, Canadian provinces have between 2005 and 2010 adopted bans on the display of tobacco products at the point of sale and comprehensive smoking bans in hospitality venues are in place. Certain Canadian provinces also regulate public smoking in non-workplace environments, such as outdoor dining areas, parks, beaches, balconies and cars carrying children. Any further regulation affecting STG's products in Canada could have a material adverse effect on STG's business, financial condition and results of operations.

Changes in excise tax rates on tobacco products, in particular alignment of excise tax rates across tobacco product categories, could have a material adverse effect on demand for STG's products.

Excise tax rates are a major component of the retail price of tobacco products. STG typically seeks to increase the sales price of its tobacco products to cover any increase in excise taxes. However, reflecting part or all of an excise tax increase through an increase in the sales price may reduce consumption or cause demand to shift towards lower priced products or different product categories, or otherwise adversely affect demand for STG's products. On the other hand, absorbing a tax increase without a sales price increase would directly reduce STG's profitability. In considering any price increase, STG considers market conditions, including the potential impact on sales volumes and the expected reactions of its competitors based on historical patterns. STG's ability to effectively adjust to an increase in excise taxes on its products could be limited if such an increase was implemented at a timing or frequency STG did not expect, by a larger amount than STG expected or in a particular market or jurisdiction that STG did not anticipate.

Excise taxes on tobacco products in various countries around the world are considered a source of public finance and a measure to regulate consumption and promote public health. The level of tobacco excise in individual jurisdictions is typically based on a number of factors, including fiscal, social and public health factors, and often takes the price level and excise tax rate on tobacco products in neighbouring jurisdictions and the impact on any cross-border trade into consideration. In the EU, the excise tax structures and minimum excise tax rates are prescribed by the EU directive 2011/64/EU of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco products (the "**Tobacco Products Excise Directive**"), and EU member states may set excise tax rates higher than the minimum required by the Tobacco Products Excise Directive. In the United States, federal excise tax is levied on all tobacco products upon production or importation into the United States, and individual states also levy additional excise taxes on tobacco products. The state excise tax rates vary considerably across the states. For additional information on excise taxes, see "*Regulation—Taxes on Tobacco Products*".

In many of STG's markets, tobacco excise tax rates vary by product category and each tobacco product category, notably cigarettes, cigars, pipe tobacco and fine-cut tobacco, is generally defined in the tobacco excise regulations. As a percentage of the retail price, the excise tax rate is often higher for cigarettes than for fine-cut tobacco and cigars, and higher for fine-cut tobacco than for pipe tobacco due to tradition, demand patterns and considerable differences in the cost of the finished products (raw materials and production costs). This is reflected in, for example, the Tobacco Products Directive. Given STG's different product offerings, the variation of excise taxes levied on each product category and the exact definitions of each such category are of significant importance to the vast majority of STG's machine-made cigar, pipe tobacco and fine-cut tobacco products. A complete or partial alignment of excise tax rates across product categories, including as a consequence of changed definitions of the various tobacco categories or changes in the excise tax structures or excise tax rates applicable to STG's product categories (*e.g.*, if smaller cigars were to be considered cigarettes for excise tax purposes or if the excise tax rates on pipe tobacco and fine-cut tobacco were to be aligned), could affect the retail prices of STG's products. This, in turn, could adversely affect STG's ability to attract smokers to its product categories and consumers of STG's products may give up smoking or switch to other product categories.

Unusually large shifts in volumes from one category to another (*e.g.*, from fine-cut tobacco to pipe tobacco) may indicate to regulators that the excise tax rates or structure should be revised to preserve revenue, limit consumption and eliminate exploitation of the excise differences. For example, the federal excise tax rate on pipe tobacco in the United States is significantly lower than the federal excise tax rates on other smoking tobacco products. In recent years, following an increase in the federal excise tax on fine-cut tobacco, the amount of pipe tobacco sold in the United States has grown significantly while the amount of tobacco sold as roll-your-own fine-cut tobacco has decreased significantly, reflecting the emergence of what could be termed "dual-usage" pipe tobacco products. This is due to the fact that neither the U.S. Tobacco Tax and Trade Bureau (the "**TTB**") nor the FDA has implemented an objective, clear definition of pipe tobacco. Although there are currently no official proposals, if a clear definition of pipe tobacco including only traditional pipe tobacco were to be implemented in the United States, STG would not expect the change to have a material impact on its business as its market share in the "dual-usage" pipe tobacco market is small. However, should the excise tax rate for all pipe tobacco be aligned with that applied to roll-your-own fine-cut tobacco, the increase in excise taxes could adversely affect the sales volumes of STG's traditional pipe tobacco products and the profitability of such products if STG is not able to pass the increase on to consumers through price increases.

Any of the above could have a material adverse effect on STG's market share and sales volumes and, therefore, on its business, financial condition and results of operations.

A substantial decline in demand for the types of tobacco products that STG produces, especially in certain of STG's key geographic markets, could have a material adverse effect on STG's results of operations.

While STG's products are sold in more than 100 countries, a substantial decrease in demand for tobacco products in one or more key geographic markets could affect STG's financial condition and results of operations. In 2014, 34.1 percent of STG's net sales were derived from the United States, 11.2 percent from France and 4.9 percent from the United Kingdom. Since the 1990s, there has been a general decline in demand for tobacco products in developed countries. Demand for tobacco products in a particular country may decline due to various factors such as an economic contraction, increasing health awareness, increases in the prices of tobacco products (*e.g.*, due to tobacco excise tax increases or changes in the excise taxes levied on the different categories of tobacco products), restrictions or bans on smoking (*e.g.*, in public places), regulation affecting tobacco products, their packaging, presentation or sale to consumers, demographic changes, or a combination of any of these or other factors. For example, STG has observed declining volumes in the machine-made cigar and pipe tobacco markets in recent years and such declines may continue in the future. In addition, deterioration of macroeconomic conditions in any of STG's markets could, as has happened in the past in connection with macroeconomic crises, lead to customers switching to less expensive products or brands, which could have a material adverse effect on STG's profitability. Any substantial decline in the demand for tobacco products or a switch to less expensive products or brands, could have a material adverse effect on STG's business, financial condition and results of operations.

If the U.S. embargo against Cuba were to be lifted, it could have a material adverse effect on STG's cigar sales in the United States.

The United States is the largest market for handmade cigars globally. General Cigar's share of the total handmade cigar market in the United States as at 30 September 2015 was estimated to be 28 percent, measured by sales volumes, and the handmade cigars segment accounted for 29.0 percent of STG's total net sales for the first nine months of 2015.

Since the early 1960s, the United States has maintained a comprehensive economic and trade embargo against Cuba, including a ban on the importation of Cuban origin cigars and a prohibition on persons subject to the jurisdiction of the United States to deal in most products of Cuban origin or with Cuban origin content. In December 2014, the United States announced its intentions to engage in discussions with Cuban officials to re-establish diplomatic relations with Cuba, and in 2015, each country opened an embassy in the other country's capital city. It remains uncertain whether the embargo will be lifted in the future and, to the extent lifted, what the timing and impact on STG and the cigar industry would be. Should the lifting of the embargo open the U.S. market to the commercial importation of Cuban origin cigars, it would be expected to affect the competitive environment in the United States for handmade cigars, as well as machine-made cigars to a lesser extent. Although the lifting of the embargo could create opportunities for STG, the impact on STG's total handmade cigar sales in the United States is uncertain and depends on various factors that are outside of STG's control. If the embargo were to be lifted without balancing the interests of the non-Cuban and Cuban members of the cigar industry, it could distort competition in the U.S. market, particularly for handmade cigars. For example, if the embargo were to be lifted and non-Cuban companies were not given access to Cuban tobacco and to production facilities in Cuba, non-Cuban companies would not be able to supply cigars of Cuban origin and with Cuban tobacco to the U.S. market. Any of the above could have a material adverse effect on STG's share of the U.S. handmade cigar market and on its business, financial condition and results of operations.

Violation of anti-corruption or anti-bribery laws and regulations could have a material adverse effect on STG's business, financial condition and results of operations.

STG operates globally and its activities are subject to complex regulatory frameworks in areas such as anti-corruption and anti-bribery. STG has operations in many jurisdictions, including less developed and newly industrialised countries that have inherent risks associated with judicial enforcement of contractual rights and obligations, fraud, bribery and corruption. Governments in industrialised countries have increasingly introduced comprehensive legislation to combat unsound international business practices, often referred to as anti-corruption or anti-bribery laws and regulations. Despite STG's ethical standards and control and compliance procedures aimed at preventing and detecting unlawful conduct, including its anti-corruption policy, STG may not be able to detect all improper or unlawful conduct by its employees, suppliers or customers given the breadth and scope of its international operations. In addition, at the operational level, individual employees, agents or distributors may not comply with STG's policies and guidelines and as a result may cause STG to incur criminal sanctions (*e.g.*, in the form of fines, which may be significant), compliance costs and cause reputational damage. The occurrence of any of the above could have a material adverse effect on STG's business, financial condition and results of operations.

STG's activities are subject to economic and trade sanction regimes and its governance and compliance processes may not prevent violations of such sanctions.

Economic and trade sanctions have expanded in the recent past and STG operates in countries that are subject to sanctions, such as Iran and Russia. Similarly, STG, including its sales and operations in the United States, is subject to the U.S. embargo on Cuban cigars and other tobacco products of Cuban origin. STG assesses each such trade relation against the relevant criteria for legal trading and endeavours to comply with relevant rules and regulations. However, sanctions regimes are subject to frequent changes, which could deprive STG of access to or limit its involvement with, or require it to stop, limit or reconfigure its business in affected markets. Sanctions laws are complex, and their application to a given circumstance can often be subject to interpretation and difficult to determine with certainty. STG's governance and compliance processes may not prevent violation of sanctions, which could lead to severe fines, compliance costs, reputational harm and direct or indirect losses (*e.g.*, costs associated with recalling products). Any new sanctions, changes to the current sanctions regimes, or a violation of sanctions could have a material adverse effect on STG's business, financial condition and results of operations. For information regarding ongoing governmental proceedings, see "*Business—Legal Proceedings—Governmental Proceedings in the United States (OFAC)*".

Because STG has operations and sales in numerous countries, it may be influenced by economic, regulatory and political developments, natural disasters and conflicts.

STG has production facilities in Latin America and Indonesia, as well as in Europe and the United States, and has sales to more than 100 countries. Certain of the countries in which STG operates face the threat of civil unrest and can be subject to regime changes. In others, nationalisation, terrorism, conflicts, the threat of war or criminal activity may have a significant impact on the business environment. Economic, political, regulatory or other developments or natural disasters could disrupt STG's supply of raw materials, production operations or distribution capabilities. In addition, such developments could lead to loss of property or equipment that is critical to STG's business in certain markets and difficulty in staffing and managing STG's operations. There are a number of conflicts globally, including in countries and regions in which STG sells its products, such as the Middle East, Russia, Ukraine and Nigeria. Such conflicts could have a material adverse effect on STG's sales to the affected region and result in significant disruptions to STG's business.

Risks Relating to STG's Business

STG's brands are key assets of its business and changes in the reputations of its brands could have a material adverse effect on STG's business.

The brands under which STG's products are sold are key assets of STG's business. The reputations of STG's brands are a major factor for the products' attractiveness and appeal to consumers. Accordingly, brand reputation is important for sustaining and growing STG's revenue and profitability. The strength of STG's brands depends on various factors, such as STG's product offering, the quality of STG's products and the presentation of STG's products, including packaging design. The strength of STG's brands is also dependent on STG's sales and marketing activities as well as public perceptions of the brands. As discussed above, tobacco regulations limit advertising and promotion of tobacco products in most of STG's markets and, therefore, it may be difficult for STG to maintain and achieve broader brand awareness. See also "*—Risks Relating to STG's Industry—STG faces increasing tobacco products related regulation, which could have a material adverse effect on its business, financial condition and results of operations*" above.

The reputation of STG's brands is particularly dependent on STG's ability to maintain consistent quality of its products. STG's products may become contaminated, for example, as a result of an accident during the production process or deliberately with malicious intent, or products may otherwise fail to comply with STG's quality standards. In these instances, significant costs may be incurred in recalling products from the market and consumers may lose confidence in the specific brand or brands affected by the contamination, resulting in a loss of sales volume, which may take a long time to recover or may not recover fully. During this time, STG may lose market shares, which could be difficult and costly for STG to subsequently regain. Furthermore, violations of laws regarding child labour, or other laws by STG's suppliers or the divergence of a supplier's labour or other practices from those generally accepted as ethical in Europe, the United States or other markets in which STG does business could attract negative publicity for STG and have a material adverse effect on the reputation of STG and its brands.

Failure to manage any of the above factors or failure of STG's sales and marketing and other activities to differentiate and further strengthen its brands could adversely affect the value and perception of STG's brands and its ability to maintain existing and attract new consumers, and, as a result, have a material adverse effect on STG's business, financial condition and results of operations.

Competition in the markets in which STG operates is intense and could have a material adverse effect on STG's business, financial condition and results of operations.

The markets in which STG operates are competitive. STG's competitors include various large global and regional tobacco producers as well as a number of smaller, regional or local producers. See "*Industry Overview*". Industry consolidation through mergers and acquisitions could shift the market power among competitors.

STG believes that its principal competitive strengths include, among others, brands, product quality, product range across price points and scale benefits due to its size and geographic coverage. STG may not be able to compete successfully on all of these factors against existing or future competitors. To compete effectively and to retain and attract consumers, STG must successfully market and competitively price its products. STG may experience downward pricing pressures, increased marketing expenditures and loss of market share. Within this environment, STG may, nevertheless, be forced to increase prices due to increases in its costs of goods sold, such as tobacco and other raw material costs, direct labour costs or other factors beyond STG's control. If STG implements significant price increases across a wide range of its products, the impact on its revenues and profit margin will depend on, among other factors, the pricing by competitors of similar products and the response by consumers to higher prices. Such price increases may reduce STG's sales volumes or result in a shift in sales volume to lower margin products, either of which would have a material adverse effect on STG's business, financial condition and results of operations.

If the supply of STG's products to one or more markets were to be interrupted, it could have a material adverse effect on STG's business, financial condition and results of operations.

STG's ability to maintain and grow its market share is also dependent on its ability to continuously supply its products to the market. If the supply of STG's products to the market is interrupted for any reason, including the reasons discussed elsewhere in this section, consumers may switch to competitors' products. Such consumers may not switch back to STG's products when the supply resumes and, therefore, STG could lose market share. Market share is difficult to regain, especially in light of the marketing and advertising restrictions in many of the countries in which STG operates. Therefore, interruptions in STG's supply of products to the market could have a material adverse effect on STG's business, financial condition and results of operations.

Failure by STG to respond to changes in consumer demands and market trends in a timely manner could have a material adverse effect on STG's business, financial condition and results of operations.

STG's success depends on its ability to identify market trends as well as to anticipate and react to changing consumer demands in a timely manner. STG aims to have a broad product offering that appeals to a wide range of consumers with preferences that vary across markets. If STG is unable to develop and roll-out consumer-relevant tobacco products in a timely manner, including any failure to predict changes in consumer and societal behaviour and expectations or to fill gaps in its product portfolio, it could lead to missed opportunities, under or over-supply, loss of competitive advantage, unrecoverable costs, write-down of stocks and/or the erosion of its consumer base. Moreover, STG's ability to introduce new products, as well as to differentiate tobacco products, may be impaired due to increased regulatory restrictions on tobacco products as well as packaging design and the ability to describe product characteristics to consumers. Tobacco regulations limit advertising and promotion of tobacco products in most markets in which STG operates, and such regulation may become more restrictive in the future. Therefore, it may be difficult for STG to market its new products and achieve broader brand awareness. For additional information on tobacco regulation, see "*—Risks Relating to STG's Industry—STG faces increasing tobacco products related regulation, which could have a material adverse effect on its business, financial condition and results of operations*" above and "*Regulation*". The occurrence of any of the above described risks could have a material adverse effect on STG's business, financial condition and results of operations.

STG may not be able to maintain its net sales growth in accordance with its strategy.

The success of STG's strategy is subject to several factors, such as STG's ability to increase its market share in its existing markets, develop new products, enter new markets, identify suitable acquisition targets, negotiate acceptable purchase terms, finance acquisitions or expansions and obtain required regulatory approvals. There can be no assurance that STG's future expansions or acquisitions will be made on favourable terms or in favourable markets. In addition, there can be no assurance that a sufficient number of expansion opportunities or acquisition targets will be available for STG to deliver on its strategy or that STG will be able to successfully complete planned expansions or acquisitions.

There are also operational and financial risks involved in expansion as well as acquiring and integrating businesses, brands and other assets into STG's existing operations, including, but not limited to, exposure to higher than expected expansion, acquisition and integration costs, unknown liabilities and difficulties in securing the necessary permits to operate the business. Integration requires, among other things, that the optimal utilisation of existing structures is possible, that operations in the acquired businesses can be changed and that an adequate number of qualified employees are available, retained or promptly replaced. Resource intensive expansions or the acquisition of less profitable businesses could also have an adverse effect on STG's profitability. STG's assessments and assumptions about acquisition or expansion opportunities or acquired businesses could prove to be incorrect or liabilities, contingencies or other risks previously unknown to STG could arise.

The occurrence of any of the above could have a material adverse effect on STG's business, financial condition and results of operations.

The efficiency measures and working capital initiatives that STG has taken, or plans to take, may not be completed in the manner or within the timeframe currently expected and/or may not lead to the contemplated cost savings or working capital reductions.

As discussed in more detail under "*Operating and Financial Review—Principal Factors Affecting STG's Results of Operations—Improving Efficiency—Efficiency Measures and Working Capital Initiatives*", STG has implemented measures to adjust its production footprint to market conditions and its strategy includes ongoing efficiency measures and working capital initiatives. STG's ongoing efficiency measures and working capital initiatives are aimed at improving its production and procurement operations and reducing its inventory to release working capital by simplifying the product portfolio, further optimising its production network, reducing the cost of materials, improving plant efficiency and adopting a more integrated planning approach.

Although STG has identified a substantial number of efficiency measures and working capital initiatives to be implemented, and has implemented or initiated implementation of a significant part of such identified measures and initiatives as at the date of this Offering Circular, there are a number of measures and initiatives that are still to be identified or implemented. While some of STG's efficiency measures and working capital initiatives have already generated cost savings and working capital reductions, the full estimated benefits of these measures and initiatives, and any ongoing or future measures or initiatives, may not be realised. There can be no assurance that STG's planned efficiency measures and working capital initiatives can be completed as currently expected, that STG will achieve the expected cost savings, working capital reductions or other benefits or that the operating and capital expenditures required to implement the efficiency measures and working capital initiatives will be in line with those currently expected. In particular, downsizing production operations, including through workforce reductions or plant closures, can involve significant up-front costs or higher costs than expected, and it may not be economically feasible for STG to implement any such downsizing plans. Planned employee reductions may also result in strikes, work stoppages, litigation, other labour actions or negative publicity that may adversely affect STG's reputation or require it to change or delay its plans. Furthermore, there can be no assurance that adverse developments in general economic conditions or new regulatory measures will not limit, eliminate or delay STG's ability to realise estimated benefits. Any difficulties in realising STG's efficiency measures and working capital initiatives could have a material adverse effect on STG's business, financial condition and results of operations.

The estimates regarding the impact of STG's efficiency measures and working capital initiatives included in this Offering Circular are based on a number of assumptions made in reliance on the information available to STG as at the date of this Offering Circular and STG's judgements based on such information. While STG believes that the estimates related to the benefits resulting from the efficiency measures and working capital initiatives and related costs are reasonable, the underlying assumptions are inherently uncertain and are subject to a wide variety of significant business, economic, and competitive factors, risks and uncertainties that could cause the actual results to differ materially from those contained in the estimates related to the benefits and related costs.

Fluctuations in the availability of tobacco leaf and in tobacco leaf prices could have a material adverse effect on STG's business, financial condition and results of operations.

Tobacco leaf represents approximately one third of STG's cost of goods sold. STG has limited involvement in the cultivation of tobacco leaf and its results of operations are, therefore, exposed to increases in prices of tobacco leaf and other commodities required in the production of its products. Furthermore, as is customary in the tobacco industry, STG typically does not have written agreements for its tobacco purchases. As with other agricultural commodities, the price of tobacco leaf tends to be cyclical, as supply and demand considerations influence tobacco plantings in the countries in which tobacco is grown. Tobacco growing regions may experience variations in weather patterns that may affect crop quality or supply and, therefore, lead to changes in price. In addition, political situations may result in a significantly reduced tobacco crop of the relevant quality in any affected country. This may also lead to increases in price that STG may not be able to pass on to customers, or if passed on to customers, and subsequently consumers, it could have an adverse effect on sales volumes. Fluctuations and/or inflation in the price of tobacco leaf could have a material adverse effect on STG's business, financial condition and results of operations.

The procurement of tobacco for cigars, especially handmade cigars, is complex as tobacco from specific areas, suppliers or parts of the tobacco plant is required to produce specific cigar products. STG carries inventory to safeguard against bad crops and maintain a consistent taste of its cigars. If STG were unable to obtain the required tobacco for its cigar products, it may not be able to produce cigars of the same quality as previously, or at all. Furthermore, if STG were to discontinue a product for any reason, including changes in tobacco regulations or taxation, it could adversely affect STG's market share and sales volumes as well as require STG to write off tobacco leaf inventory if it cannot be utilised in other products. Any of the above could have a material adverse effect on STG's business, financial condition and results of operations.

Breaches of third-party intellectual property rights or accusations of such breaches could have a material adverse effect on STG's business, financial condition and results of operations.

STG's commercial success depends in part on its ability to avoid infringing on the trademarks and other intellectual property rights of third parties. Claims by third parties that STG's utilisation of any brands infringes on their trademark or other intellectual property rights, regardless of their merit, could require STG to incur substantial costs and divert management attention to defend itself against such claims.

In free trade zones in Nicaragua, Honduras and the Dominican Republic, STG produces certain brands of handmade cigars for the U.S. market that carry trademarks for which STG does not hold trademark registrations in the country of production. In the Dominican Republic, STG has an ongoing litigation with Empresa Cubana del Tabaco ("**Cubatabaco**"), which owns the rights to the Cohiba trademark in the Dominican Republic, regarding STG's production and labelling in the Dominican Republic of Cohiba brand cigars solely for export to the United States. A final decision adverse to STG in this dispute or any other potential similar dispute could require STG to label and package products with the relevant brand in another country, which could increase STG's production costs.

In addition, STG has a lengthy ongoing dispute with Cubatabaco in the Dominican Republic regarding the La Gloria Cubana trademark. The authorities have two pending applications, one from each of the parties, for the La Gloria Cubana trademark, and they have not issued the trademark to either party as at the date of this Offering Circular. A final decision adverse to STG could require STG to label and package products with the La Gloria Cubana brand outside of the Dominican Republic, which could increase STG's production costs. For additional information regarding STG's legal proceedings, see "*Business—Legal Proceedings*".

If STG is found to be in breach of the intellectual property rights of a third party, the damages payable could be substantial and STG could be required to withdraw affected products from the market or to enter into a licensing agreement with respect to such intellectual property, which may not be available to STG on acceptable terms, or at all. Any of the above could have a material adverse effect on STG's business, financial condition and results of operations.

STG could fail to manage and protect its intellectual property rights.

STG's brands are key assets for its business (see "*—STG's brands are key assets of its business and changes in the reputations of its brands could have a material adverse effect on STG's business*" above). STG registers and protects its brands in the markets in which they are sold. However, there can be no assurance that STG's actions will adequately protect its intellectual property in all situations. Furthermore, the risk of third parties infringing on STG's intellectual property rights may be high in certain of the jurisdictions in which STG operates as a result of limitations in judicial protection and/or inadequate enforceability.

STG owns the trademark rights to certain Cuban heritage brands in the United States, such as Cohiba, Partagas, Punch, Hoyo de Monterrey and La Gloria Cubana. While the Cohiba brand was registered in the United States by an STG company, STG acquired the trademark rights to the other brands decades ago from the prior owners who had connections to Cuba. Should STG's status as the rightful owner of the rights to these or other trademarks be challenged, the outcome of any such challenge cannot be certain.

Cubatabaco has sought to invalidate STG's trademark rights to the Cohiba trademark in the United States. In 2014, sales of Cohiba brand cigars accounted for 3.4 percent of STG's total handmade cigar net sales in the United States and 0.8 percent of STG's total net sales. If STG's trademark rights to Cohiba in the United States were to be invalidated, STG would not be able to produce or sell cigars under the Cohiba brand in the United States. This could create adverse publicity around STG and other STG brands sold in the United States and lead to significant damages and other costs (*e.g.*, write-down of inventories and recall costs). The litigation has been ongoing since 1997 and there can be no assurances as to its outcome, or the timing of any potential final judgement. For additional information regarding STG's legal proceedings, see "*Business—Legal Proceedings*".

Failure in the establishment, protection or monitoring on the part of STG of its intellectual property rights could result in substantial erosion in the value of STG's brands. In addition, if a third party were to register the same or similar trademarks as registered or utilised by or associated with STG in a jurisdiction in which STG has no trademark protection, STG may not be able to sell its products under those trademarks in such jurisdiction or STG may be required to enter into a licensing agreement, which may not be available to STG on acceptable terms, or at all. STG could also face claims for damages for its use of the Cohiba trademark. Any of the above could have a material adverse effect on STG's business, financial condition and results of operations.

Currency fluctuations could have a material adverse effect on STG's business, financial condition and results of operations.

STG operates globally and has subsidiaries in various countries. STG's reporting currency is the Danish krone, while the most significant currencies for its net sales are the U.S. dollar, euro and Danish krone, which accounted for 43.1 percent, 33.6 percent and 6.0 percent, respectively, of STG's net sales for the nine months ended 30 September 2015. These currencies are also the most significant currencies for STG's cost of goods sold. STG also has external loans denominated in euros and U.S. dollars. In addition to these currencies, STG is exposed to the Australian dollar, British pound sterling, Canadian dollar, Indonesian rupiah, Norwegian krone, Polish zloty, Russian rouble, Swedish krona, Swiss franc, and the local currencies of the other countries in which STG operates.

The most significant currency fluctuation risk STG faces is translation risk. STG's consolidated results of operations are subject to income statement translation risk arising from fluctuations in the value of the Danish krone against the local currencies of various countries in which the Company's subsidiaries operate. Furthermore, the book value of the Company's non-Danish subsidiaries and, therefore, STG's equity, is affected by fluctuations in the value of the Danish krone against the local currencies. STG does not hedge against the translation effects of currency fluctuations, although STG has borrowings in currencies other than the Danish krone to partly mitigate translation risk. Accordingly, currency fluctuations directly affect STG's results of operations and financial condition. STG's results of operations and financial condition have been and will continue to be particularly affected by fluctuations in the value of the U.S. dollar against the Danish krone. Depreciation of the U.S. dollar against the Danish krone would adversely affect STG's results of operations and financial condition. Furthermore, appreciation of the Danish krone relative to, among others, the British pound sterling, Canadian dollar and Australian dollar, would adversely affect STG's results of operations and financial condition.

STG also faces transaction risk. STG enters into transactions denominated in currencies other than the local currencies in which the Group companies operate, exposing STG to transaction risk. As a result, currency fluctuations affect STG's profitability. While STG enters into hedging transactions, such as derivatives, to partially mitigate transaction risk, such hedging transactions will not completely eliminate transaction risks and STG remains exposed to the effects of currency fluctuations. Due to the historically fixed currency band between the Danish krone and euro, STG considers both as its base currencies and, therefore, does not hedge its exposure to fluctuations in the value of the euro against the Danish krone.

Furthermore, long-term changes in foreign exchange rates could adversely affect the competitiveness of STG's production operations and export sales. For example, STG has production facilities in Indonesia and the Dominican Republic, which supply the European machine-made cigar production facilities with wrappers and binders. Any appreciation of the local currencies of these production facilities against the Danish krone and euro would have an adverse effect on STG's financial condition and results of operations.

See also "*Operating and Financial Review—Principal Factors Affecting STG's Results of Operations—Currency Fluctuations*" and notes 1.3 and 4.2 to the Audited Consolidated Financial Statements. Accordingly, currency fluctuations could have a material adverse effect on STG's business, financial condition and results of operations.

STG's intangible assets, including goodwill and trademarks, constitute a significant portion of its total assets, and impairment of intangible assets would have a material adverse effect on STG's financial condition and results of operations.

STG's assets include substantial intangible assets, primarily goodwill and trademarks. As at 30 September 2015, goodwill and trademarks totalled DKK 4,434.6 million (or 31.2 percent of STG's total assets) and DKK 3,339.6 million (or 23.5 percent of STG's total assets), respectively. STG assesses annually whether there has been an impairment in the value of its goodwill and trademarks, or when certain events occur that require a more current valuation. For information on STG's accounting policies for goodwill and trademarks, see note 3.1 to the Audited Consolidated Financial Statements.

In the impairment test of goodwill and trademarks, STG makes various estimates to determine whether such assets will be able to generate sufficient positive net cash flow in the future to support their respective carrying values. Should any event cause STG to conclude that impairment exists, STG would be required to record a non-cash impairment on its income statement and to write down the value of the affected intangible assets, which could have a material adverse effect on STG's financial condition and results of operations.

STG is exposed to risks in connection with its pension commitments.

STG provides pension plans to its employees in the countries in which it is market practice to do so. Most of STG's pension plans are defined contribution plans. However, STG provides defined benefit pension plans in certain countries, primarily in Belgium, Germany, Indonesia, the Dominican Republic, France and the United States. As at 30 September 2015, STG's net pension obligations amounted to DKK 227.7 million and the present value of STG's funded and unfunded defined benefit pension obligations amounted to DKK 77.8 million and DKK 149.9 million, respectively. As at 30 September 2015, STG's defined benefit pension plans covered 4,664 employees. In most countries, STG's defined benefit pension plans are unfunded, except for Belgium and France. The funded defined benefit pension plans are funded by payments from Group companies and by payments by STG's employees to funds independent of STG. If actual returns on the pension plan assets are less than actuarial assumptions regarding the expected rate of return, it could result in a substantial coverage shortfall for these pension obligations, resulting in a significant increase in STG's net pension obligations. Any such increase in STG's net pension obligations could adversely affect STG's financial condition and results of operations due to an increased additional outflow of funds to finance the pension obligations. STG is also exposed to the risk that actual results could differ from actuarial assumptions in areas such as mortality of plan participants, which could increase STG's liabilities under these pension plans. The occurrence of any of these risks could have a material adverse effect on STG's business, financial condition and results of operations.

Changes in Danish or foreign direct or indirect tax laws or compliance requirements, or the practical interpretation and administration thereof, could have a material adverse effect on STG's business, financial condition and results of operations.

STG is subject to various Danish and foreign taxes, including direct and indirect taxes imposed on its global activities, such as corporate income tax, withholding tax, customs duty, excise tax, value added tax and other taxes. Local tax rules and interpretations of tax rules in different jurisdictions change from time to time, and any changes may be implemented with retroactive effect. A change in tax rules or interpretation of tax rules in one or more jurisdictions could increase STG's tax liabilities or otherwise adversely affect STG's business, financial condition and results of operations. Furthermore, taking into account the frequent changes to tax regulations, STG could be subject to claims for breach of such regulations, including for late or incorrect filings or for misinterpretation of rules.

From time to time, STG has been subject to various tax-related investigations as well as audits by various local tax authorities. Due to the global scale of its operations, STG earns a significant part of its income from operations outside of Denmark, and STG also engages in a significant number of intra-group transactions between legal entities in different jurisdictions. Significant judgement is required in determining STG's worldwide provision for direct and indirect taxes, and there are many transactions and calculations where the ultimate direct and indirect tax determination is uncertain. Governmental authorities could question STG's tax policies and judgements and seek to impose additional or increased taxes or penalties on STG, and the final determination of tax audits and any related litigation could be materially different from STG's historical direct and indirect tax provisions and accruals. Any additional or increased taxes, including interest and penalties, imposed on STG, as well as challenging any adverse determinations of tax authorities, could require significant management attention, lead to significant liabilities and otherwise have a material adverse effect on STG's business, financial condition and results of operations.

The terms of STG's financing arrangements may limit its commercial and financial flexibility.

STG's financial covenants could limit its ability to finance future operations and capital needs and STG's ability to pursue its business strategy. The Facilities Agreement requires, and any future financing arrangements may also require, STG to maintain specified financial ratios.

The Facilities Agreement contains various restrictive covenants such as restrictions on mergers, change of business and paying dividends, negative pledge and requirements as to financial information. The Group may not make any new acquisitions or investments in companies, businesses, shares or similar assets, or make any dividend payments or redemptions of share capital if such action would result in the Group's net debt (as defined in the Facilities Agreement) exceeding four times the Group's EBITDA. Furthermore, the consolidated financial indebtedness of the Company's subsidiaries may not exceed 25 percent of the total financial indebtedness of the Group. For additional information on the Facilities Agreement, see "*Operating and Financial Review—Liquidity and Capital Resources—Financial Indebtedness—Facilities Agreement*".

STG's ability to meet the financial covenants under the Facilities Agreement and any future financing arrangements may be affected by events beyond STG's control. In the event of a default under any of STG's debt obligations, the lenders could terminate their commitments, STG's borrowings could become immediately due and payable. Defaulting on a financing agreement could also result in a cross-default on STG's other financing agreements. STG's assets and cash flow may not be sufficient to fully repay these debts in such circumstances, which could have a material adverse effect on STG's business, financial condition, and results of operations.

Disruption to STG's and third parties' production and storage facilities could have a material adverse effect on STG's business, financial condition and results of operations.

STG's operations, as well as its inventory of raw materials, packaging materials and finished products, at STG's and third parties' production sites and warehouses could be adversely affected by extraordinary events, including fire, mechanical failure, extended or extraordinary maintenance, road construction or closures of primary access routes, flood, windstorm or other severe weather conditions, earthquakes, volcanic eruptions, directives from government agencies, power interruptions or other events outside of STG's control. Any prolonged interruption at any main production site could reduce production capacity and have a material adverse effect on STG's business, financial condition and results of operations. The measures that STG has in place to mitigate such risks may prove to be insufficient or ineffective. STG's disaster recovery planning may not prevent business disruption, and reconstruction of damaged facilities could require a significant amount of time and costs. STG has no control over third parties' production sites or warehouses. In addition, inventory of raw materials, packaging materials and finished products could be damaged or lost. Any loss of finished products either at STG's or third parties' production sites or warehouses could have an adverse effect on STG's ability to supply the market and, therefore, on STG's sales volumes and market shares.

Although STG carries insurance to cover losses at production sites and interruptions in the business, such policies are subject to limitations such as deductibles and maximum liability amounts and, therefore, may not cover all losses, including lost sales due to consumers switching products. STG may also incur losses that are outside of the coverage of its insurance policies. In the future, STG may not be able to obtain insurance coverage at current levels, or at all, and premiums may increase significantly on the coverage that is maintained. As a result, significant losses could occur if any of the production sites were damaged or ceased operation for any other reason. Any of the above could have a material adverse effect on STG's business, financial condition and results of operations.

STG relies on a limited number of key executives and employees and may experience difficulty in attracting and hiring qualified new personnel.

The loss of the services of any key personnel or an inability to attract and hire personnel with requisite skills could impair STG's ability to develop its product portfolio, sell its products and manage its business effectively. This could have a material adverse effect on STG's business, financial condition and results of operations.

Work stoppages and other labour matters could have a material adverse effect on STG's business, financial condition and results of operations.

While STG strives to maintain good relationships with its employees and their unions, such relationships may not continue to be amicable and STG may be affected by further unionisation efforts, strikes, plant closings or other types of conflicts with labour unions or employees. STG is subject to collective bargaining agreements in respect of its production operations in Europe and Indonesia. STG may not be able to renew collective bargaining agreements on satisfactory terms or at all. This, or disagreement with employees and their unions on the terms of existing or potential collective bargaining agreements, could result in strikes or work stoppages, which could impair STG's ability to produce and distribute products and result in a substantial loss of sales. Strikes by the employees of third parties could also adversely affect STG. For example, a strike in 2014 by employees of the distributor of almost all tobacco products in France, including STG's products, resulted in STG's products not being supplied to retail stores for approximately two weeks and, therefore, adversely affected STG's sales volumes in France.

The terms of existing or renewed collective bargaining agreements could also significantly increase STG's costs or negatively affect STG's ability to increase operational efficiency. Work stoppages or slow-downs experienced by customers or suppliers could result in lower demand for STG's products or a lack of supplies and, therefore, slow-downs or closures of STG's production facilities and/or inability to supply the market. If STG, or one or more of its customers or suppliers were to experience a work stoppage, it could have a material adverse effect on STG's business, financial condition and results of operations.

STG's dependence on third parties could have a material adverse effect on STG's business, financial condition and results of operations.

STG's operations are dependent on third parties for, among other things, distribution and shipping of tobacco products. For example, in France, Spain, Italy and Portugal, one main distributor of tobacco products, Grupo Logista ("**Logista**"), services most of the market. In these markets, the number of alternative distributors may be limited. There can be no assurance that the products or services provided by third parties will be acceptable to STG or will be provided in a timeframe acceptable to STG, or that third parties will continue to provide products and services to STG at all. While in certain markets alternative third-party suppliers and other partners are available, it could be difficult for STG to replace these relationships on commercially reasonable terms, or at all, and seeking alternate relationships could be time consuming and result in interruptions to STG's business, including prolonged interruptions in the supply of STG's products to affected markets. The failure of third parties to provide acceptable products and services to STG in a timely manner, or at all, or any deterioration in or loss of any key relationships with third-party suppliers or other partners could have a material adverse effect on STG's business, financial condition and results of operations.

Disruptions in information technology systems or a security breach could have a material adverse effect on STG's business, financial condition and results of operations.

STG is dependent on information technology systems to operate its business, enhance customer service, improve the efficiency of production and increase employee efficiency. In addition, STG's business includes online, catalogue and retail sales of tobacco products and accessories directly to consumers. Online, catalogue and physical retail sales involve the processing of confidential customer information, such as payment information. STG's information technology systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, catastrophic events and user errors. In addition, these information technology systems are also subject to security breaches, including cyber security breaches and breaches of transaction processing that could result in the compromise of confidential information, including customer information. Any disruptions in information technology systems or a security breach could result in reputational harm and loss of customers, and otherwise have a material adverse effect on STG's business, financial condition and results of operations.

STG has recently implemented a common enterprise resource planning ("**ERP**") system in the machine-made cigars, pipe tobacco and fine-cut tobacco supply chain functions as well as for a selected number of sales companies. The ERP system is currently being implemented in additional sales companies. STG plans to implement the Group-wide ERP system for General Cigar and the handmade cigars supply chain function in the future. Cigars International is currently implementing the same ERP system covering their online retail platform, retail stores and inventory management function. STG has also completed the initial implementation of a new customer relationship management ("**CRM**") system at a limited number of STG's businesses in the EU, and STG plans to implement the new CRM system in the rest of the sales entities by the end of 2016. STG has invested, and will continue to invest, significant capital and human resources in these projects. Any disruptions, delays or deficiencies in the transition, design and implementation of the new systems, particularly any disruptions, delays or deficiencies that impact STG's operations, could have a material adverse effect on the implementation of STG's overall information technology infrastructure. STG may experience difficulties as it transitions to these new upgraded systems and processes including loss of data and inability to process customer orders, ship products, bill and track customers, fulfil contractual obligations, generally conduct financial reporting and otherwise run its business. STG may also experience decreases in productivity as its personnel implement and become familiar with new systems. If STG is unable to successfully implement the new systems as planned, it could have a material adverse effect on STG's business, financial condition and results of operations.

STG's risk management policies may not be adequate.

STG has implemented policies with the aim of managing the general and specific risks associated with the Group's activities and operations, as well as financial reporting. STG may not have identified all risks that it faces, and STG's risk management policies may not be adequate to manage all identified or unidentified risks. Any of the above or failure to implement or adhere to the policies could have a material adverse effect on STG's business, financial condition and results of operations.

STG's insurance policies provide limited coverage, potentially leaving it uninsured against some risks.

STG has global master insurance programmes that include property insurance, liability insurance, marine cargo insurance and directors' and officers' liability insurance as well as local policies when required by law or it is cost efficient. Although STG maintains insurance to the extent it considers to be adequate, there can be circumstances in which insurance would not cover, partially or fully, the consequences of a loss event. Further, there may be extended periods of uncertainty as to payment, or delays in receiving payment, for a loss event under STG's insurance policies and such delay in payment could compound such losses and materially affect STG's results of operations and financial position. In addition, STG could face claims on other liability events or incidents for which it either cannot obtain insurance, such as claims regarding the health consequences associated with the use of tobacco products, or has elected not to obtain insurance (whether on account of premium costs, significant risk retention or for other reasons). Notwithstanding the insurance coverage that STG carries, the occurrence of one or more incidents that cause losses in excess of limits specified under the relevant policy or are subject to material deductibles, or losses arising from events not covered by insurance policies, could have a material adverse effect on STG's business, financial condition and results of operations. For additional information on STG's insurance policies, see "*Business—Insurance*".

STG could face claims regarding the health consequences associated with the use of tobacco products and such claims cannot be covered by insurance.

Cigarette companies have for many years been subject to litigation and claims for damages, with cases being brought by both tobacco smokers and governmental authorities. While STG has not so far faced claims regarding the health consequences associated with the use of tobacco products, it could, like other players in the tobacco industry at large, in the future face such claims, and such claims cannot be covered by insurance. Such claims could lead to litigation, which could entail significant costs, require significant management attention and lead to significant liabilities for STG in the case of an adverse outcome or settlement. This, in turn, could have a material adverse effect on STG's business, financial condition and results of operations.

STG's consolidated prospective financial information included in this Offering Circular may differ materially from its actual results and investors should not place undue reliance on it.

The financial projections set forth in this Offering Circular in Element B.9 in "*Summary*" and in "*Consolidated Prospective Financial Information*" are the Company's projections for 2015 and 2016. The "*Consolidated Prospective Financial Information*" includes financial projections that qualify as profit forecasts. For profit forecasts, the Prospectus Regulation requires the Company to, among other things, disclose the principal assumptions on which the Company has based the forecast and to include a report prepared by the Company's independent auditors on such forecasts and assumptions. The Company's independent auditors did not make any assessment as to whether the assumptions underlying these financial projections are well-founded or whether such financial projections are realisable. The Company has prepared its financial projections in accordance with the Prospectus Regulation and not in accordance with any other rules or requirements in the United States or otherwise.

These financial projections are based upon a number of assumptions and estimates (including the success of STG's business strategies), which are subject to significant business, operational, economic and other risks, many of which are outside of the Company's control. Accordingly, such assumptions may prove to be incorrect. In addition, unanticipated events may adversely affect the Company's results in future periods whether or not the Company's assumptions relating to 2015 and 2016 or future periods otherwise prove to be correct. As a result, the Company's actual results may vary materially from these projections and investors should not place undue reliance on them. See also "*Special Notice Regarding Forward-looking Statements*".

Risks Relating to the Offering

Following the Offering, the Selling Shareholders will continue to be significant shareholders in the Company and may control or otherwise influence important actions the Company takes in a way that may not be aligned with the interests of the Company's minority shareholders.

Upon completion of the Offering, Swedish Match Cigars Holding will own 31,200,000 Shares, corresponding to 31.2 percent of the Company's share capital and voting rights, and Skandinavisk Holding II will own 33,200,000 Shares, corresponding to 33.2 percent of the Company's share capital and voting rights, assuming no exercise of the Overallotment Option. Assuming the Overallotment Option is exercised in full, Swedish Match Cigars Holding will own 29,000,000 Shares, corresponding to 29.0 percent of the Company's share capital and voting rights, and Skandinavisk Holding II will own 31,000,000 Shares, corresponding to 31.0 percent of the Company's share capital and voting rights upon the completion of the Offering.

While following completion of the Offering there will be no shareholders' agreement or similar agreement among the Selling Shareholders, depending on the attendance at a General Meeting, each of the Selling Shareholders and the Selling Shareholders in aggregate will hold a large proportion of the voting rights and the share capital represented at such General Meeting. As such, each or both of the Selling Shareholders will have the ability to influence or determine the outcome of specific matters submitted to the shareholders for approval. Such matters could include, among other things, the election and dismissal of the members of the Board of Directors, declarations of dividends and amendments to the Articles of Association. For additional information regarding the majority requirements at General Meetings, see "*Description of the Shares and Share Capital—General Meetings and Voting Rights*". Accordingly, each of the Selling Shareholders and the Selling Shareholders in aggregate will continue to be able to exert influence over, or in some cases block, certain matters that must be decided by a vote of shareholders, including the election of directors and amendments to the Articles of Association.

Accordingly, each of the Selling Shareholders and the Selling Shareholders in aggregate may be able to influence the direction of STG's operations and other affairs through such representation. The concentration of share ownership could have the effect of delaying, postponing or preventing a change of control of the Company, and impact mergers, consolidations, acquisitions or other forms of combinations, which may or may not be desired by other shareholders. The interests of each of the Selling Shareholders could differ from the interests of other shareholders and may not be aligned with the interests of minority shareholders with respect to such voting decisions.

The Shares have not previously been publicly traded, a liquid market for the Shares may not develop, and the price of the Shares may be volatile and fluctuate significantly in response to various factors.

There is currently no public market for the Shares, and an active and liquid trading market may not develop or be sustained after the Offering and the admission for trading and official listing of the Shares. The market price of the Shares may subsequently vary from the Offer Price and may be higher or lower than the price paid by investors in the Shares. The trading price of the Shares may fluctuate in response to many factors, including extraneous factors beyond the Company's control. In addition, Nasdaq Copenhagen or the global securities markets may experience significant price and volume fluctuations, as they have done in recent years, which may have a material adverse effect on the market price of the Shares and create a risk that investors may not be able to sell their Shares at a price greater than or equal to the Offer Price.

Future sales of Shares after the Offering may cause a decline in the market price of the Shares.

The market price of the Shares may decline as a result of sales of Shares in the market by the Company (either the issuance of new Shares, including under the current authorisations granted to the Board of Directors pursuant to article 5 of the Articles of Association, see "*Description of the Shares and Share Capital—Authorisations to Increase Share Capital*" or the sale of treasury Shares) or either of the Selling Shareholders after the Offering or the perception that such sales could occur. Such sales may also make it difficult for the Company to issue equity securities in the future at a time and a price that it deems appropriate. Following the Offering, the Company and each of the Selling Shareholders will be subject to certain contractual lock-up provisions, in each case for a limited period. See "*Plan of Distribution*". After the expiration of such lock-up obligations, these persons will be free to sell their Shares. Other parties not subject to lock-up will also be free to sell their Shares and may accordingly choose to sell all or part of their Shares. Any such sales of Shares could have a material adverse effect on the public trading price of the Shares.

Currency fluctuations could have a material adverse effect on the value of shareholdings or dividends paid.

The Offer Shares will be denominated in Danish kroner, and any dividends will be paid in Danish kroner. As a result, shareholders outside of Denmark may experience material adverse effects on the value of their shareholding and their dividends when converted into other currencies if the Danish krone depreciates against the relevant currency.

U.S. and other non-Danish holders of Shares may not be able to exercise pre-emptive rights or participate in any future rights offerings.

Holders of Shares will have certain pre-emptive rights in respect of certain issues of Shares, unless those rights are disapplied by a resolution of the shareholders at a General Meeting or the Shares are issued on the basis of an authorisation to the Board of Directors under which the Board of Directors may disapply the pre-emptive rights. The securities laws of certain jurisdictions may restrict the ability for shareholders in such jurisdictions to participate in any future issue of Shares carried out on a pre-emptive basis.

Shareholders in the United States as well as certain other countries may not be able to exercise their pre-emptive rights or participate in future rights offerings, including in connection with offerings at below market value, unless the Company decides to comply with local requirements, and in the case of the United States, unless a registration statement is effective, or an exemption from the registration requirements is available, under the U.S. Securities Act with respect to such rights. In such cases, shareholders resident in jurisdictions other than Denmark may experience a dilution of their shareholding, possibly without such dilution being offset by any compensation received in exchange for subscription rights. There can be no assurance that local requirements will be complied with or that any registration statement would be filed in the United States or other relevant jurisdiction or that any exemption from such registration would be available so as to enable the exercise of such holders' pre-emptive rights or participation in any rights offering.

Investors' rights as shareholders will be governed by Danish law and differ in some respects from the rights of shareholders under the laws of other countries.

The Company is a public limited company organised under the laws of Denmark. The rights of holders of Shares are governed by the Articles of Association and by Danish law. These rights may differ in some respects from the rights of shareholders in corporations organised outside of Denmark. In addition, it may be difficult for investors to prevail in a claim against the Company under, or to enforce liabilities predicated upon, the securities laws of jurisdictions outside of Denmark. See "*Enforcement of Civil Liabilities and Service of Process*".

IMPORTANT NOTICE

The information in this Offering Circular is as of the date printed on the front of the cover, unless expressly stated otherwise. The delivery of this Offering Circular at any time does not imply that there has been no change in STG's business or affairs since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof. In the event of any changes to the information in this Offering Circular that may affect the valuation of the Offer Shares during the period from the date of announcement to the first day of trading of the Shares, such changes will be announced pursuant to the rules in the Danish Executive Order on Prospectuses, *inter alia*, which governs the publication of prospectus supplements.

In making an investment decision, investors must rely on their own assessment of the Company and the terms of this Offering, as described in this Offering Circular, including the merits and risks involved. Any purchase of the Offer Shares should be based on the assessments of the information in the Offering Circular, including the legal basis and consequences of the Offering, and including possible tax consequences that may apply, before deciding whether or not to invest in the Offer Shares. Investors should rely only on the information contained in this Offering Circular, including the risk factors described herein.

No person has been authorised to give any information or make any representation not contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by the Selling Shareholders, the Managers or the Company. None of the Company, the Selling Shareholders or the Managers accepts any liability for any such information or representation.

The distribution of this Offering Circular and the offer or sale of the Offer Shares in certain jurisdictions is restricted by law. By purchasing Offer Shares, investors will be deemed to have made certain acknowledgements, representations and agreements as described in this Offering Circular. Prospective investors should be aware that they may be required to bear the financial risks of an investment in the Offer Shares for an indefinite period of time. No action has been or will be taken by the Selling Shareholders, the Managers or the Company to permit a public offering in any jurisdiction other than Denmark. Persons into whose possession this Offering Circular may come are required by the Selling Shareholders, the Managers and the Company to inform themselves about and to observe such restrictions. This Offering Circular may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. For further information with regard to restrictions on offers and sales of the Offer Shares and the distribution of this Offering Circular, see "*Selling Restrictions*". This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any of the Offer Shares in any jurisdiction to any person to whom it would be unlawful to make such an offer. This Offering Circular may not be forwarded, reproduced or in any other way redistributed by anyone but the Managers and the Company. Investors may not reproduce or distribute this Offering Circular, in whole or in part, and investors may not disclose the content of this Offering Circular or use any information herein for any purpose other than considering the purchase of Offer Shares. Investors agree to the foregoing by accepting delivery of this Offering Circular.

The Managers are acting for the Selling Shareholders and the Company and no one else in relation to the Offering and admission to trading and official listing of the Shares on Nasdaq Copenhagen. The Managers will not be responsible to anyone other than the Selling Shareholders and the Company for providing the protections afforded to clients of the Managers or for providing advice in relation to the Offering and admission to trading and official listing of the Shares on Nasdaq Copenhagen.

SPECIAL NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular constitute forward-looking statements. Forward-looking statements are statements (other than statements of historical fact) relating to future events and STG's anticipated or planned financial and operational performance. The words "targets", "believes", "expects", "aims", "intends", "plans", "seeks", "will", "may", "might", "anticipates", "would", "could", "should", "estimates" or similar expressions or the negatives thereof, identify certain of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. Forward-looking statements appear in a number of places in this Offering Circular, including, without limitation, under the headings "*Summary*", "*Risk Factors*", "*Dividends and Dividend Policy*", "*Industry Overview*", "*Business*", "*Operating and Financial Review*" and "*Consolidated Prospective Financial Information*" and include, among other things, statements addressing matters such as:

- general economic trends and trends in STG's industry;
- STG's business strategy, plans and objectives for future operations, products and expansions;
- STG's expectations regarding developments in demand for and the market prices of tobacco products;
- STG's expectations regarding the competitive environment in which it operates and its position therein;
- the development of the regulatory framework governing STG's operations;
- STG's future sales volumes;
- STG's future results of operations, including its consolidated prospective financial information for 2015 and 2016, as set forth in "*Consolidated Prospective Financial Information*";
- STG's expectations regarding cost savings from its efficiency measures and working capital initiatives;
- STG's future financial condition and ability to obtain additional financing;
- STG's working capital, cash flows and capital expenditures; and
- STG's dividends and dividend policy.

Although the Company believes that the goals, estimates and expectations reflected in these forward-looking statements are reasonable, such forward-looking statements are based on estimates and assumptions regarding future events, and are subject to known and unknown risks and uncertainties that could cause STG's actual results, performance, achievements or industry results, to differ materially from what is expressed or implied by such forward-looking statements. Such risks, uncertainties and other important factors include, among others:

- a substantial decline in demand for the types of tobacco products that STG produces;
- increases or changes in excise, consumption or other taxes on tobacco products in markets in which STG operates;
- further restrictions on promoting, marketing, packaging, labelling and usage of tobacco products in markets in which STG operates, including the adoption of national legislation implementing the TPD that differs from STG's current expectations;
- impairments of brand values due to the TPD's ban on the use of any packaging or tobacco product elements or features, including product names and symbols, that refer to taste, smell or any flavouring, or resemble a food product, or for any other reason;
- global, regional and local economic conditions;
- fluctuations in exchange rates, interest rates and prices of tobacco leaf;
- STG's ability to implement efficiency measures and working capital initiatives;
- economic, regulatory and political developments, natural disasters and conflicts in countries in which STG operates;
- material disruptions in the availability or supply of tobacco leaf and non-tobacco raw materials, production capacity or distribution;
- STG's ability to manage and protect its intellectual property rights;

- STG's ability to retain qualified personnel and key employees;
- STG's ability to identify and select reputable and reliable parties to distribute STG's products;
- STG's ability to realise anticipated results of its acquisitions;
- any negative impact of STG's reputation or value;
- changes in Danish, EU, U.S. or other laws and regulation or any interpretation thereof, applicable to STG's business;
- competition from local, national and international companies in the markets in which STG operates or into which STG seeks to expand; and
- STG's ability to refinance or service its indebtedness.

Should one or more of these risks or uncertainties materialise, or should any underlying assumptions prove to be incorrect, STG's actual financial condition, cash flows or results of operations could differ materially from what is described herein as anticipated, believed, estimated or expected. The Company urges investors to read the sections of this Offering Circular entitled "*Risk Factors*", "*Business*" and "*Operating and Financial Review*" for a more complete discussion of the factors that could affect STG's future performance and the industry in which it operates.

The Company does not intend, and does not assume, any obligation to update any forward-looking statements contained herein, except as may be required by law or the rules of Nasdaq Copenhagen. All subsequent written and oral forward-looking statements attributable to the Company or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained in this Offering Circular.

ENFORCEMENT OF CIVIL LIABILITIES AND SERVICE OF PROCESS

The Company and Skandinavisk Holding II are organised under the laws of Denmark and Swedish Match Cigars Holding is organised under the laws of Sweden. Most of the Company's directors and officers and those of the Selling Shareholders, reside in countries or are organised under the laws of countries other than the United States, and a majority of the Company's assets and the majority of the assets of the Selling Shareholders are located outside of the United States. As a result, it may not be possible for investors to effect service of process upon the Company, the Selling Shareholders or any of their respective directors and officers or to enforce against any of the aforementioned parties a judgement obtained in a United States court.

Original actions, or actions for the enforcement of judgements of United States courts relating to the civil liability provisions of the federal or state securities laws of the United States are not directly enforceable in Denmark or Sweden.

The United States and Denmark do not have a treaty providing for reciprocal recognition and enforcement of judgements, other than arbitration awards, in civil and commercial matters. Accordingly, a final judgement for the payment of money rendered by a United States court based on civil liability will not be directly enforceable in Denmark. However, if the party in whose favour such final judgement is rendered brings a new lawsuit in a competent court in Denmark, that party may submit to the Danish court the final judgement that has been rendered in the United States. A judgement by a federal or state court in the United States against the Company or a Selling Shareholder will neither be recognised nor enforced by a Danish court, but such judgement may serve as evidence in a similar action in a Danish court. There is doubt as to the enforceability in Sweden, in original actions instituted in U.S. courts, of civil liabilities predicated solely upon the federal securities laws of the United States. Therefore, final judgments for the payment of money rendered by a U.S. court in the United States based on civil liability, whether or not predicated solely upon the federal securities laws of the United States, would not be automatically enforceable in Sweden.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Financial Information

STG reports consolidated financial information in accordance with IFRS. The historical financial information of STG as at and for the years ended 31 December 2014 and 2013 included in this Offering Circular have been reported in accordance with the reporting standards anticipated to also apply to the financial information for 2016 and no retrospective implementation of changes in accounting policies and other retrospective adjustments are anticipated.

The historical financial information of STG as at and for the nine months ended 30 September 2015 and 2014 and as at and for the years ended 31 December 2014, 2013 and 2012 included in this Offering Circular has been extracted from the Consolidated Financial Statements or from STG's regularly maintained records and operating systems. The Consolidated Financial Statements are included in the F-pages to this Offering Circular. The Audited Consolidated Financial Statements have been audited by STG's independent auditors, PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab. The unaudited consolidated interim financial statements of STG as at and for the nine months ended 30 September 2015 have been reviewed by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab. The consolidated comparative interim financial information for the nine months ended 30 September 2014 is comparative and has not been reviewed by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab.

Non-IFRS Financial Measures

This Offering Circular contains non-IFRS financial measures, including adjusted net sales, adjusted gross profit and adjusted EBITDA, which are not recognised measures under IFRS. The non-IFRS financial measures presented herein are not measures of financial performance under IFRS, but are measures used by STG to monitor the underlying performance of its business and operations. None of these measures have been audited or reviewed, and they may not be indicative of STG's historical results of operations, nor are such measures meant to be predictive of STG's future results of operations.

The following definitions apply throughout the Offering Circular:

- Adjusted net sales is defined as net sales excluding nonrecurring items. For a reconciliation of adjusted net sales to the nearest IFRS measure, see "*Operating and Financial Review—Results of Operations*".
- Adjusted gross profit is defined as gross profit excluding nonrecurring items. For a reconciliation of adjusted gross profit to the nearest IFRS measure, see "*Selected Historical Consolidated Financial and Operating Information—Certain Non-IFRS Financial Measures*".
- Adjusted gross profit margin is defined as adjusted gross profit as a percentage of adjusted net sales.
- Adjusted EBITDA is defined as EBITDA excluding nonrecurring items. For a reconciliation of adjusted EBITDA to the nearest IFRS measure, see "*Selected Historical Consolidated Financial and Operating Information—Certain Non-IFRS Financial Measures*".
- Adjusted EBITDA margin is defined as adjusted EBITDA as a percentage of adjusted net sales.
- Maintenance capital expenditure is defined as capital expenditure related to replacing, repairing, updating or otherwise maintaining STG's existing property, plant and equipment as well as updating and maintaining existing IT software.
- Maintenance capital expenditure / net sales ratio is defined as maintenance capital expenditure as a percentage of adjusted net sales.
- Special projects capital expenditure is defined as capital expenditure related to significant or structural investments that fall outside the frame of STG's normal ongoing business, including, for example, construction, acquisitions, closures or restructuring of factories and warehouses, investments in changed distribution setup, new retail stores and significant new IT systems, as well as investments due to expansion into new product categories or new markets or to comply with regulatory changes.
- Cash conversion ratio is defined as adjusted EBITDA less maintenance capital expenditure, as a percentage of adjusted EBITDA.
- Trade working capital is defined as inventories and trade receivables less trade payables.

- Net interest-bearing debt (NIBD) is defined as interest-bearing liabilities and pensions less cash equivalents and interest-bearing receivables.
- Leverage ratio is defined as net interest-bearing debt divided by adjusted EBITDA.

Not all companies calculate non-IFRS financial measures in the same manner or on a consistent basis. As a result, these measures and ratios may not be comparable to measures used by other companies under the same or similar names. Accordingly, undue reliance should not be placed on the non-IFRS financial measures contained in this Offering Circular and they should not be considered as a substitute for net sales, gross profit, EBITDA or any other financial measure computed in accordance with IFRS.

Rounding Adjustments and Percentages

Rounding adjustments have been made in calculating some of the financial information included in this Offering Circular. As a result, figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

Certain percentages presented in the tables in this Offering Circular reflect calculations based upon the underlying information prior to rounding and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

Financial Periods

STG's financial year ends on 31 December. References in this Offering Circular to any specific financial year are to the twelve-month period ended 31 December of such year, and references to the first nine months of any specific financial year are to the nine-month period ended on 30 September of such year.

References in this Offering Circular to the "periods under review" are to the period 1 January 2012 to 30 September 2015.

Foreign Currency Presentation

The Company publishes its financial information in Danish kroner. Unless otherwise noted, all amounts in this Offering Circular are expressed in Danish kroner.

As used in this Offering Circular, references to (i) "**Danish krone**", "**Danish kroner**" or "**DKK**" are to the Danish krone, the lawful currency of the Kingdom of Denmark; (ii) "**euro**" or "**EUR**" are to the euro, the lawful currency of the participating member states in the Third Stage of the European and Monetary Union of the Treaty Establishing the European Community; and (iii) "**U.S. dollar**", "**U.S. dollars**" or "**USD**" are to the United States dollar, the lawful currency of the United States of America. For information regarding recent historical rates of exchange between the Danish krone and the euro and between the Danish krone and the U.S. dollar, see "*Exchange Rates*".

Market and Industry Information

This Offering Circular contains forecasts, statistics, data and other information relating to markets, market sizes, market shares, market positions and other industry data pertaining to STG's business and markets. Due to the breadth of STG's business – operating in four principal product markets with sales in more than 100 geographic markets – comparable third-party market and industry information is not available across STG's geographic markets, especially the United States. Unless otherwise indicated, such information is based on the Company's own analysis of multiple sources, including information obtained from industry publications or reports. When such information contained in this Offering Circular has been derived from third-party sources, such as Euromonitor, TTB or Information Resources (UK) Ltd. ("**IRI**"), it is stated that the information has been sourced from such person. Such information has been accurately reproduced, and, as far as the Company is aware from such information, no facts have been omitted that would render the information provided inaccurate or misleading. The Boston Consulting Group has provided management consulting services to STG in relation to the Offering.

Industry publications or reports generally state that the information they contain has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed. The Company has not independently verified and cannot give any assurances as to the accuracy of market data contained in this Offering Circular that were extracted or derived from these industry publications or reports. Market data and statistics are inherently predictive and subject to uncertainty and not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgements by both the researchers (including the Company) and the respondents, including judgements about what types of products and transactions should be included in the relevant market. Accordingly, there can be no assurance that a third party using different methodologies or sources could not arrive at different results from the Company's analysis presented in this Offering Circular.

As a result, prospective investors should be aware that the forecasts, statistics, data and other information relating to STG's markets, market sizes, market shares, markets positions and other industry data pertaining to STG's business and markets in this Offering Circular, may not be reliable indicators of STG's future results of operations or business performance.

STG's market shares presented in this Offering Circular are calculated based on sales volumes.

Key Brands

STG's brand portfolio includes more than 200 brands. The selected key brands included in this Offering Circular are either of financial importance or strategic focus areas for STG. In "*Business*", the Company provides more detailed descriptions of only certain key brands, as STG has many key brands and the Company believes that it would not be helpful to prospective investors to include descriptions of all of them.

Trademarks

STG owns certain trademarks and trade names that it utilises in connection with the operations of its business. STG asserts, to the fullest extent under applicable law, its right to its trademarks and trade names.

Each trademark and trade name of any other company appearing in this Offering Circular belongs to its holder. Solely for convenience the trademarks and trade names referred to in this Offering Circular are listed without the ™ and ®, as relevant.

Employees

References in this Offering Circular to numbers of employees refer to the employee headcount as at the date indicated.

EXCHANGE RATES

The following table sets forth the average, high, low and period end euro buying rates expressed in Danish kroner per one euro for the periods indicated. The Danish Central Bank fixes exchange rates on the basis of information obtained from a number of central banks on a daily conference call hosted by the European Central Bank at 2:15 p.m. (CET). The average rates for each financial year represent the average of the euro buying rates on the last business day of each month for such financial year, and the average rates for each month represent the daily average of the euro buying rates for such month. The exchange rate of Danish kroner per euro is regulated by the exchange rate mechanism, a system originally established in 1979 for controlling exchange rates within the European monetary system of the EU. Under this system, Denmark sets its central exchange rate to DKK 7.46 per EUR 1.00 and allows fluctuations of the exchange rate within a 2.25 percent band. This means that the exchange rate can fluctuate from a high of DKK 7.63 per EUR 1.00 to a low of DKK 7.29 per EUR 1.00. If the market-determined floating exchange rate rises above or falls below the band, the Danish Central Bank must intervene.

	Reference rates of Danish kroner per EUR 1.00			
	Average	**High**	**Low**	**Period-end**
Year				
2013	7.46	7.46	7.45	7.46
2014	7.46	7.47	7.44	7.44
2015	7.46	7.47	7.43	7.46
2016 (until 25 January)	7.46	7.46	7.46	7.46
Month				
January (until 25 January)	7.46	7.46	7.46	7.46

As at 25 January 2016, the euro buying rate based on the Danish Central Bank's foreign exchange reference rate was DKK 7.46 per EUR 1.00.

The following table sets forth the average, high, low and period-end U.S. dollar buying rates based on the Danish Central Bank's foreign exchange reference rate expressed in Danish kroner per one U.S. dollar for the periods indicated. The Danish Central Bank fixes exchange rates on the basis of information from a number of central banks on a daily conference call hosted by the European Central Bank obtained at 2:15 p.m. (CET). The average rates for each financial year represent the average of the U.S. dollar buying rates on the last business day of each month for such financial year except for 2016, for which the date used is 25 January 2016, and the average rates for each month represent the daily average of the U.S. dollar buying rates for such month.

	Reference rates of Danish kroner per USD 1.00			
	Average	**High**	**Low**	**Period-end**
Year				
2013	5.62	5.84	5.40	5.41
2014	5.62	6.12	5.35	6.12
2015	6.73	7.08	6.18	6.83
2016 (until 25 January)	6.88	6.95	6.84	6.90
Month				
January (until 25 January)	6.88	6.95	6.84	6.90

As at 25 January 2016, the U.S. dollar buying rate based on the Danish Central Bank's foreign exchange reference rate was DKK 6.90 per USD 1.00.

Exchange Controls and Other Limitations Affecting Shareholders of a Danish Company

There is no legislation in Denmark that restricts the export or import of capital (except for certain investments in areas in accordance with applicable resolutions adopted by the United Nations and the EU), including, but not limited to, foreign exchange controls, or which affects the remittance of dividends, interest or other payments to non-resident holders of the Offer Shares. As a measure to prevent money laundering and financing of terrorism, persons travelling into or out of Denmark carrying amounts of money (including, but not limited to, cash, traveller's checks and securities) worth the equivalent of EUR 10,000 or more must declare such amounts to the Danish tax authorities when travelling into or out of Denmark.

AVAILABLE INFORMATION

Copies of the following documents may be inspected and obtained during usual business hours on any day (excluding Saturdays, Sundays and Danish public holidays) at the Company's registered office, at Sydmarken 42, DK-2860 Søborg, Denmark, during the period in which this Offering Circular is in effect:

(i) the Company's memorandum of association and the Articles of Association;

(ii) the Company's interim report, including the Unaudited Consolidated Interim Financial Statements, as at and for the nine months ended 30 September 2015;

(iii) the Company's statutory annual reports, including the Audited Consolidated Financial Statements, as at and for the years ended 31 December 2014, 2013 and 2012;

(iv) the statutory financial statements of the Company's material subsidiaries, as set out under "*Additional Information—Material Subsidiaries*" as at and for the years ended 31 December 2014 and 2013; and

(v) this Offering Circular.

The Danish Consolidated Act no. 1089 of 14 September 2015 on limited liability companies (the "**Danish Companies Act**") requires the Company to make its statutory annual reports, including the audited financial statements, available to shareholders on the Company's website three weeks before the annual General Meeting. At the same time, the Company is required to send these documents to registered shareholders who have so requested.

The English Language Offering Circular and the Danish Offering Circular are, subject to certain restrictions, together with the Articles of Association and the Company's statutory financial statements as at and for the years ended 31 December 2014, 2013 and 2012, available on the Company's website at www.st-group.com. The information included on the Company's website does not form part of and is not incorporated into this Offering Circular.

The Company has agreed that, for so long as any Offer Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, the Company will, during any period in which the Company is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**U.S. Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the U.S. Securities Act. The Company is not currently subject to the periodic reporting and other information requirements of the U.S. Exchange Act.

EXPECTED TIMETABLE OF OFFERING AND FINANCIAL CALENDAR

Expected Timetable of Principal Events

Offer Period commences	28 January 2016
Offer Period closes no later than	9 February 2016
Extraordinary General Meeting regarding election of members to the New Board of Directors	10 February 2016
Publication of the pricing statement containing the Offer Price and number of Offer Shares	10 February 2016
First day of trading in and official listing of the Shares on Nasdaq Copenhagen under the permanent ISIN	10 February 2016
Completion of the Offering, including settlement of the Offer Shares (excluding the Option Shares, unless the Overallotment Option has been exercised by 12 February 2016)	12 February 2016

Financial Calendar

STG's financial year runs from 1 January through 31 December. STG will publish financial reports on a quarterly basis. STG currently expects to publish its financial reports according to the following schedule:

Annual report as at and for the year ended 31 December 2015	10 March 2016
Interim report as at and for the three months ended 31 March 2016	25 May 2016
Annual General Meeting	26 April 2016
Interim report as at and for the six months ended 30 June 2016	31 August 2016
Interim report as at and for the nine months ended 30 September 2016	3 November 2016

BACKGROUND TO THE OFFERING AND USE OF PROCEEDS

The admission to trading and official listing of the Shares on Nasdaq Copenhagen in connection with the Offering is expected to provide a strong platform for future growth by enhancing the visibility of the Company, further improve the ability to attract and retain key employees and diversify the shareholder base, among other benefits of being a listed company.

The Company will not receive any part of the proceeds from the sale of the Offer Shares by the Selling Shareholders in the Offering. For more information about the ownership in the Selling Shareholders, see "*Ownership Structure and Selling Shareholders*".

DIVIDENDS AND DIVIDEND POLICY

General

The Offer Shares rank *pari passu* with all other Shares, including in respect of voting rights and eligibility to receive dividends.

Dividend Policy

The Board of Directors has adopted a dividend policy with a target payout ratio of at least 70 percent of consolidated net profit for the year. As an alternative or in addition to making dividend payments, the Board of Directors may initiate share buybacks. A decision by the Board of Directors to engage in share buybacks, if any, will be made in accordance with the factors applicable to dividend payments set forth below.

Payment of dividends, and the amounts and timing thereof, will depend on a number of factors, including future revenue, profits, financial conditions, general economic and business conditions, future prospects, strategic initiatives such as M&A activities or large scale investments decided upon by the Board of Directors, and such other factors as the Board of Directors may deem relevant as well as applicable legal and regulatory requirements. In addition, the terms and conditions of the Facilities Agreement impose certain limitations on the Company's ability to declare and pay dividends based on STG's net debt to EBITDA ratio. See "*Operating and Financial Review—Liquidity and Capital Resources—Financial Indebtedness—Facilities Agreement*". There can be no assurance that in any given year a dividend or share buyback will be proposed or declared or that the Company's financial performance will allow it to adhere to the dividend policy or any increase in the payout ratio. The Company's ability to pay dividends or buy back shares may be impaired as a result of various factors, including materialisation of any of the risks described in this Offering Circular. See "*Risk Factors*". Furthermore, the dividend policy is subject to change as decided by the Board of Directors from time to time.

Dividends paid to the Company's shareholders generally will be subject to withholding tax, while share buybacks will be deemed a sale of shares for Danish tax purposes and as a general rule will not be subject to Danish withholding tax. For a description of Danish withholding taxes and certain other tax considerations relevant to the purchase or holding of the Shares, see "*Taxation*".

Statements relating to the dividend policy constitute forward-looking statements. Forward-looking statements are not guarantees of future financial performance and actual dividends or share buybacks could differ materially from those expressed or implied by such forward-looking statements as a result of many factors, including those described in "*Risk Factors*" and "*Special Notice Regarding Forward-looking Statements*".

Recent Dividends

In 30 September 2015, the Board of Directors approved the payment of an extraordinary dividend of DKK 900 million in cash (equal to DKK 9.00 per Share), which has been paid to the Selling Shareholders.

In respect of the financial years 2014, 2013 and 2012, the Company declared and paid to the Selling Shareholders DKK 427 million (equal to DKK 4.27 per Share), DKK 382 million (equal to DKK 3.82 per Share) and DKK 412 million (equal to DKK 4.12 per Share) in dividends, respectively.

Legal and Regulatory Requirements

Dividends

In accordance with the Danish Companies Act, ordinary dividends, if any, are declared with respect to a financial year at the annual General Meeting in the following year, at the same time as the statutory annual report, which includes the audited financial statements, for that financial year is approved.

Further, the General Meeting may resolve to distribute interim dividends or authorise the Board of Directors to decide on the distribution of interim dividends. Any resolution to distribute interim dividends within six months after the date of the Company's latest adopted annual report must be accompanied by the statement of financial position from the Company's latest annual report or an interim statement of financial position, which must be reviewed by the Company's auditor. If the decision to distribute an interim dividend is passed more than six months after the date of the Company's latest adopted annual report, then an interim statement of financial position must be prepared and reviewed by the Company's auditor. The statement of financial position or the interim statement of financial position, as applicable, must show that the Company has sufficient funds available for distribution.

Dividends may not exceed the amount recommended by the Board of Directors for approval by the General Meeting. Moreover, dividends, including interim dividends, may only be made out of distributable reserves, may not exceed an amount that is considered sound and adequate with regard to the financial condition of the Company and may not be to the detriment of the Company's creditors and otherwise must satisfy such other factors, as the Board of Directors may deem relevant.

As at the date of this Offering Circular, the Board of Directors has been authorised by the General Meeting to distribute interim dividends, but currently does not intend to do so.

Share Buybacks

In accordance with the Danish Companies Act, share buybacks, if any, may only be carried out by the Board of Directors using funds that could have been distributed as dividends at the latest annual General Meeting. The Board of Directors must carry out any share buyback in accordance with an authorisation granted by the General Meeting. The authorisation must be granted for a specific period not to exceed five years. The authorisation must also specify the maximum permitted value of treasury shares, as well as the minimum and maximum amount that the Company may pay as consideration for such shares. The decision by the Board of Directors to engage in a share buyback, if any, will be made in accordance with the factors applicable to dividend payments described above.

As at the date of this Offering Circular, the Board of Directors on behalf of the Company is authorised to purchase treasury Shares to the extent that the Company's holding of treasury Shares at no time exceeds 10 percent of the Company's share capital. The purchase price may not deviate by more than 10 percent from the quoted price on Nasdaq Copenhagen at the time of the purchase. The authorisation is valid until 31 December 2020.

Share buybacks will be deemed a sale of shares for tax purposes and, as a general rule, are not subject to Danish withholding tax provided that the Company is admitted to trading on a regulated market. For a description of Danish withholding taxes and certain other Danish and U.S. federal income tax considerations relevant to the purchase of Shares, see "*Taxation*".

Other Requirements

Dividends, if any, will be paid in accordance with the rules of VP Securities and will be paid to the shareholders' accounts with their account holding banks in Danish kroner to those recorded as beneficiaries. Registration through the holder's account holding bank and settlement of the Offer Shares is expected to take place within two business days after the announcement of the Offer Price and allocation, and is expected to be on 12 February 2016.

Dividends not claimed by shareholders are forfeited in favour of the Company, normally after three years, under the general rules of Danish law or statute of limitations.

Under the Articles of Association and applicable Danish law, there are no dividend restrictions or special procedures for holders of Shares not resident in Denmark.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth STG's capitalisation and indebtedness as at 30 November 2015. See "*Description of the Shares and Share Capital*" for information relating to the Company's share capital and outstanding Shares. Prospective investors should read this table in conjunction with the Consolidated Financial Statements and the notes thereto included in the F-pages to this Offering Circular and "*Operating and Financial Review*".

	As at 30 November 2015
	(DKK in millions)
CAPITALISATION	
Current debt	**–**
Guaranteed	–
Secured	–
Unguaranteed and unsecured	–
Non-current debt (excluding current portion of non-current debt)	**3,370.4**
Guaranteed	–
Secured	–
Unguaranteed and unsecured	3,370.4
Shareholders' equity:	
Share capital	100.0
Reserves	1,151.7
Retained earnings	7,878.8
Non-controlling interests	–
Total shareholders' equity	**9,130.6**
Total capitalisation	**12,501.0**
NET FINANCIAL INDEBTEDNESS	
Cash and cash equivalent	532.8
Undrawn committed credit facilities	522.2
Liquidity	**1,055.0**
Borrowings	–
Payables to related parties	–
Other payables	–
Current financial debt	**–**
Net current financial indebtedness	**(1,055.0)**
Non-current bank loans	3,370.4
Non-current financial indebtedness	**3,370.4**
Net financial indebtedness	**2,315.4**

Declaration of Capitalisation

STG has no reason to believe that there has been any material change to its actual capitalisation since 30 November 2015, other than changes resulting from the ordinary course of business.

INDUSTRY OVERVIEW

This section contains forecasts, statistics, data and other information relating to markets, market sizes, market shares, market positions and other industry data pertaining to STG's business and relevant markets. Due to the breadth of STG's business – operating in four principal product markets with sales in more than 100 geographic markets – comparable third-party market and industry information is not available across STG's geographic markets, especially the United States. Unless otherwise indicated, such information is based on the Company's own analysis of multiple sources, including information obtained from industry publications or reports. When such information contained in this Offering Circular has been derived from third-party sources, such as Euromonitor, TTB or IRI, it is stated that the information has been sourced from such person. The Boston Consulting Group has provided management consulting services to STG in relation to the Offering. For additional information, see "Presentation of Financial and Certain Other Information—Market and Industry Information".

This section provides an overview of STG's principal product markets, the cigar, pipe tobacco and fine-cut tobacco sub-segments of the tobacco industry. For each market, this section describes the principal current trends and drivers, the competitive landscape and the outlook for the relevant market.

References in this section and elsewhere in this Offering Circular to STG's "addressed markets" are to the cigar, pipe tobacco and fine-cut tobacco sub-segments in geographic markets in which STG has its own sales organisation, namely Australia, Belgium, Canada, Germany, Denmark, Spain, France, Croatia, Italy, Luxembourg, the Netherlands, New Zealand, Poland, Portugal, Slovenia, the United Kingdom and the United States. The market size and other information regarding STG's addressed markets presented in this Offering Circular excludes Croatia, the Faroe Islands (Denmark), Greenland (Denmark) and Luxembourg as sales volumes in these locations are insignificant. In addition to its addressed markets, STG also conducts sales in other geographic markets through third-party distributors.

The information on prices and market values presented in this section are based on retail prices (i.e., prices including excise taxes, retail margins and value-added tax).

Overview

The tobacco market varies by country and product segment. While the cigarette market is substantially larger in terms of sales volumes in most developed and emerging countries, the size of the market of the cigar, fine-cut tobacco and traditional pipe tobacco product differs significantly among countries and regions. For handmade cigars, the United States is the largest market and represented more than 60 percent of the global market by sales volume in 2014. For cigars, the global market by sales volume is split about equally between the United States and Europe, together making up more than 90 percent of the global market. The fine-cut tobacco market is dominated by Europe, which accounts for approximately 90 percent of the global market, while the United States accounts for approximately 60 percent of the global pipe tobacco market (including both traditional pipe tobacco and "dual-usage" pipe tobacco). Asia is mainly a cigarette market with lower penetration for cigars, fine-cut tobacco and pipe tobacco.

STG's addressed markets represented a total market size of DKK 185 billion in 2014, or approximately 11 percent of the total tobacco market in these countries (DKK 1,657 billion in 2014, including DKK 1,399 billion for cigarettes and DKK 73 billion for other tobacco products that are not part of STG's addressed markets).

STG operates in the handmade cigars (29.0 percent of STG's net sales for the first nine months of 2015), machine-made cigars (40.1 percent), pipe tobacco (9.3 percent) and fine-cut tobacco (8.8 percent) product segments. In 2014, 96 percent of STG's handmade cigars net sales were derived from the United States while the majority (74 percent) of STG's machine-made cigars net sales were derived from Europe.

The following table sets forth information on the size of the global tobacco markets and STG's addressed markets in 2014:

	Global market size	STG's addressed markets
	(DKK in billions)	(DKK in billions)
Categories		
Cigarettes	4,172	1,399(1)
Cigars	n/a	57
Handmade	n/a	7
Machine-made	n/a	50
Smoking tobacco	n/a	128
Pipe	n/a	7
Fine-cut	132	121

(1) Figure represents the value of the cigarette sub-segment in the geographic markets in which STG has its own sales organisation, namely Australia, Belgium, Canada, Germany, Denmark, Spain, France, Croatia, Italy, Luxembourg, the Netherlands, New Zealand, Poland, Portugal, Slovenia, the United Kingdom and the United States.

STG's Largest Geographic Markets

STG is the market leader with a number one or number two position (measured by sales volumes) in one or more sub-segments across its top ten geographic markets. More than 70 percent of STG's net sales for 2014 were derived from markets in which it held a number one or two market position within the segment, in each case measured by sales volumes. STG estimates that these ten markets account for approximately 65 percent of the global market value for the categories in which STG is present.

The following table sets forth STG's market positions and market shares, by sales volumes, in its ten largest geographic markets as at September 2015:

	Handmade cigars		Machine-made cigars		Traditional pipe tobacco(1)		Fine-cut tobacco	
	Market position	Market share	Market position	Market share	Market position	Market share	Market position	Market share
		(percent)		(percent)		(percent)		(percent)
Country								
United States	#1	28(2)	#<10	1(3)	#1	59	#1	38
France	n/a	n/a	#1	37	#2	11	n/a	n/a
Australia	n/a	n/a	#1	38	#1	51	n/a	n/a
United Kingdom	n/a	n/a	#1	50	#3	16(3)(4)	n/a	n/a
Belgium	n/a	n/a	#1	82	#1	64	n/a	n/a
Netherlands	n/a	n/a	#1	57(5)	#1	42	n/a	n/a
Germany	n/a	n/a	#8	1	#1	46	n/a	1
Denmark	n/a	n/a	#1	71	#1	78	#1	73
Spain	n/a	n/a	#5	8	#1	46	n/a	1
Canada	n/a	n/a	#2	26	#1	36	n/a	n/a

(1) Excluding "dual-usage" pipe tobacco.
(2) Excluding Cigars International's share of retail sales.
(3) 2014 figures.
(4) Including traditional and "dual-usage" pipe tobacco.
(5) Including contract manufacturing for a third party.

STG is the leading producer of handmade cigars in the United States with approximately 28 percent market share as at September 2015, measured by sales volumes. This is more than twice the size of the second largest producer, Imperial Tobacco Group ("**Imperial**"), which had a market share of approximately 13 percent as at September 2015. Since 2013, STG has been able to maintain its market share at approximately 28 percent by quickly adapting its product offerings to address the growing trend of boutique brands in the handmade cigar market.

STG is also the largest online and catalogue retailer of handmade cigars in the United States with a market share of approximately 34 percent in 2015, measured by sales volumes, selling both own and third-party brands. The other large market participants are JR Cigar (approximately 24 percent) (owned by Imperial), Thompson Cigar (approximately 17 percent) and Famous Smoke Shop (approximately 11 percent). The online and catalogue share of the total retail market was approximately 64 percent as at September 2015, by sales volumes, growing from a level of approximately 57 percent in 2008. STG has been able to capture most of the online retail growth since 2008, growing from approximately 17 percent market share in 2008 to approximately 34 percent market share in 2015.

The machine-made cigar market is more fragmented than the cigarette market with several medium and small sized players that are often family owned. In Europe, STG is the largest machine-made cigar producer covering all major geographic markets with its own sales organisations. In selected European machine-made cigar markets (France, the United Kingdom, Belgium, the Netherlands and Denmark), STG holds a number one position measured by sales volume as at September 2015. The largest competitor, Burger, holds a number two position in the European market. France is the third largest European machine-made cigar market measured by sales volume, with STG holding a share in excess of one-third of the market. In the United Kingdom, Belgium, the Netherlands and Denmark, STG held individual market shares of 50 percent or more, by sales volumes as at September 2015.

STG estimates that it is the global leader in the traditional pipe tobacco segment measured by sales volumes, with number one positions in several countries, including Germany, Denmark, Spain, Belgium, Australia and the United States. Within the fine-cut tobacco segment, STG is the leader in selected geographic markets, including the key markets the United States and Denmark.

Market Characteristics

The cigar, pipe tobacco and fine-cut tobacco markets are distinct sub-sets of the broader tobacco market. Cigarettes are generally considered to be a homogenous product where taste and appearance are broadly the same. Cigar and traditional pipe tobacco products, on the other hand, and to some extent fine-cut tobacco products, vary in terms of taste, moisture and appearance.

The cigar smoking experience is associated with a more luxurious occasion and consumers tend to enjoy fewer but lengthier smoking sessions than cigarette smokers. New cigarette smokers are typically younger individuals who previously did not smoke tobacco, while new smokers of cigars, pipe tobacco or fine-cut tobacco, are typically more mature and experienced smokers.

There is great variation among countries, but the general trend is increasing regulatory requirements driving industry consolidation led by the larger industry participants with sufficient scale and organisation to comply with new regulations in an efficient manner. There is also a greater importance of small scale speciality retailers, which value expertise, merchandising support and advice in STG's sub-segments than in cigarettes. This complexity, together with changing local preferences, could create a barrier to entry for some market participants, and for larger cigarette companies, the size and attention needed to succeed in STG's sub-segments often keep them from competing with the exception of fine-cut tobacco.

Historically, the market dynamics for STG's addressed markets have differed from the market dynamics of the cigarette market. The cigarette market has since 2012 had a negative volume development with an equivalent retail price increase, resulting in a flat market value development for the period between 2012 and 2014. For cigars, traditional pipe tobacco and fine-cut tobacco, the volume and price development differ significantly across the key geographic markets and segments, partly driven by tax differences.

The following table sets forth a summary of the changes in volume, retail price and retail value across STG's core geographic markets by sub-segment (excluding handmade cigars) and for cigarettes, between 2012 and 2014:

	Change 2012–2014		
	Volume	**Retail price**	**Retail value**
		(percent)	
Handmade cigars (United States)	0.2	n/a	n/a
Machine-made cigars (excluding the United States[(1)(2)])	(1.7)	0.9	(0.9)
Machine-made cigars (United States[(3)])	(1.8)	(1.7)	(3.5)
Pipe tobacco (excluding the United States[(1)(4)])	(6.9)	7.0	(0.4)
Pipe tobacco (United States[(3)])	2.4	(4.8)	(2.6)
Fine-cut tobacco (excluding the United States[(1)])	(1.4)	2.7	1.3
Fine-cut tobacco (United States[(3)])	(15.6)	6.5	(10.1)
Cigarettes[(5)]	(4.8)	5.4	0.4

(1) Includes Canada, the United Kingdom, France, Germany, Australia, the Netherlands, Belgium, Spain and Denmark.
(2) Adjusted for volume increase on value segment cigars in Denmark. Weighted by STG's 2014 net sales for listed countries.
(3) Source: TTB for volumes and IRI for retail prices.

(4) Adjusted for water pipe tobacco in Germany.
(5) Includes the United States, Canada, the United Kingdom, France, Germany, Australia, the Netherlands, Belgium, Spain and Denmark.

Regulatory environment and taxes

The cigar, traditional pipe tobacco and fine-cut tobacco sub-segments are highly regulated markets with regulation impacting the category dynamics. Tax increases and smoking bans aim to reduce demand and advertising and display restrictions make brand recognition harder. In response, some retailers are reducing the range of products that they offer and focus on leading brands (especially in markets with display restrictions, where consumers are required to ask for the product by name ("**dark markets**")). In addition, new product regulation with stricter requirements for packaging, tracking systems and ingredients are being introduced. Increased product regulation will require investments to be in compliance and it may be challenging for some small producers with less scale. All of these changes combined are expected to drive further market consolidation favouring larger industry participants. For additional information on regulation and taxes, see "*Regulation*".

Handmade Cigars

Market Overview

The majority of handmade cigars for the U.S. market are produced in the Dominican Republic (approximately 40 percent), Nicaragua (approximately 38 percent) or Honduras (approximately 21 percent).The estimated size of the handmade cigar sub-segment in the United States, measured by volume, was approximately 300 million units in 2014, while the estimate for 2015 is 300 million units. Cuban cigars cannot be sold in the United States due to the U.S. trade embargo against Cuba, but outside of the United States, Cuban cigars accounted for approximately 70 percent of the total handmade cigar market in 2014. However, Cuban cigars accounted for less than 30 percent of the global handmade cigar market in 2014.

Within the handmade cigars segment, STG is active in two areas. Firstly, STG is a producer and wholesaler of handmade cigars to both physical (brick-and-mortar) and online retailers, through General Cigar. Secondly, STG operates an online and catalogue direct marketer selling handmade cigars, as well as pipe tobacco and tobacco-related accessories, through Cigars International. The distinction between these two areas should be noted, as both the market dynamic and the competitive situation differs between the two business areas. Also, although the timing and substance remains unknown, the potential lifting of the U.S. embargo against Cuba would likely affect General Cigar and Cigars International in a different manner. Being the largest online and catalogue retailer of handmade cigars in the United States, Cigars International would be well positioned to sell Cuban cigars within the United States.

In the United States, online and catalogue retail sales volumes of handmade cigars have grown at a compound annual growth rate ("**CAGR**") of approximately 3.1 percent since 2008, and, in 2014, more than 60 percent of all handmade cigar sales were online or via catalogue.

Market Characteristics

Handmade cigars are generally considered affordable luxury products and the key consumer segment is men above the age of 35 years with middle to high income. The average age of STG's handmade cigar consumers is 45 years and approximately 85 percent are men and approximately 15 percent women. The typical consumer values the quality of the product, is less price sensitive and chooses brands based on new experiences as well as the social and reward element of cigar smoking. Smoking handmade cigars provides this consumer segment with a true enjoyment experience, where the smoke lasts for an extended period of time in contrast to a short break smoking experience.

In recent years, handmade cigar consumers have become more experimental, increasingly trying different types and brands. This has created a market for boutique brands and an increase in product offerings and brands from the largest producers and retailers. Furthermore, this trend has increased interest in brick-and-mortar cigar shops offering a physical retail experience where new cigar options can be explored.

Most retail sales of handmade cigars in the United States are, however, through online and catalogue channels. This is primarily driven by price advantages, a wider selection of products than in physical shops and convenience. Online shoppers typically first like to buy single cigars or smaller batches before buying larger quantities.

In the United States, handmade cigar sales volumes have been relatively stable between 2012 and 2014 and the handmade cigar market has seen modest price increases, especially from the largest companies.

Competition

STG has production sites in all of the three main countries currently supplying the United States with handmade cigars, the Dominican Republic, Honduras and Nicaragua. STG is the largest producer of handmade cigars by volume sold in the United States, with a market share of approximately 28 percent in 2014, approximately two times larger than its closest competitor, Imperial.

Between 2008 and 2013, STG lost market share in the United States, but in general the market share of the five largest producers decreased from approximately 76 percent in 2008 to 65 percent by September 2015. The trend is mainly driven by an increase in the market share of boutique brands, which are new brands frequently launched with only a few million cigars in annual sales volume. Boutique brands are often supported by familiar personalities. STG has been able to successfully adapt its product offering to changing preferences and maintained a market share by volume of 28 percent since 2013. STG is through Cigars International the largest online and catalogue retailer of handmade cigars in the United States in terms of sales volumes with a market share of approximately 34 percent in 2015. Cigars International has grown its market share from approximately 17 percent in 2008 to approximately 34 percent in 2015, driven by its investments in marketing, boutique brands, product line extensions and strong analytical capabilities within direct marketing.

The following table sets forth information on market shares, by sales volume, in handmade cigars and online and catalogue retail sales of handmade cigars in the United States as at September 2015:

	Market share(1)
	(percent)
Handmade cigars	
STG	28(2)
Imperial	13
Caribbean Cigar	12
Online/catalogue retail	
STG	34
JR Cigar (owned by Imperial)	24
Thompson Cigar	17

(1) Market shares are approximate.
(2) Includes Toraño.

Market Development and Outlook

The handmade cigar market in the United States has remained largely flat in terms of sales volumes since 2011 and is expected to continue along the historical trajectory. STG has, as the market leader, been able to implement price increases (between 2 to 3 percent in recent years), and expects to continue along that trajectory. Increased consumer interest, awareness and knowledge of cigars are expected to continue to drive the sales of handmade cigars.

The volumes of online cigar sales are expected to follow the general trend of increasing online retail sales. The expectations for future growth in the handmade cigar category are also supported by a consumer survey conducted in 2015 that indicated that 23 percent of handmade cigar consumers plan to increase their online purchases in the future.

Machine-made Cigars

Market Overview

In general, machine-made cigar production is less labour intensive than handmade cigar production and, therefore, is often located closer to the consumers.

The estimated total retail value of STG's addressed machine-made cigar market was DKK 50 billion in 2014. In the machine-made cigars segment, STG holds a number one market position, in terms of sales volumes, in France, the United Kingdom, Belgium, the Netherlands, Denmark and Australia, and a number two position in Canada and a number five position in Spain, which combined represented 69 percent of STG's machine-made cigars segment's net sales in 2014.

Market Characteristics

The smoking experience associated with machine-made cigars is lengthier compared to cigarette smoking, which tends to be more frequent and shorter in duration. Compared to cigarettes, taste and moisture preferences for machine-made cigars vary significantly across geographies and, as a result, only few global brands exist. Compared to handmade cigars, machine-made cigars are typically priced at a significantly lower level, and hence appeal to a wider consumer base and are more widely distributed. The average age of machine-made cigar consumers is 45 years and approximately 75 percent are men and approximately 25 percent women.

In the premium machine-made cigars segment, smokers tend to be loyal to the brands and products they use. Smokers in this segment value quality and consistency over time, with taste being the determining factor in the initial choice of brand. For example, in France and the United Kingdom, only 17 percent of machine-made cigar smokers have switched brand during the last year. In the mainstream and value segments, consumers are showing interest in flavoured variants and smaller cigar sizes, and are generally more price sensitive than in the premium segment. Value priced machine-made cigars represent a strong channel for converting cigarette smokers into cigar smokers.

Within the machine-made cigars segment, the core European markets (France, the United Kingdom, Belgium and the Netherlands) have seen some declines in sales volumes, whereas the retail price development has been positive in some countries resulting in only slightly declining retail value development between 2012 and 2014.

Some machine-made cigar markets where a significant share of the duty and taxes are variable have shifted towards value priced cigars. Markets with fixed duty levels or relatively high minimum excise taxes are experiencing declining popularity of the value segment. An example of this is France, where per unit prices are expected to increase in the future.

Competition

The machine-made cigar market is fairly consolidated in France and the United Kingdom. In both France and the United Kingdom, more than 90 percent of the market volume is covered by five or fewer suppliers. Of the cigarette majors, only Imperial and Japan Tobacco have notable market shares in STG's largest machine-made cigar markets, while British American Tobacco and Philip Morris International have strong positions within value priced cigars in Germany and Philip Morris International in Australia within machine-made cigars as well.

The following table sets forth information on market shares, by sales volume, within certain of STG's operating markets as at September 2015:

	Market share[(1)]
	(percent)
France	
STG	37
Agio Cigars	18
J. Cortès	16
Germany	
British American Tobacco	17
Burger	12
Philip Morris International	12
The United Kingdom	
STG	50
Japan Tobacco	28
Imperial	11

(1) Market shares are approximate.

The costs associated with complying with new regulations in European countries are expected to favour incumbent market participants, as these producers have the resources to prepare for and comply with regulatory changes. Under continuous regulatory changes, the value of strong brand recognition becomes more important, especially in markets that have advertising bans and dark markets. In dark markets, supermarkets tend to consolidate their offering around the larger and more well-known brands. For example, in the United Kingdom, STG's well-known brands Café Crème, Henri Wintermans and Moments have gained market share following the introduction of dark markets in 2012 at the expense of smaller brands.

Market Development and Outlook

Growth in some of the larger European machine-made cigar markets (the United Kingdom, France and Germany) has been between negative 2 percent and 1 percent per year in terms of sales volumes in the period 2012 to 2014, as compared to negative 5 percent per year for cigarettes. Sales volumes are expected to decline in all major geographic markets.

A combination of factors is driving the future market development (*e.g.*, regulation, including dark market implementation in the United Kingdom). The market development is expected to put further pressure on smaller brands, due to TPD compliance costs. In Germany, sales volumes are expected to decline in the future due to recent legislation mandating the use of natural wrappers on cigars, which is expected to especially impact value priced filtered cigars.

The following table sets forth historical and forecast sales volumes, historical and forecast changes in sales volumes (CAGR) and historical changes in retail value (CAGR) of the machine-made cigar market for the periods indicated:

	Sales volumes			Change in sales volumes (CAGR)		Change in retail value (CAGR)
	2012	**2014**	**2018F**	**2012–2014**	**2014–2018F**	**2012–2014**
		(million cigars)		(percent)		(percent)
France	1,421	1,374	1,101	(2)	(5)	(1)
Germany	3,795	3,858	2,859	1	(7)	2
The United Kingdom	443	425	385	(2)	(2)	(4)
STG's addressed markets excluding the United States(1)	n/a	n/a	n/a	(2)	n/a	(1)

Note: F = forecast.

(1) Includes: Canada, the United Kingdom, France, Germany, Australia, the Netherlands, Belgium, Spain and Denmark. Adjusted for volume increase of value priced cigars in Denmark. Weighted by STG's 2014 net sales for listed countries.

Pipe Tobacco

Overview

The retail value of STG's addressed pipe tobacco markets was DKK 7 billion in 2014.

In the United States, the pipe tobacco market is divided into traditional pipe tobacco and what can be termed "dual-usage" pipe tobacco. "Dual-usage" pipe tobacco has gained a strong foothold in the United States pipe tobacco market, primarily enabled by the specific duty structure in the United States. A significant part of "dual-usage" pipe tobacco is used by consumers as fine-cut tobacco.

STG estimates that it is the global leader in the traditional pipe tobacco segment by sales volume, with number one positions in several countries, including Germany, Denmark, Spain, Belgium, Australia and the United States.

Market Dynamics

Traditional pipe tobacco products have a loyal consumer base of long-term pipe smokers who show limited shifts in behaviour. Key consumers include men above the age of 35 years old, with many being previous cigarette smokers. The average age of pipe tobacco consumers is over 55 years. Pipe tobacco consumers are mainly men. Traditional pipe smokers enjoy experimenting with blends, but tend to remain loyal to their favourite brands, while often owning different pipes for each individual flavour.

The emerging "dual-usage" pipe tobacco category, however, has different characteristics. The "dual-usage" pipe tobacco category appeals to fine-cut tobacco smokers and cigarette smokers looking for lower cost smoking options. The consumer base of "dual-usage" pipe tobacco is distinctive and has very limited overlap with that of traditional pipe tobacco.

Total market sales volumes in the traditional pipe tobacco market have been declining, especially in core European and the United States markets. However, price increases have partially offset this development. Traditional pipe tobacco smokers are usually more loyal to brands and rarely change brand due to price.

This implies that premium traditional pipe tobacco smokers are less likely to decrease consumption or switch to cheaper brands following a price increase than, for example, fine-cut tobacco smokers. STG has historically been able to increase prices of its pipe tobacco products in its markets without adversely affecting market shares.

By contrast, sales volumes of "dual-usage" pipe tobacco have grown significantly in the United States, as fine-cut tobacco and cigarette smokers migrated to this new category. In the last one to two years, price competition has increased as market growth has slowed and competitors have looked to consolidate their positions.

Competition

The traditional pipe tobacco market is fairly consolidated in STG's core operating markets. In Germany, more than 90 percent of the traditional pipe tobacco market is covered by four suppliers and in the United Kingdom more than 90 percent of the market is covered by four suppliers. Of the cigarette majors, only Japan Tobacco has a notable market share in the United Kingdom and Altria in the United States. In the United Kingdom, the market is expected to consolidate even further after it turned dark for all shops in April 2015, as larger retailers are expected to rationalise their range in favour of larger suppliers and brands. In the United States, the traditional pipe tobacco market is also consolidated with the two largest suppliers holding approximately 86 percent of the market share, while the rest consists of private labels and other smaller market participants.

The following table sets forth information on market shares, by sales volume, within certain of STG's core operating markets for pipe tobacco as at September 2015:

	Market share(1)
	(percent)
Germany(2)	
STG	46
Mac Baren	18
Pöschl Tobacco Group	16
The United Kingdom(3)	
Mac Baren(4)	41
Japan Tobacco	29
STG	16
The United States(2)	
STG	59
Altria	27
Mac Baren / Sutliff Tobacco	14

(1) Market shares are approximate.
(2) Excluding "dual-usage" pipe tobacco.
(3) December 2014 figures.
(4) Mac Baren bought Imperial's pipe tobacco business in 2015.

The pipe tobacco segment resembles the fine-cut tobacco segment as the production processes are somewhat similar. However, the nature of the pipe tobacco segment's strong heritage means that producers are expected to deliver traditional brands and continuous innovation in the form of new flavours and blends. This benefits the established producers, which are able to deliver new products based on existing know-how while maintaining consistent quality.

The competitive landscape for "dual-usage" pipe tobacco is different. Compared to fine-cut tobacco, it has multiple smaller, often regional players, which is a result of its rapid recent growth and the reluctance of many established major tobacco producers to enter this category that is highly dependent on the tax structure. STG's share in this market is limited at approximately 2 percent in the United States and is expected to remain low in the coming years.

Market Development and Outlook

In the United States, the traditional pipe tobacco market demonstrated annual declines in both retail value and sales volumes between 2012 and 2014. By contrast, the "dual-usage" pipe tobacco market has experienced growth in sales volumes.

In 2014, 17,000 tonnes of "dual-usage" pipe tobacco were sold in the United States, as compared to 1,251 tonnes of traditional pipe tobacco. The TTB, however, could align the excise tax rates of "dual-usage" pipe tobacco and fine-cut tobacco, which would be expected to result in a flow of consumers back to fine-cut tobacco.

If the current tax structure is retained for "dual-usage" pipe tobacco, the market is expected to continue to develop along historic lines. Should it be eliminated, for example, via TTB or other legislative action, STG expects that some consumers might switch to fine-cut tobacco or cigarettes, or quit smoking.

In the United Kingdom, pipe tobacco sales volumes declined at a CAGR of approximately 8 percent between 2012 and 2014, and the decline is expected to continue. The decline can be explained by distribution limitations (many retailers stopped supplying pipe tobacco due to range rationalisation) and the low number of new consumers entering the category, and the same trends are seen in the pipe tobacco market in Germany. The overall volume development has, however, been positive, but this has been driven by water pipe tobacco, not traditional pipe tobacco.

The following table sets forth historical and forecast sales volumes, historical and forecast changes in sales volumes (CAGR) and historical changes in retail value (CAGR) of the pipe tobacco market for the periods indicated:

	Sales volumes			Change in sales volumes (CAGR)		Retail value CAGR
	2012	2014	2018F	2012–2014	2014–2018F	2012–2014
		(tonnes)		(percent)		(percent)
Germany[(1)]	1,143	1,510	1,699	15	3	12
The United Kingdom	315	269	198	(8)	(7)	(6)
The United States[(2)]	1,579	1,251	n/a	(11)	n/a	(4)

Note: F = forecast.

(1) Includes pipe tobacco and water pipe tobacco.

(2) Excludes "dual-usage" pipe tobacco.

Fine-cut Tobacco

Overview

Fine-cut tobacco is typically used as a substitute for cigarettes and can be inserted into tubes ("make-your-own") or used with rolling papers ("roll-your-own"). Many consumers of fine-cut tobacco, especially make-your-own, are previous cigarette smokers who smoke fine-cut tobacco due to the price. Roll-your-own is smoked by some consumers as a lifestyle choice and these consumers are typically less price sensitive.

The retail value of the global fine-cut tobacco market was DKK 132 billion in 2014, of which DKK 121 billion was generated in STG's addressed markets. STG's core geographic markets within the sub-segment are the United States and Denmark. Within this sub-segment, STG is the market leader in the United States and Denmark, which represented 42 percent of STG's fine-cut tobacco segment's net sales in 2014. In addition, STG holds leading position in other markets such as Israel and the number two position in Norway.

Market Dynamics

The key consumers in the fine-cut tobacco market are typically similar to cigarette smokers, as fine-cut tobacco is a substitute for cigarettes. Consumers in the fine-cut tobacco market are more price sensitive, less loyal to traditional cigarette branded products and open to try new products. Approximately 24 percent of fine-cut tobacco smokers in the United Sates switch brands each year, with price being the most common reason for switching, followed by quality. Furthermore, the trend in the fine-cut tobacco segment has moved towards a pure tobacco experience, leading to the development of more additive-free alternatives. The average age of fine-cut tobacco consumers is 30 years and approximately 58 percent are men and 41 percent women.

In Europe, the fine-cut tobacco market has seen fairly flat sales volume development as well as price increases. The price difference between fine-cut tobacco and cigarettes has been driving growth in the segment, with approximately 72 percent of former cigarette smokers mentioning saving money as a key reason to switch to fine-cut tobacco. Despite the fact that STG has been able to increase prices in some countries, the ability to increase prices is less evident within the fine-cut tobacco segment compared to, for example, handmade cigars.

In the United States, sales volumes have been decreasing (but increasing if "dual-usage" pipe tobacco is included), driven by the emergence of the "dual-usage" pipe tobacco market. "Dual-usage" pipe tobacco in the United States is labelled as pipe tobacco and is often used as a substitute for roll-your-own fine-cut tobacco, but can also be smoked as pipe tobacco. This dynamic is mainly driven by the fact that excise taxes are lower for pipe tobacco than for fine-cut tobacco.

Competition

In general, the global fine-cut tobacco market is fairly consolidated and dominated by the cigarette majors. Cigarette majors have targeted the market because the consumer group for fine-cut tobacco is generally made up of cigarette smokers seeking a less expensive substitute to cigarettes.

STG's addressed markets are also fairly consolidated, but with less competition from cigarette majors. In the United States, the top three producers hold approximately 80 percent of the market share by volume and STG is the largest market participant with a market share of approximately 38 percent. In Denmark, the market is dominated by local producers, with STG holding a leading position with approximately 73 percent market share.

The following table sets forth information on market shares, by sales volume, within STG's core operating markets by September 2015:

	Market share[(1)]
	(percent)
Denmark	
STG	73
Mac Baren	16
Imperial	7
The United States	
STG	38
Republic Group	29
Reynolds (American Spirit)	17

(1) Market shares are approximate.

In addition, STG believes that it holds the number two position in Norway with a market share of approximately 40 percent, as well as a leading position in Israel with a market share of approximately 50 percent.

Historically, some of the global tobacco majors have held strong positions in the fine-cut tobacco market, as this segment is highly dependent on scale to drive profitability. On the other hand, some of the smaller producers benefit from the fact that retailers prefer an additional participant in the market to challenge the large cigarette companies.

Market Development and Outlook

The overall fine-cut tobacco market has been fairly flat in Europe, but declined in the United States, in terms of sales volume. The retail prices have increased in both markets for the period 2012 to 2014.

A key driver in the European fine-cut tobacco market is the lower excise tax than applicable to cigarettes. Across all STG's core fine-cut tobacco markets, price differences between a roll-your-own cigarette and a manufactured cigarette are greater than 40 percent, according to Euromonitor.

The sales volume decline in the United States is primarily driven by the emergence of the "dual-usage" pipe tobacco market (for an explanation, see "—*Market Dynamics*" above). Whether or not there is a change to the excise taxation for "dual-usage" pipe tobacco will affect the share of fine-cut tobacco sold in the market in the future.

The following table sets forth historical and forecast sales volumes, historical and forecast changes in sales volumes (CAGR) and historical changes in retail value (CAGR) of the fine-cut tobacco market for the periods indicated:

	Sales volumes			**Change in sales volumes (CAGR)**		**Change in retail value (CAGR)**
	2012	**2014**	**2018F**	**2012–2014**	**2014–2018F**	**2012–2014**
		(tonnes)		**(percent)**		**(percent)**
Denmark	472	473	445	0	(2)	n/a
The United States	2,066	1,470	n/a	(16)	n/a	(10)

Note: F = forecast.

BUSINESS

Overview

STG is a world leading producer of cigars and traditional pipe tobacco and STG also produces fine-cut tobacco and sells tobacco-related accessories and fire lighting products. STG holds market leading positions in the machine-made cigar market in Europe, the handmade cigar market in the United States, online and catalogue retail sales of handmade cigars in the United States, the traditional pipe tobacco market globally and selected fine-cut tobacco markets. More than 70 percent of STG's net sales for 2014 were derived from markets in which it held a number one or two market position within the segment, in each case measured by sales volumes.

STG offers a comprehensive range of handmade cigars, machine-made cigars, pipe tobacco and fine-cut tobacco products, and STG believes it is the only company globally with a core strategic focus on production and distribution in all of these product categories. STG's brand portfolio includes more than 200 international, regional and locally established brands that target a wide range of consumer segments, local taste preferences and price points from premium to value.

The following table sets forth information on STG's segments:

	Segment contribution to net sales for the first nine months of 2015	Selected key brands
	(percent)	
Handmade cigars	29.0	Macanudo, CAO, Punch(1), La Gloria Cubana(1), Cohiba(1), 5Vegas, Diesel
Machine-made cigars	40.1	Café Crème, La Paz, Mercator, Colts, Captain Black, Break
Pipe tobacco	9.3	Captain Black, Erinmore, Borkum Riff, W.Ø. Larsen, Clan
Fine-cut tobacco	8.8	Bugler, Break, Escort, Bali Shag, Tiedemanns
Other	12.8	n/a

(1) STG owns the brand in the United States and has limited or no ownership of the brand outside of the United States.

STG's products are sold in more than 100 countries. STG has 18 sales offices and over 500 sales representatives across North America, Europe, Australia and New Zealand (as at 30 September 2015), including local sales organisations serving key cigar, pipe tobacco and fine-cut tobacco markets, which STG believes is the optimal way to reach its customers. STG's sales organisation supports the sale of STG's products through various sales and distribution channels, including wholesalers, supermarkets, tobacconists, convenience stores, liquor stores, drug stores, distributors, partners, online and catalogue retail, and its brick-and-mortar retail locations. Cigars International, STG's online and catalogue direct marketing business for cigars, pipe tobacco and tobacco-related accessories in the United States, holds the leading position in online and catalogue retail of handmade cigars in the United States. The diversified geographic and channel mix limits STG's dependence on any single market, channel or customer.

STG has extensive knowledge and experience in areas such as tobacco purchasing and blending, development of flavour combinations, production methods and packaging throughout its organisation. By actively utilising and transferring this knowledge and experience among segments, STG leverages its internal know-how to create new and appealing products and to quickly adapt to changes in consumer preferences. STG has launched several successful initiatives in recent years, including new brands, product variants and concepts, relaunches of existing brands and product line extensions. These initiatives are aimed at meeting consumer trends and curiosity for new products and variants while supporting STG's leading market positions, pricing terms and organic growth. STG also actively manages its brand portfolio, with recent examples including leveraging brands across product categories (*e.g.*, Captain Black), internationalising strong local brands (*e.g.*, Colts) and other activities aimed at optimising its brand portfolio.

STG's global production footprint consists of 14 facilities in eight countries, including facilities in many of the significant tobacco growing regions, the Dominican Republic, Honduras, Nicaragua and Indonesia, as well as facilities in the United States and the EU close to major consumption markets. STG also owns 20 percent of Caribbean Cigar, one of the largest tobacco growers in Central America and a producer of handmade cigars with operations in Honduras and Nicaragua. STG's local presence in tobacco growing regions enables it to be involved in all stages of the tobacco supply chain from seed development to the final product. Through this access and involvement, STG can maintain the quality of its products and secure access to a wide range of tobaccos to develop new products. STG also benefits from strategically locating many of the labour-intensive production processes in these countries as they have low labour costs, while concentrating more automated production processes close to core consumption markets in order to reduce lead times and increase flexibility.

STG's Key Strengths

STG's strategy is built on the following key strengths:

Global Leader in Attractive Sub-segments of the Tobacco Industry

STG holds market leading positions in the machine-made cigar market in Europe, the handmade cigar market in the United States, online and catalogue retail sales of handmade cigars in the United States, the traditional pipe tobacco market globally and fine-cut tobacco in the United States, Israel and Scandinavia, measured by sales volumes. More than 70 percent of STG's net sales for 2014 were derived from markets in which it held a number one or two market position within the segment, in each case measured by sales volumes.

STG's core geographic markets are the United States and Europe, which accounted for 34.1 percent and 50.0 percent, respectively, of STG's net sales for 2014. The United States and Europe in aggregate accounted for more than 90 percent of the total global consumption of cigars, traditional pipe tobacco and fine-cut tobacco in 2014. In these markets, STG holds the number one position by sales volumes in the handmade cigar market, online and catalogue retail sales of handmade cigars, and the fine-cut tobacco market in the United States, the fine-cut tobacco market in Scandinavia, the machine-made cigar market in Europe and the traditional pipe tobacco market globally.

The sub-segments of the tobacco industry in which STG operates have attractive dynamics, and excluding traditional pipe tobacco outside the United States and fine-cut tobacco in the United States, have demonstrated a higher degree of volume resilience than cigarettes in STG's geographic markets. In addition, STG has historically been able to implement pricing increases in these sub-segments typically in excess of inflation. In the cigar markets in which it operates, STG competes with other large cigar producers and a large number of small, family-owned companies. STG mainly does not compete with international tobacco majors, which focus on the larger and higher margin cigarette market, except in fine-cut tobacco and machine-made cigars in certain markets. These market dynamics have enabled leading producers, including STG, to improve pricing and achieve attractive margins.

Recognised and Diversified Brand Portfolio

STG has a diversified brand portfolio consisting of more than 200 international, regional and local brands, resulting in a diversified category and geographic exposure and limiting STG's dependence on individual brands and, therefore, its operational risk. STG's brand portfolio caters to a diverse range of consumer segments, price points – from premium to value – and local tastes, which STG believes is a key differentiating competitive advantage in the cigar and pipe tobacco markets. STG actively manages its brand portfolio and continuously reviews its brands and products to leverage strong performers and identify and replace underperforming products. Over the years, STG has been successful in closing gaps in its product and brand portfolio, for example within the value segment for machine-made cigars as well as premium and value segments for fine-cut tobacco, resulting in its comprehensive brand portfolio.

STG's most recognised brands include for handmade cigars Macanudo, Cohiba and CAO, for machine-made cigars Café Crème and La Paz and for pipe tobacco and fine-cut tobacco, Erinmore, Captain Black, Bugler and Tiedemanns. STG's strategic brands within the machine-made cigars, pipe tobacco and fine-cut tobacco segments accounted for more than 50 percent of its net sales in these segments in 2014. Café Crème is STG's most international brand and is sold in more than 100 countries. Café Crème has strong brand recognition and is one of the best-selling machine-made cigar brands in many European markets, including the United Kingdom, France and Spain with market shares of approximately 39 percent, 16 percent and 6 percent, respectively, in 2014. Café Crème accounted for 28 percent of the machine-made cigars segment's net sales in 2014. La Paz is a premium machine-made cigar brand sold in more than 40 countries. La Paz is the market leader in the Netherlands and holds the number five position in France with market shares of approximately 15 percent and 10 percent, respectively, in 2014. Macanudo, a brand of cigars handcrafted in the Dominican Republic and Honduras, is a global brand with strong recognition that is sold in more than 50 countries.

Through its heritage, brand recognition, vast tobacco knowledge and extensive tobacco library, STG believes that it is well positioned to attract new and retain existing consumers. STG actively pursues opportunities to leverage its strong brands to expand products into new markets and develop new products across product segments. While pursuing these opportunities, the heritage and recognition of STG's brands help it to maintain its market positions across key product categories, particularly in markets such as the United Kingdom, Australia and Canada that restrict the display of tobacco products in stores and Australia that require plain packaging for tobacco products.

Multiple Avenues for Organic Growth and Strong Innovation Capabilities

STG believes that it is well positioned to continue increasing its market share through organic growth. For example, within the European machine-made cigar market, STG has identified opportunities to outgrow the market by taking market share from smaller competitors, utilising STG's diversified product offering to attract cigarette smokers and target growth pockets such as cigars in the value segment in Germany. In the United States, STG continues to invest in online and catalogue retail market for handmade cigars, which is growing in volume, in order to upsell existing consumers and attract new groups of smokers from other product categories. In the past, STG has been successful in winning market shares in its markets by continuously focusing on new and innovative products and brands. STG has also historically been able to increase prices of its products without adversely impacting its market shares and STG continues to optimise its pricing strategies as a lever for organic growth. STG's ability to increase prices of its products is supported by high brand loyalty and relatively low price elasticity within several of its markets and product segments.

STG's innovative approach to brand portfolio management is one of its core strengths. STG has a proven track record of successfully re-launching products such as Café Crème, including the introduction of new products Café Crème Finos Filter and Café Crème flavoured variants, which have a different blend and tasting experience, and the smaller format variant Café Crème Piccolini in France. This reinforced Café Crème's position as the smooth and easy to smoke cigar, strengthened its position in the flavoured machine-made cigars segment, improved the taste and communication of flavours and introduced contemporary branding with a new design and new in-store communication. Café Crème's market share in the United Kingdom increased from 28 percent in 2011 to 39 percent in 2014. STG has also proven its ability to leverage its extensive tobacco library and strong strategic brands in expanding across different tobacco products. For example, STG has expanded Captain Black to be an international brand across pipe tobacco and machine-made cigars. In addition, General Cigar, STG's handmade cigar production and distribution operations, continued its strong innovation drive in 2014 and launched more than 100 new variants of handmade cigars, which delivered approximately 12 percent of General Cigar's net sales during the period.

STG has built a strong route-to-market strategy that is tailored to each specific segment and national market structure with a sales force of more than 500 employees covering all of its core markets. Consumers are reached through wholesalers, retailers such as Walmart, Tesco and Sainsbury's, convenience stores, liquor stores, tobacconists and directly through online and catalogue direct marketing, such as Cigars International in the United States. Depending on the product and price point, as well as the local distribution characteristics, STG uses different channels to most effectively reach the target consumer group. This diverse channel mix leaves STG with limited dependency on any single channel or customer.

STG's leading and well-established online and catalogue direct marketing platform in the United States, Cigars International, a direct marketer of cigars, pipe tobacco and tobacco-related accessories, grew its net sales at a CAGR of 13 percent between 2012 and 2014 (at constant currency). The strong growth can be explained by Cigars International's strong execution in managing the direct sales channel and utilising direct marketing systems and tools to leverage the online platform's ability to reach a wider group of consumers as well as attracting existing smokers from other tobacco product categories. Cigars International ranked number one on key success factors such as pricing, range and delivery options in a 2014 smokers survey. Cigars International has outgrown its nearest competitor to take the number one position in the online handmade cigar retail market in the United States measured by sales volumes. STG believes the strong growth momentum of this platform is supported by an increase in the number of potential consumers seeking to educate themselves on handmade cigars where they can benefit from the ability to access and explore Cigars International's broad product offering.

Ongoing Efficiency Measures and Working Capital Initiatives

STG has a strong track record of rationalising its production footprint as proven by the successful closure of two machine-made cigar production facilities in the last four years as part of STG's project to integrate its machine-made cigar production footprint (the "**6-2-4 Project**") following the establishment of STG in 2010. In order to handle the consolidated production volumes, STG made investments in the remaining four production facilities and, therefore, STG has a well-invested asset base producing high quality products with capacity that it believes is sufficient to execute its current strategy, including with regards to consolidating volumes of potential acquisitions within its own footprint. STG has also opened a new factory in Holstebro, Denmark, which insourced the production of expanded tobacco, ensuring stability of supply and lowering expanded tobacco costs.

STG benefits from having a global supply chain, from sourcing of tobacco and non-tobacco materials to production to sales to distributors, wholesalers and retailers, and in the United States direct to the consumer. Control of the supply chain in Europe and North America, together with extensive local expertise in Indonesia and Latin America and production facilities close to core consumption markets, gives STG a high degree of flexibility in servicing its sales subsidiaries and export markets. STG has a global production footprint where the location is dependent on the labour intensity of the production processes. More labour-intensive production, such as rolling handmade cigars and producing wrappers and binders for machine-made cigars, are located in Latin America and Indonesia, as this is close to where tobacco is sourced, labour costs are low and tobacco know-how is high. More automated production facilities for the production of machine-made cigars, pipe tobacco and fine-cut tobacco are located close to core consumption markets, which leads to lower transportation and warehouse cost as well as lower import duties.

STG's production footprint strategy has helped to reduce its operating costs across segments within the supply chain. In order to further reduce complexity, optimise efficiency and prepare for the implementation of the TPD, STG has analysed its brand portfolio, production footprint and supply chain in its machine-made cigars, fine-cut tobacco and pipe tobacco segments to identify opportunities to save costs and reduce working capital. Based on the analysis, STG plans to reduce the total number of product configurations by approximately 45 percent in the machine-made cigars segment and approximately 27 percent in aggregate in the pipe tobacco and fine-cut tobacco segments. STG will continue to further optimise its operations in response to market developments, reduce the cost of materials, improve production efficiency and improve integrated planning of its supply chain. STG estimates that these measures will result in annual gross operating cost savings of approximately DKK 140 million and a working capital reduction of approximately DKK 500 million (measured on a like for like basis excluding currency fluctuations) by the end of 2018, in each case as compared to the respective 2014 levels. STG estimates that it achieved 10 percent of the estimated cost savings of approximately DKK 140 million in 2015 and that the remaining estimated cost savings will be achieved equally over 2016, 2017 and 2018. In addition, STG estimates that it achieved 20 percent of the estimated working capital reduction of approximately DKK 500 million in 2015. In connection with these efficiency measures, STG incurred nonrecurring restructuring costs with an impact on EBITDA of DKK 42 million for the first nine months of 2015 and estimates that it will incur further nonrecurring costs totalling approximately DKK 60 million to DKK 90 million in 2017 and 2018. Together, the cost savings and working capital reductions are expected by STG to have a positive impact on its gross profit margin and cash generation. For additional information on STG's efficiency measures and working capital initiatives, including the assumptions on which STG's cost savings, working capital reduction and nonrecurring restructuring costs estimates are based, see "*Operating and Financial Review—Principal Factors Affecting STG's Results of Operations—Improving Efficiency—Efficiency Measures and Working Capital Initiatives*".

Strong Platform to Act as a Consolidator in a Fragmented Category

STG believes that its scale in existing markets positions it well to continue realising synergies from acquisitions. Many of STG's markets are characterised by a large number of small, family-owned businesses and are more fragmented than the cigarette market. Many of these businesses have small-scale production platforms and often less efficient cost structures. In an increasingly complex regulatory environment, these businesses may find it more challenging to compete with global producers. STG considers acquisitions based on the strategic fit with its product and brand portfolio as well as its geographic focus and whether the acquisition would be expected to be value and earnings accretive to STG.

STG has a proven track record of acquiring businesses and brands and successfully integrating them into the Group. Acquisitions offer a number of benefits to STG, some through post-integration synergies such as sales force optimisation, production rationalisation and complexity reduction, and some through the entrance into new geographic markets or product categories. Since 2013, STG has acquired Verellen N.V. ("**Verellen**") (machine-made cigars in Belgium) and Pipes and Cigars (online and catalogue retailer of pipes, pipe tobacco and cigars in the United States). For all acquisitions since 2013, STG believes that identified improvements in performance and extraction of synergies can result in at least 50 percent improvement in EBITDA of the acquired activities. For the Verellen acquisition, STG estimates that improvements in performance and extraction of synergies will more than double the EBITDA from the acquired activities when fully integrated four years after the acquisition. Through these and other acquisitions, STG has gained invaluable experience in the successful integration of businesses, which positions STG well to continue to add value through acquisitions.

Experienced Management Team with a Track Record of Delivery, Deep Understanding of Regulation and a Clear Strategic Agenda to Drive Growth and Cost Efficiency

STG's group management team has extensive experience in the tobacco industry and, therefore, has in-depth sector knowledge and experience in the global coordination of production and supply chain operations. STG's group management team also has proven abilities to proactively address regulatory changes, grow the business organically through innovation and grow the business through acquisitions.

Five out of six members of the management team have been part of STG since its establishment in 2010 through the combination of the cigar, pipe tobacco, fine-cut tobacco and tobacco-related accessories businesses of the former Skandinavisk Tobakskompagni A/S and the cigar, pipe tobacco and tobacco-related accessories businesses of Swedish Match AB ("**Swedish Match**") (excluding Swedish Match's U.S. mass-market cigar business and certain other assets). The team has successfully maintained and expanded STG's market leadership in core tobacco segments and geographies by, for example, building Cigars International into a leading online and catalogue direct marketing channel in the United States, expanded market share in the U.S. handmade cigar market to 28 percent in 2015 (estimated production for import into the United States), captured market share in fine-cut tobacco markets (*e.g.*, in Germany and Israel), and reached the global market-leading position in traditional pipe tobacco. STG's management team has also reduced costs through, for example, the 6-2-4 Project, and the team continues to implement operational initiatives to improve STG's cost structure and reduce working capital.

Strong Financial Track Record with Attractive Shareholder Return

STG believes that it has an attractive and stable business model, in part due to diverse product portfolio across brands and the global nature of its business. Adjusted for currency fluctuations and acquisitions, STG's net sales grew 2.9 percent in 2014 as compared to 2013 and 0.7 percent in 2013 as compared to 2012. Adjusted for currency fluctuations only, STG's net sales grew 4.1 percent in 2014 as compared to 2013 with the additional growth attributable to the acquisition of Verellen. STG's adjusted EBITDA margin increased slightly during the same period and was 20.3 percent for 2014. All of STG's major segments experienced positive net sales growth (adjusted for currency fluctuations) from 2012 to 2014. Based on this development, STG has been able to maintain a high cash generation with cash conversion averaging 80.4 percent between 2012 and 2014. STG believes that its strong cash generative profile will allow the Company to pay an attractive annual dividend. For a description of STG's dividend policy, see "*Dividends and Dividend Policy*".

STG's Business Strategy

STG's current strategy is built around four business priorities that it believes will support its ability to leverage its leading positions in the cigar, pipe tobacco and selected fine-cut tobacco markets and thereby improve its profitability and maintain a strong cash conversion profile. Since the formation of STG in 2010, STG's management has transformed the combined businesses into a strong, consolidated and improved platform for further growth. Several strategic challenges such as local machine-made cigar, pipe tobacco and fine-cut tobacco presence in the United States, strength and width of brand portfolio, product innovation capabilities and operational strength and scale in the supply chain have been addressed since 2010.

STG has identified the following strategic priorities:

Outperform the Overall Market Where It Competes

- *Building brand equity:* STG owns some of the strongest brands in its tobacco product segments and plans to leverage these brands to outperform the market. STG aims to drive growth through a combination of actively managing and updating its existing portfolio and through a focus on innovation and development. At the centre of STG's success is its ability to develop high-quality products and brands that provide outstanding smoking experiences. In the machine-made cigars, pipe tobacco and fine-cut tobacco segments, STG targets smokers across all price points while adapting to changes in consumer preferences by developing differentiated new products, often through introduction of new blends, new flavours and changed formats. STG constantly works towards strengthening its largest brands so that it is well prepared to succeed even in markets with display restrictions, or dark markets, and where the best known brands usually outperform others.

- *Optimising pricing strategies:* While STG targets smokers across all price segments, the strength of STG's brand portfolio and particularly its strategic brands as well as the generally relatively low price elasticity in the categories where STG competes imply that STG typically is able to sustain price increases above inflation.

- *Leveraging STG's trade partnerships:* STG benefits from a strong relationship with the retail trade and has invested significant resources in maintaining and building skills within this area to ensure that it remains retailers' partner of choice. At the core of this effort is the strength of STG's brand portfolio along with the skill and experience of STG's sales forces and the strength of its trade programmes. STG aims to have a presence in the retail channel that is equal to or larger than its share of the overall market to support the "look of the leader" strategy.

- *Keep winning in direct-to-consumer:* STG's U.S. online and catalogue direct marketing platform, Cigars International, has strong execution skills in direct-to-consumer marketing and has delivered consistent high growth rates for many years. STG continues to invest in the further development of these skills and on applying them to new relevant business areas as evidenced by the development of the Pipes and Cigars online platform, focusing on pipe tobacco and accessories, which STG acquired in 2013. STG plans to ensure that Cigars International's technological platform and the operational skills of its employees continue to be at the forefront of the industry, leveraging the large customer base of more than 885,000 active customers to further expand its leadership position.

- *Using new regulation to enhance STG's competitive advantage:* Tobacco companies are faced with constant changes in the regulatory environment and need to allocate considerable resources to ensure compliance (*e.g.*, in relation to the implementation of the TPD). STG strives to be proactive and prepared ahead of time for such changes by acknowledging the potential effects resulting from them. By leveraging know-how and scale compared to smaller competitors, STG has the potential to grow its market share when smaller competitors struggle to meet regulatory requirements. This can be illustrated by the regulatory changes in Australia in 2012, where many of STG's competitors in pipe tobacco were not able to supply the market for a period after the introduction of plain packaging as they were unable to comply with new regulation in a timely manner. As a result, STG gained market leadership in pipe tobacco in Australia. STG's scale and know-how enable it to allocate required resources and attention into product development, brand management and changing production requirements, which provides STG with a competitive advantage by managing production complexity when new regulation is implemented.

Globalise the Geographic Footprint

- *Expanding geographical footprint:* STG's core geographies, North America and Europe, in aggregate accounted for more than 90 percent of the total global consumption of cigars, traditional pipe tobacco and fine-cut tobacco in 2014. STG has identified growth opportunities within its core geographies, including fine-cut tobacco and value priced cigars in Germany, among other opportunities. Outside STG's core geographies, the consumption of cigars and pipe tobacco is relatively low but consumption of cigarettes is high. To take advantage of this opportunity, STG is investigating opportunities to selectively expand into new geographies such as Asia, the Middle East, Africa and Russia. For example, STG aims to grow sales of its pipe tobacco brands Erinmore and Captain Black in Africa. STG also aims to develop cigar products that are interesting for consumers in markets where its product categories, especially cigars, are not regularly consumed today. For example, STG has built on the strong reputation of the Captain Black brand to expand into adjacent categories such as value priced cigars, where Captain Black has strong positions in Russia, Iraq and the United States.

- *Use STG's M&A platform:* In addition to profitable organic growth, STG has a proven track record of acquiring and integrating businesses. STG's main objective when evaluating potential acquisition candidates are their ability to strengthen STG's presence in certain large cigar markets where STG's market share is relatively low today (*i.e.*, a high strategic fit and potential for synergy). STG actively monitors potential acquisition opportunities with the aim of identifying and evaluating the strategic and financial attractiveness of potential targets, and STG aims to continue to act as a consolidator as and when attractive opportunities arise. STG's global presence and infrastructure facilitates its ability to extract synergies from acquisition targets by consolidating production footprints and incorporating newly acquired targets and products into its existing sales and distribution network.

Simplify for Efficiency

- *Achieve cost savings of approximately DKK 140 million:* In order to further reduce complexity, optimise efficiency and prepare for the implementation of the TPD, STG has analysed its brand portfolio, production footprint and supply chain in its machine-made cigars, fine-cut tobacco and pipe tobacco segments to identify opportunities to save costs and reduce working capital. STG has identified the following target areas for further improving of its production and procurement operations:
  - simplification of product portfolio;
  - further optimising production footprint;
  - reducing material costs; and
  - improving production efficiency.

  STG estimates that these measures will result in annual gross operating cost savings of approximately DKK 140 million by the end of 2018, as compared to the 2014 level. STG estimates that it achieved 10 percent of the estimated cost savings of approximately DKK 140 million in 2015 and that the remaining estimated cost savings will be achieved equally over 2016, 2017 and 2018.

- *Reduce working capital:* As part of its focus to further reducing complexity, optimise efficiency and prepare for the implementation of the TPD, STG also plans to improve production efficiency with the aim of further reducing inventories. STG estimates that these measures will lead to a working capital reduction of approximately DKK 500 million by the end of 2018, as compared to the level as at 31 December 2014 calculated on a like-for-like basis excluding currency fluctuations. STG estimates that it achieved 20 percent of the estimated working capital reduction of approximately DKK 500 million in 2015.

For additional information on STG's efficiency measures and working capital initiatives, including the assumptions on which STG's cost savings, working capital reduction and nonrecurring restructuring costs estimates are based, see "*Operating and Financial Review—Principal Factors Affecting STG's Results of Operations—Improving Efficiency—Efficiency Measures and Working Capital Initiatives*".

Empower for Speed, Accountability and Motivation

- *Foster talent and curiosity:* STG has engaged employees with highly specialised skills and tobacco knowledge, representing a competitive advantage and enabling STG to deliver on its strategy. STG will continue to foster talent and curiosity to take advantage of the diversity and many different skill-sets and perspectives from its employees. In order to ensure quality and consistency of leadership across its operations, STG has invested and will continue to invest in a systematic approach to leadership development, people reviews and succession planning. The purpose of STG's leadership programme initiatives is to maximise the potential of each individual leader and STG's leaders as a team.

- *Act as a market leader:* STG has become a world leader through a business combination with certain Swedish Match businesses, organic growth and several acquisitions. STG is well known as a strong, stable and reliable company. While maintaining those strengths, STG aims to raise its profile to be perceived as fast, dynamic and leading. STG is actively working to drive this mindset by constantly challenging the status quo and by increasing its willingness to experiment in terms of products, brands and approaches in general.

Certain statements in this section, including in particular the statements relating to the expected benefits of STG's efficiency measures and working capital initiatives, constitute forward-looking statements. These forward-looking statements are not guarantees of future financial performance and STG's actual results could differ materially from those expressed or implied by these forward-looking statements as a result of many factors, including but not limited to those described under "Special Notice Regarding Forward-looking Statements" and "Risk Factors". Investors are urged not to place undue reliance on any of the statements set forth above.

Financial Policy

The Board of Directors has adopted the following financial policy for STG with respect to leverage ratio and dividends:

- Leverage ratio target of 2.5 (measured as net interest-bearing debt divided by adjusted EBITDA) while maintaining flexibility to increase leverage temporarily, for example to pursue acquisitions.
- Dividend policy of a payout ratio of at least 70 percent of consolidated net profit for the year. There can be no assurance that in any given year a dividend or share buyback will be proposed or declared or that the Company's financial performance will allow it to adhere to the dividend policy or any increase in the payout ratio. See "*Dividends and Dividend Policy*".

Medium-term Outlook

STG expects the following medium-term (*i.e.*, three to five years) outlook to apply with regard to adjusted net sales, adjusted EBITDA and capital expenditure:

- Adjusted net sales growth of 1 to 3 percent annually through the cycle, excluding acquisitions and currency fluctuations (organic growth).
- Adjusted EBITDA growth of 3 to 5 percent annually through the cycle, excluding acquisitions and currency fluctuations (organic growth).
- Capital expenditure is estimated to be approximately DKK 150 million per year primarily relating to maintenance of production facilities.

For consolidated prospective financial information for 2015 and 2016, see "*Consolidated Prospective Financial Information*".

In preparing the medium-term outlook described above, STG has applied the following principal assumptions:

Adjusted net sales

- Developments in the overall market volumes in the markets in which STG operates will in general follow same trends as experienced in recent years.
- Positive price/mix impacts due to price increases. STG expects to be able to continue to implement price increases in line with the trends in individual markets experienced in recent years.
- Slight positive volume impacts driven by growth in U.S. handmade cigars and stable or modestly declining sales volumes in machine-made cigars, pipe tobacco and fine-cut tobacco.
- The other segment's net sales will increase slightly over the cycle in line with STG's four main segments.

Adjusted EBITDA

- A gradual improvement in gross profit margin mainly due to the following:
- Positive development from efficiency measures in the machine-made cigars supply chain, which are expected to materialise as currently anticipated and are estimated to result in gross operating cost savings of approximately DKK 140 million, as compared to the 2014 level, by the end of 2018. For additional information on STG's efficiency measures, see "*Operating and Financial Review—Principal Factors Affecting STG's Results of Operations—Improving Efficiency—Efficiency Measures and Working Capital Initiatives*".
- Increases in raw materials and other input costs are expected to follow a level as experienced in recent years. STG expects to be able to absorb the increases through increases in sales prices.

- Growth in markets/segments with gross profit margins below STG's overall gross profit margin to partially offset the positive drivers described above. This includes continued growth in the U.S. online and catalogue channels as well as growth in certain products in the value segment, primarily in machine-made cigars and fine-cut tobacco, together with declining sales volumes in high-margin traditional pipe tobacco.
- Sales and marketing expenses will follow the development in net sales with focus on supporting critical focus areas for growth and profitability.
- Other operating expenses will increase largely in line with inflation.
- Total operating expenses will increase slightly less than the increase in gross profit due to a continued focus on cost control and leveraging scale of operations.

Capital Expenditure

- Maintenance capital expenditure will be in line with historic trends and STG's analysis of expected future maintenance capital expenditure levels.
- No significant supply chain footprint restructurings that would result in changes to the level of maintenance capital expenditure.

The medium-term outlook may also be affected by external factors beyond STG's control. In preparing the medium-term outlook described above, STG has applied the following assumptions with regard to external factors:

- Ongoing litigation and administrative proceedings in which STG is currently involved will not result in outcomes that have, and STG will not become party to any litigation or administrative proceedings that could have, a material adverse impact on STG.
- There will be no further restrictions on promoting, marketing, packaging, labelling and usage of tobacco products in the markets in which STG operates that differ from STG's current expectations.
- The national legislation implementing the TPD will not differ from STG's current expectations.
- The Company has not included any potential future impact of the Deeming Regulations in its medium-term outlook as the scope and timing of such effects are currently uncertain.
- There will be no changes in excise tax rates, import duties, corporate tax rates or other tax rates that differ from STG's current expectations.

The statements set forth above constitute forward-looking statements and are not guarantees of future financial performance. STG's actual results could differ materially from those expressed or implied by these forward-looking statements as a result of many factors, including but not limited to those described in "Special Notice Regarding Forward-looking Statements" and "Risk Factors". Investors are urged not to place undue reliance on any of the statements set forth above. Adjusted net sales and adjusted EBITDA are non-IFRS measures. For definitions of adjusted net sales and adjusted EBITDA, see "Presentation of Financial and Certain Other Information—Non-IFRS Financial Measures".

History

STG was established in 2010 through the combination of the cigar, pipe tobacco, fine-cut tobacco and tobacco-related accessories businesses of the former Skandinavisk Tobakskompagni A/S, which changed its name to Scandinavian Tobacco Group A/S in 2008 (now Skandinavisk Holding II) and the cigar, pipe tobacco and tobacco-related accessories businesses of Swedish Match AB (excluding Swedish Match's U.S. mass-market cigar business and certain other assets). The businesses of each of the parties were contributed to or acquired by Scandinavian Tobacco Group A/S, which had not previously conducted any commercial activities. As at the date of this Offering Circular, Swedish Match Cigars Holding and Skandinavisk Holding II own 49.0 percent and 51.0 percent, respectively, of the Company's share capital. Skandinavisk Holding II is wholly owned by Skandinavisk Holding A/S, which, in turn, is owned by Chr. Augustinus Fabrikker Akts. (ultimately The Augustinus Foundation) (65 percent) and C.W. Obel A/S (ultimately The Obel Family Foundation) (35 percent).

Skandinavisk Tobakskompagni was founded in 1961 by three of Denmark's oldest and largest tobacco companies: Chr. Augustinus Fabrikker established in 1750, C.W. Obel established in 1787, and R. Færchs Fabrikker established in 1869. British American Tobacco became a shareholder of Skandinavisk Tobakskompagni in 1972.

In 2008, the Skandinavisk Tobakskompagni group and its ownership were reorganised. The cigarette and snus businesses were sold to the British American Tobacco group and the British American Tobacco group and R. Færchs Fabrikker left the group of shareholders, leaving The Augustinus Foundation and The Obel Family Foundation as the ultimate shareholders.

Prior to the reorganisation in 2008, the main activity of Skandinavisk Tobakskompagni was its cigarette business (House of Prince). It also had significant cigar, pipe tobacco and fine-cut tobacco operations. In 1996, Skandinavisk Tobakskompagni acquired Henri Wintermans Cigars and in 2000, it acquired the Colts and Old Port Canadian machine-made cigar brands. In 2007, it acquired the pipe tobacco brands Erinmore and Clan, the U.S. handmade cigar company CAO International, British American Tobacco's cigar production facilities in Belgium and certain cigar brands, including Mercator. Skandinavisk Tobakskompagni acquired the remaining 50 percent of Orlik Tobacco Company to become the sole shareholder, certain handmade cigar production facilities in Honduras and Nicaragua in 2008 and the Norwegian fine-cut tobacco brand Tiedemanns in 2009. In 2008, Skandinavisk Tobakskompagni changed its name to Scandinavian Tobacco Group A/S.

Swedish Match's history began in 1915 with the establishment of a Swedish state monopoly for tobacco as all Swedish tobacco production plants were nationalised. In 1961, the import and sales monopoly was abandoned and in 1967, the production monopoly terminated and was converted into a new state-owned company, Svenska Tobaks AB. The company was involved in the production and sale of all tobacco product categories, including cigars and pipe tobacco. In 1968, Svenska Tobaks AB acquired the Dutch cigar company Elisabeth Bas/La Paz and in 1989, the Dutch cigar producer and brand Willem II was added to the business. In 1989, the state-owned company, now a conglomerate named Procordia AB, was listed on the Stockholm Stock Exchange. Between 1990 and 1994, Volvo increased its shareholding in Procordia AB and in 1994, became the sole shareholder in the company, which was delisted from the Stockholm Stock Exchange. In 1992, Procordia AB acquired the match and disposable lighter operation Swedish Match, and the whole operation changed its name to Swedish Match. In 1996, the company once again became a listed company.

Besides acquisitions and divestments related to other parts of its business, Swedish Match, over the years, acquired brands, distributors and producers of both cigars and pipe tobacco. In 1998, Swedish Match acquired the Australian cigar distributor Alexander Group and in 1999, the U.S. company El Credito, a producer of handmade cigars and owner of the U.S. brand La Gloria Cubana, among others. In 2000, Swedish Match acquired 64 percent of General Cigar Holdings, which included such U.S. premium cigar brands as Macanudo, Partagas, Punch, Hoyo de Monterrey and Cohiba. Between 2001 and 2004, Swedish Match acquired distributors of tobacco products in Italy, Slovenia and Poland and in 2005, the remaining 36 percent of General Cigar Holdings. In 2006, the cigar brands Hajenius and Oud Kampen were acquired and in 2007, the Bogaert and Hollandia brands were acquired together with the Belgian cigar company Bogaert Cigars. In 2007, Swedish Match also acquired Cigars International, a U.S. online and catalogue direct marketer of cigars.

Following the establishment of the Group in 2010, STG acquired Lane Limited ("**Lane**"), a producer and brand owner of pipe tobacco, fine-cut tobacco and machine-made cigars in the United States, from Reynolds American Inc. in 2011. Through the acquisition of Lane, STG acquired Captain Black (pipe tobacco and cigars), Bugler (fine-cut tobacco), Winchester (cigars) and other smaller brands. In 2013, STG acquired the Pipes and Cigars online retail business in the United States, followed by the acquisitions of Verellen, a Belgian brand owner and producer of machine-made cigars, and the Toraño handmade cigar brand, both in 2014.

Organisational Structure

Most of STG's executive management team (the "**Executive Management**") is located at STG's headquarters in Søborg, Denmark. STG's group staff functions – Finance, Legal, Public Affairs, Communications, Human Resources and IT – operate from STG's headquarters and STG's group commercial functions – Group Marketing and Group Sales – are managed from STG's headquarters. STG's group staff and commercial functions are supported by local functions where required.

STG operates and reports its business through the following segments: handmade cigars, machine-made cigars, pipe tobacco, fine-cut tobacco and other. In general, the machine-made cigars, pipe tobacco, fine-cut tobacco and other segments are managed together. For example, STG manages its machine-made cigar production facilities outside of the United States from its Eersel production facility in the

Netherlands, and the sales organisations for machine-made cigars, pipe tobacco, fine-cut tobacco and other products are managed from STG's headquarters.

In the handmade cigars segment, General Cigar and Cigars International are managed as separate business units. STG's handmade cigar production facilities are managed by General Cigar.

Product and Brand Overview

STG produces and sells a diverse range of handmade cigars, machine-made cigars, pipe tobacco, fine-cut tobacco and tobacco-related accessories. In addition, STG manufactures tobacco products for third parties on a contractual basis and derives revenue from licensing certain of its brands to third parties in certain markets. STG produces and sells 3 billion cigars and 5,000 tonnes in aggregate of pipe tobacco and fine-cut tobacco annually.

The following table sets forth selected key STG brands by product segment:

	Selected key brands
Handmade cigars	Macanudo, CAO, Punch(1), La Gloria Cubana(1), Cohiba(1), 5Vegas, Diesel
Machine-made cigars	Café Crème, La Paz, Mercator, Colts, Captain Black, Break
Pipe tobacco	Captain Black, Erinmore, Borkum Riff, W.Ø. Larsen, Clan
Fine-cut tobacco	Bugler, Break, Escort, Bali Shag, Tiedemanns

(1) STG owns the brand in the United States and has limited or no ownership outside of the United States.

The following table sets forth STG's net sales by segment for the periods indicated:

	For the nine months ended 30 September		For the year ended 31 December		
	2015	2014	2014	2013	2012
	(unaudited)		(audited)		
	(DKK in millions)				
Handmade cigars	1,438.7	1,106.6	1,513.6	1,368.1	1,378.4
Machine-made cigars	1,991.5	1,885.2	2,595.2	2,512.9	2,592.5
Pipe tobacco	459.4	429.6	569.2	566.9	549.1
Fine-cut tobacco	439.0	407.3	561.8	521.8	491.1
Other	636.8	667.1	886.2	955.6	966.9
Total	4,965.4	4,495.8	6,126.0	5,925.3	5,978.0

Within the machine-made cigars, pipe tobacco and fine-cut tobacco segments, STG organises its brand portfolio into four categories: strategic, regional, shooting stars and tactical, each with a separate strategy. The strategic category includes STG's cornerstone brands with significant heritage and strong consumer recognition internationally. These brands are usually established leaders in their respective category. Each brand has its own strategy to become or maintain its position as a leading brand in its segment. In 2014, STG's strategic brands accounted for more than 50 percent of the aggregate net sales of the machine-made cigars, pipe tobacco and fine-cut tobacco segments. STG's strategic brands have in aggregate experienced higher growth than STG's overall brand portfolio, growing at a CAGR of 1.7 percent between 2012 and 2014. Regional brands have strong consumer recognition in specific markets or regions but do not possess the same international appeal as strategic brands. The strategy with these brands is to maintain their strong regional recognition. The shooting stars category includes brands that STG believes will have a considerable potential to be rolled out across new geographies and categories. Tactical brands have some consumer recognition and deliver positive gross profit to the Group. STG's strategy with these brands is to maximise profit by minimising cost.

Handmade Cigars

Overview

STG's handmade cigars segment includes the production and distribution of handmade cigars through General Cigar and the direct marketing of handmade cigars – primarily online and catalogue – through Cigars International. A handmade cigar consists of filler, a binder and an outer wrapper. The filler constitutes the inside of the cigar and for handmade cigars is generally produced from full-sized folded tobacco leaves. The binder is a tobacco leaf wrapped around the filler to keep it together. The wrapper is the outer leaf of the cigar that gives the cigar its appearance and colour and contributes significantly to the cigar's flavour. Most cigar tobacco is fermented, and handmade cigars generally do not have additives, although some products are lightly flavoured, and humidifying additives are sometimes used.

STG's handmade cigar brand portfolio and product offering covers all price points, flavour profiles and formats across the handmade cigar market. STG's production footprint provides it with substantial blending capacity, which enables it to produce handmade cigars with consistent quality and taste and further enables STG to develop new products that appeal to consumers. This also allows STG to react quickly to market trends relating to tobacco from specific origins.

The handmade cigars segment's net sales are primarily derived from the United States, which is the largest market for handmade cigars in the world. STG has handmade cigar and cigar box production facilities in the Dominican Republic, Honduras and Nicaragua, which are major tobacco growing regions and close to the large U.S. market.

General Cigar Brands

General Cigar's brand portfolio includes more than 60 brands and covers a full range of cigars from luxury to value offerings in all strengths and multiple flavours and formats. General Cigar also offers boutique products aimed at consumers searching for new and differentiating cigar experiences. General Cigar utilises its extensive tobacco library to constantly innovate and offer new products.

General Cigar's key handmade cigar brands by price positioning include the following key brands:

- *Luxury:* Cohiba(1).
- *Premium:* Macanudo, Partagas(1), Punch(1) and Hoyo de Monterrey(1).
- *Boutique:* CAO, La Gloria Cubana(1), Toraño and Foundry.
- *Value:* Don Tomás and Sancho Panza.

(1) STG owns the brand in the United States and has limited or no ownership outside of the United States.

Macanudo is the largest premium brand in the United States in terms of sales volumes with a market share of approximately 5 to 6 percent in 2014. General Cigar recently introduced the Macanudo Inspirado line of cigars with a unique blend and packaging designed to appeal to European consumers. Club Macanudo, an exclusive cigar bar located in New York City, was established by General Cigar to promote the Macanudo brand.

Cohiba is a luxury handmade cigar brand. General Cigar owns the Cohiba brand in the United States where it enjoys high levels of consumer awareness and brand equity. STG is focused on enhancing the Cohiba brand's super-premium position.

Punch is the second largest brand in General Cigar's portfolio by net sales and sales volumes.

CAO is a leading boutique cigar brand that is known for introducing unique tobaccos and innovative packaging.

In 2014, General Cigar's eight largest brands – Macanudo, Hoyo de Monterrey, Partagas, CAO, La Gloria Cubana, Punch, Cohiba and Don Tomás – accounted for approximately 90 percent of its net sales. General Cigar's five largest handmade cigar brands – CAO, Cohiba, La Gloria Cubana, Macanudo and Punch – in aggregate grew 2.4 percent in 2014 as compared to 2013 (including the effect of currency fluctuations). During the same period, net sales of Cohiba grew 4.2 percent, while CAO grew 6.2 percent, Macanudo grew 3.0 percent, Punch declined 1.5 percent and La Gloria Cubana grew 0.6 percent. General Cigar's total net sales grew at a CAGR of 0.2 percent between 2010 and 2014 and its EBITDA grew at a CAGR of 5.8 percent over the same period.

Cigars International Brand Categories and Platforms

Cigars International's brand portfolio includes more than 90 brands. Cigars International sells a comprehensive range of handmade cigar brands from premium to value direct to consumers in the United States. Its product offering includes the following categories of brands:

- *Own brands* are owned by Cigars International and produced by third parties or General Cigar. Cigars International's key own brands include 5Vegas, Diesel, Man O' War and CI Legends Series.

- *Exclusive brands* are product line extensions created by a third-party brand owner for sale exclusively through Cigars International's distribution channels. Cigars International's key exclusive brands include Rocky Patel Connecticut, Victor Sinclair Cigarillos and Alec Bradley White Gold.
- *Royalty brands* are brands for which Cigars International pays a royalty to the third-party brand owner for exclusive distribution rights in the United States. For royalty brands, Cigars International has full control of blending, production, pricing and promotion while also allowing it to benefit from the established brand equity. Cigars International's key royalty brands include Gurkha Park Avenue, Sons of Anarchy and La Perla Habana.
- *National brands* are brands that are not exclusive to Cigars International and include third-party brands as well as General Cigar brands.

General Cigar is the largest supplier of Cigars International and General Cigar also sources products from STG's production facilities in Europe.

Cigars International's main platforms are:

- cigarsinternational.com, the largest value-focused online and catalogue retailer in the United States in terms of sales volumes;
- cigar.com, an online and catalogue handmade cigar retailer focused on high quality service and shopping experience, with personal tobacconists and an online community/forum;
- cigarbid.com, a value-focused online auction site with a very active online community; and
- pipesandcigars.com, the largest online and catalogue retailer focused on pipe tobacco, pipes and pipe-related accessories in the United States in terms of sales volumes.

For additional information on Cigars International's sales and distribution, see "*—Sales and Distribution—Handmade Cigars in the United States—Cigars International*" below.

Machine-made Cigars

Overview

STG's machine-made cigars segment is a global business that includes the production and distribution of machine-made cigars. A machine-made cigar is similar to a handmade cigar in its construction. Most machine-made cigars consist of filler, a binder and an outer wrapper. For machine-made cigars, the filler is a blend typically made from shredded tobacco. The binder for machine-made cigars can be made from tobacco leaf or, typically for smaller formats, homogenised tobacco leaf. Machine-made cigars can have either a natural or homogenised tobacco leaf wrapper. Tips, filters or flavours are added to some machine-made cigars, especially smaller formats. Moisture control is important during the production and distribution process in order to ensure a high quality product.

STG offers a comprehensive portfolio of machine-made cigars that covers all major consumer segments through a brand portfolio that includes strong international brands, such as Café Crème and La Paz, and regional and local brands with strong positions in individual markets, such as Colts in Canada and Mercator in Belgium.

STG has a sales force covering all major European machine-made cigar markets as well as key geographic markets outside of Europe, such as the United States. The machine-made cigars segment derives its revenues primarily from Europe and North America, with STG's core machine-made cigar operating markets being France, the United Kingdom, Belgium, the Netherlands and Canada.

STG is the largest producer of machine-made cigars in Europe measured by sales volumes. STG's machine-made cigar production footprint includes facilities in Belgium, Denmark, the Dominican Republic, Indonesia, the Netherlands and the United States. STG strategically locates its labour-intensive production processes, in particular wrapper and binder production, in countries with low labour costs, while concentrating more automated production processes close to core consumption markets in order to reduce lead times and increase flexibility.

Key Brands

STG's machine-made cigar portfolio includes more than 50 brands. STG aims to have a comprehensive portfolio of machine-made cigar brands that addresses all market segments and consumer demands. As taste preferences tend to vary significantly across geographies, STG aims to have strong local and regional brands that cater to local tastes in addition to strong international brands. STG's key machine-made cigar brands by price positioning include the following:

- *Premium:* La Paz (Spain and France), Henri Wintermans, Petit, Hajenius and Oud Kampen.
- *Mainstream:* Café Crème, Captain Black, Winchester, Colts, La Paz (the Netherlands) and Mercator.
- *Value:* Talon, Break and Moments.

However, price positioning may differ among markets. For example, La Paz is a premium brand in Spain and France whereas it is a mainstream brand in the Netherlands. In addition, there can be a wide range of price points within a brand, and the price positioning categories above reflect the average sales prices for the brands.

The following table sets forth information on selected key STG machine-made cigar brands by strategic category, including the strategic brands' share of the machine-made cigars segment's net sales in 2014 and change in net sales (CAGR) from 2012 to 2014:

	Selected key brands	**Share of 2014 machine-made cigars segment net sales**	**Change in net sales (CAGR) 2012–2014**
		(percent)	**(percent)**
Strategic	Café Crème, Captain Black, Colts, Henri Wintermans, La Paz	59.9	0.7
Regional	Gold, Mercator, Moments	n/a[(1)]	n/a[(1)]
Shooting stars	Cubero, Havana Honeys	n/a[(1)]	n/a[(1)]
Tactical	Willem II	n/a[(1)]	n/a[(1)]

(1) STG's group consolidation systems only tracks net sales information for strategic brands.

Café Crème is a strategic brand that is available in more than 100 countries. It has been a European market and category leader since it was launched in 1963. Café Crème is also the largest brand in STG's machine-made cigar portfolio in terms of net sales and sales volumes and represented 28 percent of the machine-made cigars segment's net sales for 2014. The most significant markets for Café Crème are France, the United Kingdom, Spain and Portugal.

La Paz is a strategic brand and is one of the top five best-sellers in the machine-made cigars category in Europe and the second largest machine-made cigar brand in STG's portfolio in terms of sales volumes and net sales. La Paz was developed in the Netherlands in 1813 and is differentiated visually from most other machine-made cigars having a "rough" fire-end. The most significant markets for La Paz are France, the Netherlands and Spain.

Captain Black is a strategic brand and STG has utilised the Captain Black brand to expand, especially in emerging markets in the Middle East, Eastern Europe and Asia. Captain Black was originally a pipe tobacco brand sold in the United States, and STG has expanded Captain Black to be an international brand across pipe tobacco and machine-made cigars. See also "*—Pipe Tobacco—Key Brands*" below. The most significant markets for Captain Black are the United States, Russia, Ukraine and Iraq. STG assumed the distribution of Captain Black products in Russia from a third party in 2015, and STG believes that sales of Captain Black in Russia present significant opportunities.

Colts is a strategic brand that was originally developed as a cigar brand for the Canadian market. It has since expanded into new regions and into the categories of pipe tobacco and fine-cut tobacco. Colts is one of the top five brands in STG's brand portfolio in terms of net sales. The most significant markets for Colts are Canada and Eastern Europe. Colts is positioned primarily in the mainstream segment.

In 2014, STG grew the aggregate net sales for its strategic machine-made cigar brands – Café Crème, Captain Black, Colts, Henri Wintermans, La Paz and Break – by 2.7 percent as compared to 2013. Café Crème accounted for 28 percent of the machine-made cigars segment's net sales in 2014.

Pipe Tobacco

Overview

STG's pipe tobacco segment includes the production and distribution of pipe tobacco. Pipe tobacco generally consists of a blend of different tobaccos and it is often flavoured. Pipe tobacco is produced in various cuts, such as loose, flake, ready rubbed or a mixture. In the United States, a "dual-usage" pipe tobacco market has emerged in recent years. Due to excise tax difference between fine-cut tobacco and pipe tobacco in the United States, a significant volume of pipe tobacco sold in the United States can be consumed in a pipe, but also can be used by fine-cut tobacco consumers.

STG has a portfolio of strong pipe tobacco brands with products that cover the full range of flavours and cuts. The pipe tobacco segment has historically experienced strong brand loyalty among its consumers.

STG is the largest producer of traditional pipe tobacco in the world in terms of sales volumes and the only pipe tobacco producer with a sales organisation (including distributors and partnerships) covering all major pipe tobacco markets, including the United States, Germany, Denmark and Nigeria, among others. The pipe tobacco segment is a global business and STG estimates that it has leading traditional pipe tobacco market positions in, among others, Canada, Denmark, Italy, Germany, Spain and the United States.

Key Brands

STG's pipe tobacco portfolio includes more than 60 brands. STG's key pipe tobacco brands by price positioning include the following:

- *Premium:* W.Ø. Larsen, Peter Stokkebye and Erinmore.
- *Mainstream:* Captain Black, Borkum Riff and Clan.
- *Value:* Smoker's Pride and Colts.

The following table sets forth information on selected key STG pipe tobacco brands by strategic category, including the strategic brands' share of the pipe tobacco segment's net sales in 2014 and change in net sales (CAGR) from 2012 to 2014:

	Selected key brands	Share of 2014 pipe tobacco segment net sales	Change in net sales (CAGR) 2012–2014
		(percent)	(percent)
Strategic	Borkum Riff, Captain Black, Colts, Erinmore, W.Ø. Larsen	51.5	2.3
Regional	Half and Half, Peter Stokkebye, My Own Blend	n/a(1)	n/a(1)
Shooting stars	n/a	n/a(1)	n/a(1)
Tactical	Paladin	n/a(1)	n/a(1)

(1) STG's group consolidation systems only tracks net sales information for strategic brands.

W.Ø. Larsen was established in 1864 and is STG's most luxurious premium pipe tobacco brand. It is a strategic brand featuring Scandinavian-style blends with flavours including fruits and berries, vanilla and occasionally spiced tobaccos. W.Ø. Larsen releases a limited edition product every year.

Erinmore is the world's largest traditional pipe tobacco brand in terms of sales and sales volumes. Erinmore is a strategic brand that is sold in more than 30 markets.

Borkum Riff is the world's most widely distributed pipe tobacco brand measured by number of markets in which the brand is present. Borkum Riff is a strategic brand that comes in a wide range of variants ranging from sweet melon to dark whisky, as well as additive-free variants.

STG's strategic pipe tobacco and fine-cut tobacco brands Borkum Riff, Bugler, Bali, Captain Black, Erinmore, Escort, Tiedemanns and W.Ø. Larsen in aggregate grew 1.0 percent in 2014 as compared to 2013.

Fine-cut Tobacco

Overview

STG's fine-cut tobacco segment includes the production and distribution of fine-cut tobacco. Fine-cut tobacco is typically used as a substitute for cigarettes and can be inserted into tubes ("make-your-own") or used with rolling papers ("roll-your-own"). Many consumers of fine-cut tobacco, especially make-your-own, are previous cigarette smokers who smoke fine-cut tobacco due to the price. Roll-your-own is smoked by some consumers as a lifestyle choice and these consumers are typically less price sensitive.

The fine-cut tobacco segment's brand portfolio is characterised by a number of strong local and regional brands. Consumers of fine-cut tobacco are generally price sensitive, less loyal to brands and open to trying new products. STG's fine-cut tobacco segment benefits from cross-category brand utilisation and its in-house production of expanded tobacco, which is a growing segment within key European fine-cut tobacco markets.

The fine-cut tobacco segment is a global business, with significant STG sales in the United States, Denmark, Norway, Germany and Israel. STG has fine-cut tobacco production facilities in Denmark and the United States, which are close to STG's core fine-cut tobacco markets. STG is a market leader in fine-cut tobacco in Denmark, Israel and the United States.

Key Brands

STG's fine-cut tobacco portfolio includes more than 15 brands. STG's key fine-cut tobacco brands by price positioning include the following:

- *Premium:* Tiedemanns, Bali Shag and Escort.
- *Mainstream:* Bugler.
- *Value:* Break.

The following table sets forth information on selected key STG fine-cut tobacco brands by strategic category, including the strategic brands' share of the fine-cut tobacco segment's net sales in 2014 and change in net sales (CAGR) from 2012 to 2014:

	Selected key brands	**Share of 2014 fine-cut tobacco segment net sales**	**Change in net sales (CAGR) 2012–2014**
		(percent)	**(percent)**
Strategic	Break, Escort, Bugler, Tiedemanns	61.4	6.4
Regional	Bali Shag	n/a[(1)]	n/a[(1)]
Shooting stars	Captain Black[(2)], Talon	n/a[(1)]	n/a[(1)]
Tactical	Peter Stokkebye	n/a[(1)]	n/a[(1)]

(1) STG's group consolidation systems only tracks net sales information for strategic brands.

(2) Captain Black was recently launched as a fine-cut tobacco brand and, therefore, is categorised as a shooting star brand in fine-cut tobacco.

Tiedemanns is one of the oldest and most established roll-your-own fine-cut tobacco brands in Norway. Tiedemanns is a strategic brand that offers a range of variants and blends. STG has grown Tiedemanns' market share in Norway from 33 percent in 2008 to 39 percent in 2014, which, combined with consistent price increases above inflation, has driven value development for the brand.

Bali Shag is a premium brand of fine-cut tobacco. To maintain the high quality of Bali Shag products, the tobacco leaf stems are removed and the tobacco carefully cut. Bali Shag is a regional brand, with strong market positions in Israel and Denmark.

Bugler is a leading fine-cut tobacco brand in the United States in terms of sales volumes. Bugler was established in 1932 and is a strategic brand that offers American consumers high quality tobacco at a competitive price.

Break is a fine-cut tobacco brand that STG launched in 2013 with value positioning aimed at the cost conscious consumer. The majority of Break sales are to Germany, the largest global market for fine-cut tobacco, where Break's market share has been growing in recent years.

STG's strategic pipe tobacco and fine-cut tobacco brands Borkum Riff, Bugler, Bali, Captain Black, Erinmore, Escort, Tiedemanns and W.Ø. Larsen in aggregate grew 1.0 percent in 2014 as compared to 2013.

Other

STG's other segment comprises a range of activities, including contract manufacturing of cigars, pipe tobacco and fine-cut tobacco products for third parties, distribution of lighters and matches for third parties, sales of tobacco-related accessories and fire lighting products, and income from licensing STG's brands to third parties in certain markets.

The other segment's tobacco-related accessory sales consist primarily of the sale of pipes globally as well as the sale of rolling papers, filters and other accessories in the United States, Australia and Europe. STG primarily procures the tobacco-related accessories that it sells from third parties. Most of the brands are third-party brands, but STG also has own brands of pipes, rolling papers and filters. In addition, STG distributes and sells fire lighting products primarily in Australia where it licenses strong brands from third parties. Sales of accessories, including pipes, papers/filters and fire lighting products accounted for approximately one-third of the other segment's net sales for 2014.

STG manufactures handmade cigars, machine-made cigars, pipe tobacco and fine-cut tobacco for third parties on a contract basis. Contract manufacturing typically has lower margins than STG's own production. STG primarily engages in contract manufacturing to utilise available capacity in its supply chain, but also has longer-term relationships with customers where STG leverages its scale, production expertise and know-how to manufacture products for third parties. Contract manufacturing accounted for approximately one-third of the other segment's net sales for 2014.

STG distributes lighters and matches for Swedish Match in various markets in Australia, the EU and Canada. Lighters and matches accounted for approximately one-fifth of the other segment's net sales for 2014. Swedish Match's products are distributed on arm's length terms.

Licensing and other income accounted for approximately 8 percent of the other segment's net sales for 2014.

Sales and Distribution

Overview

STG sells its products through various sales and distribution channels, supported by its 18 sales offices and over 500 sales representatives across North America, Europe, Australia and New Zealand (as at 30 September 2015). STG has tailored local sales companies in key cigar, pipe tobacco and fine-cut tobacco markets, which STG believes is the optimal way to serve its customers. STG's sales and distribution channels include direct sales to wholesalers, supermarkets, tobacconists, convenience stores, liquor stores and drug stores; sales through distributors and partners; online and catalogue retail sales; and sales through its brick-and-mortar retail locations. The sales and distributions channels vary significantly between the markets in which STG's products are sold.

In addition to complying with applicable laws and regulations, STG has adopted a set of marketing principles that apply even if such marketing principles are stricter than applicable laws and regulations. STG's underlying marketing principle is that STG's marketing must be aimed only at adults and it must not encourage non-smokers to become consumers of tobacco products. The detailed marketing principles cover various aspects of STG's marketing activities, including health warnings, promotional activities, pack sizes, branding and descriptions, advertisement and sponsorships.

Many of the markets in which STG operates have implemented various restrictions on marketing and advertising of tobacco products to consumers. Accordingly, STG's marketing activities in such markets are primarily aimed at retailers, distributors and wholesalers. In the United States, the regulatory restrictions on the advertising and marketing of tobacco products are less strict. STG markets its products directly to consumers in the United States through, for example, mass communication advertising and event sponsorships, and also conducts marketing aimed at retailers, wholesalers and distributors.

Handmade Cigars in the United States

General Cigar

The majority of General Cigar's production volume relates to large premium cigars, which are stored in humidified spaces and sold through specialised retailers. STG also produces small premium cigars, which are predominantly sold in tins or upscale packs and distributed in a similar way as large premium cigars, but are also sold in smaller retail stores. STG recently launched new innovative packaging that maintains the cigar at the proper humidity so that it can be sold by retailers not having a humidor.

General Cigar's large national handmade cigar brands are distributed in the United States primarily through wholesalers and retailers, including Cigars International. Cigars International is General Cigar's second largest customer in terms of net sales.

General Cigar has a distribution centre in Virginia, United States, which distributes General Cigar's products across the United States. In addition, STG sells cigars at General Cigar's Club Macanudo in New York City, which promotes General Cigar's premium brands and serves as a luxury smoking club.

General Cigar conducts various marketing activities in the United States, including organising more than 500 events annually. General Cigar also aims to maintain its relationships with retailers through various types of promotional campaigns. General Cigar utilises its strong brand portfolio through its Five Star retail support programme, which is designed to accelerate top line growth in the retail sales channel by strengthening partnerships with key brick-and-mortar tobacconists and enhancing General Cigar's in-store brand presence and positioning.

Cigars International

Cigars International is a direct marketer of cigars and other products to consumers through its websites and catalogues (as discussed under "*—Product and Brand Overview—Handmade Cigars—Cigars International Brand Categories and Platforms*" above), with approximately 10,000 daily shipments. In addition, Cigars International has three retail stores in Pennsylvania, and it fulfils internet and catalogue orders from its distribution centre utilising third-party shipping companies.

Cigars International aims to develop strong relationships with its customers and provide a high level of customer service. Cigars International utilises sophisticated consumer intelligence tools, its in-depth understanding of direct marketing and its customer database of more than 885,000 active customers to engage in targeted marketing campaigns as well as mass communication advertising. Cigars International also offers telephone ordering and customer service through its call centres located at its warehouses. Each of Cigars International's four online platforms have separate call centres with assigned representatives to ensure that each platform has a unique voice and message that corresponds to the specific platform.

M&D Wholesale Distributors

STG also sells and distributes products to other retailers through its online wholesale division, M&D Wholesale Distributors. M&D Wholesale Distributors also fulfils orders for third-party websites that sell a variety of Cigars International's own brands and other products, and has its own call centre.

Machine-made Cigars, Pipe Tobacco, Fine-cut Tobacco and Handmade Cigars Outside of the United States

Sales Companies

In all markets covered by STG's sales companies, STG maintains a sales force that services the tobacconists, supermarkets and other retailers in the market. In the sales companies, a number of sales and marketing activities are undertaken by the sales forces. STG's sales forces manage and expand distribution of products, manage and support retailers with shelf space management and educate and provide information about products and innovations to help retailers to interact more effectively with consumers. Further, STG's sales forces conduct consumer activities, manage special display promotions and in some markets conduct price promotions and campaigns.

In most of the markets that STG services with its own sales companies, including key geographic markets such as the United Kingdom, Germany, Canada, the Netherlands, Belgium, Denmark and the United States, STG distributes its products, as well as third-party products, through wholesalers. In France, Italy, Portugal and Spain, there is a main distributor, Logista, servicing most of the market. Key account/customer agreements, according to which STG's sales companies supply products to large wholesalers or retailers for distribution and sales in, for example, supermarkets or gas stations, are usually renegotiated on a yearly basis.

International Sales

In markets not covered by an STG sales company, STG distributes and sells its products through third-party distributors. In general, the distributor is granted exclusive rights in the territory and is also free to sell competing products. STG has a master distribution agreement template for distribution agreements, which is negotiated on a case-by-case basis. STG's international sales organisation and international business managers manage the relationships with STG's distributors. STG's international sales organisation is mostly focusing on managing the portfolio of products on the markets in cooperation with STG's local partners. It also conducts marketing promotions with the partners and actively educates and informs them about new products and innovations to help STG's partners sell STG products.

Product Innovation and Brand Portfolio Management

Overview

STG's approach to product innovation and brand portfolio management is one of its core strengths and is a key strategic focus area. Founded in a deep understanding of consumer needs and trends, STG's innovation aims to continuously offer consumers the best smoking experience through leading, high quality products and at the same time provide the best customer service through continuous improvement initiatives. STG's departments responsible for product development and innovation have launched several successful initiatives in recent years, including new brands, product variants and concepts, relaunches of existing products and product line extensions. These initiatives aim to meet consumer trends and curiosity for new products and variants while supporting STG's leading market positions and organic growth.

STG's four product categories – handmade cigars, machine-made cigars, pipe tobacco and fine-cut tobacco – have not changed during the periods under review and its product innovation and brand portfolio management has focused on introducing new brands, product variants and concepts, relaunches of existing products and product line extensions. STG believes that by addressing and managing each of its four product categories individually, it is able to efficiently manage the complexity of its brand portfolio. STG also actively utilises and transfers knowledge between categories to leverage its innovation expertise in such areas as tobaccos, blends, flavours, production methods and packaging. Over the years, STG has been successful in closing portfolio gaps within the value segment for machine-made cigars and boutique brands for handmade cigars as well as leveraging its strong brands through internationalisation and expansion across product categories.

STG categorises its brand portfolio management activities into the below broad areas:

- *Leveraging brands across product categories:* A key component of STG's innovation strategy is expanding its leading brands to new categories and markets. Examples of such activities include:
  - Colts, originally a machine-made cigar brand for the Canadian market, was expanded into an international line of machine-made cigars with further expansion into pipe tobacco and fine-cut tobacco. Sales of Colts were expanded to more than 30 countries.
  - Break was introduced in 2012 by STG in three countries as a fine-cut tobacco value brand, and in 2014 STG extended Break into the value segment for machine-made cigars. As at the date of this Offering Circular, Break is available in more than 15 countries. Break is gaining market share in both categories (YTD 2015), and the brand's net sales have grown 37.3 percent in the first nine months of 2015 as compared to the first nine months of 2014.
- *Internationalisation of strong local brands:* STG aims to build on the strengths of its local and regional brands by expanding them to new markets. Examples of brands that STG has expanded to new markets include:
  - Captain Black was developed by Lane as an aromatic flavourful tobacco product for the U.S. market. Under STG, sales of Captain Black have increased from seven geographies in 2011 to 35 in 2014. The Captain Black brand has become the leading traditional pipe tobacco brand in the United States in terms of sales and sales volumes and has been launched in several other markets in the Middle East, Asia and Africa. STG has also built on Captain Black's strong reputation to expand into adjacent categories such as value priced cigars, where Captain Black has strong positions in Russia, Iraq and the United States, fine-cut tobacco and flavoured machine-made cigars.
- *Portfolio optimisation:* STG aims to manage its portfolio to have fewer and stronger brands that can be effectively supported by STG's sales forces. With a track record of acquisitions that includes brand

portfolios, STG has since 2010 migrated several brands such as Hollandia/Blues, Salsa/Colts and Blues/Paradise to its platform. Further migrations are under preparation and implementation.

The TPD has accelerated STG's plans to eliminate product configurations with lower sales in the EU and STG is in the process of simplifying its product portfolio by reducing number of blends, cigar sizes and product configurations.

In addition to the Group wide approach, each segment has specific characteristics that STG captures by addressing them individually with targeted innovation efforts.

Handmade Cigars

STG's primary market for handmade cigars is the United States. Consumer curiosity is high in the U.S. market with consumers wanting to try new brands and products. STG aims to maintain and grow its leading market position by continuously innovating and revitalising its portfolio. For example, STG launched more than 100 new cigars variants in 2014, which accounted for approximately 12 percent of the handmade cigars segment's net sales during the period. STG has the largest tobacco library in the cigar industry and actively utilises that strength as an innovation lever.

Examples of STG's recent key product launches for the U.S. premium cigar market include:

- *Macanudo Estate Reserve:* In order to build upon Macanudo's premium brand position, STG introduced a super-premium cigar utilising tobacco from the brand's original home, Jamaica. Macanudo Estate Reserve Cigars are packaged in a mahogany box with individual wood boxes for each Macanudo Estate Reserve cigar.
- *Punch Signature:* Punch Signature was launched as a full bodied cigar combining the "old" and the "new". Mr Punch, the brand trademark, is featured on the package and on the band in a way that reinforces the brand's strong lineage while appealing to current core and new consumers.
- *Cohiba Luxury Selection No. 2:* Cohiba Luxury Selection No. 2 is the most luxurious cigar in the General Cigar portfolio. Limited to 1,000 boxes, this super-premium cigar utilises a five-year-old Cameroon wrapper and a proprietary fermentation process that includes six months of aging in rum barrels. Robb Report named Cohiba Luxury Selection to its "Best of the Best" list, a coveted award.
- *Sons of Anarchy:* A recent product line developed by Cigars International in connection with a U.S. television programme to create cigars and accessories. STG was able to obtain the licensing rights due to its size and reach, and the product line has proven to be extremely successful. The success of the product line has given STG a solid reference and is a foundation from which STG can continue to create licensed products, and STG recently signed a new agreement with another television programme. Licensed products help to differentiate STG from the competition, which is important in the retail channel.
- *Foundry Tobacco Company:* General Cigar created Foundry Tobacco Company to address the increasing demand for boutique cigars in the United States. Foundry Tobacco Company enables General Cigar to introduce boutique brands to the market in a way that provides incremental volume while minimising overlap with its core brand portfolio.

STG also aims to expand its sales of handmade cigars to new markets. For example, in 2014, STG launched the Macanudo Inspirado line of cigars, which are designed to appeal to the tastes of European cigar smokers.

Machine-made Cigars

STG aims to continue to develop new types of machine-made cigars with new and interesting taste profiles that appeal to smokers curious for new experiences and to new consumers from other tobacco categories. STG's current innovation focuses on utilising and combining the knowledge within the different categories to create new types of products that engage smokers from different consumer groups (*e.g.*, knowledge of flavour from pipe tobacco being utilised within cigars).

Consumers of premium machine-made cigars tend to be loyal to brands and products, and STG continuously develops its premium brands with relevant line extensions. Examples of line extensions include:

- a new range of miniatures cigars for Petit, a leading premium brand in Germany;

- annual limited edition cigars for the classic premium brand Hajenius in the Netherlands to capitalise on the gifting opportunity around Christmas; and
- a limited edition cigar for Justus van Maurik in novel packaging launched in 2015 to attract cigars smokers aged 35 to 45 to try this premium brand.

In the mainstream and value machine-made cigars segments, consumers are becoming increasingly interested in aromatic and filter variants and value priced cigars, and they are often price-sensitive as well. In response, STG has increasingly focused on value priced cigars in recent years, and has grown its offering through new product launches and brand redesign. In particular, STG has strengthened its portfolio of flavoured and value priced cigars. For example, STG relaunched its Café Crème brand, the leading machine-made cigar in several European markets and STG's leading brand in terms of net sales, in 2014 following numerous consumer surveys and after successfully developing new and smoother taste profiles and contemporary design for the brand. STG is also introducing new Café Crème flavours to capture the growing demand for flavoured cigars in the mainstream segment.

To enhance its position in the value segment STG has revitalised and relaunched existing brands, including Cubero, Paradise and Moments into value propositions. Since being introduced in the United Kingdom in 2012, Moments has gained market share and finished 2014 with a 45 percent share of the value segment.

Pipe Tobacco

In mature markets, STG aims to build on the strengths of its existing brands and to continuously develop new, often high-end products that appeal to pipe smokers' interest in trying new products, while generally remaining loyal to their favourite brands. This demand is met by, among others, W.Ø. Larsen, a luxury brand that is frequently refreshed by STG with innovative blends and limited editions. STG also reintroduced strong brands such as Captain Black and Erinmore to markets in which they have strong brand recognition, but were declining before STG acquired them. STG has also established Smoker's Pride as a leading brand in the traditional U.S. value segment in terms of sales volumes. A recent new product development is pipe packs, which STG developed by leveraging its knowledge from the cigars segment to create ready-to-use pipe tobacco in small pre-pressed packs that fit directly into pipes.

Fine-cut Tobacco

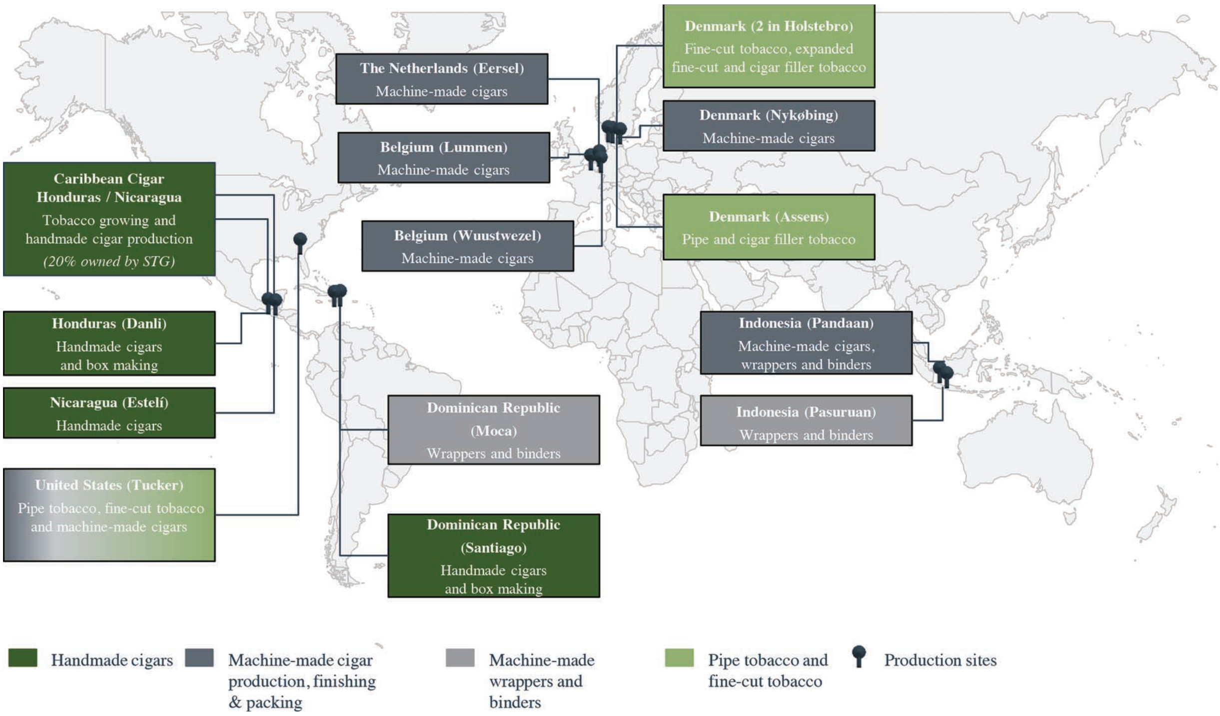
Many users of fine-cut tobacco, especially make-your-own, are cost-conscious former or current cigarette smokers. In 2012, STG introduced Break machine-made cigars and fine-cut tobacco to compete for highly value-focused consumers of cigars and make-your-own fine-cut tobacco in Germany. In addition, roll-your-own fine-cut tobacco is used by some as a lifestyle choice, and particularly the segment of additive free tobaccos has shown growth in EU in recent years. STG has a number of strong regional brands competing in the roll-your-own segment including, Bugler, Bali, Tiedemanns and Crossroad.

Production Facilities

Overview

STG has a global production footprint capable of producing a full range of high quality products across the handmade cigars, machine-made cigars, pipe tobacco and fine-cut tobacco segments. STG's global production footprint is close to both tobacco growing geographies and to consumption markets, and strategically locates labour-intensive production processes in countries with low labour costs.

The following graphic sets forth an overview of STG's production footprint:



STG has initiated and completed major investments in its production facilities during the periods under review, including the completion of a new production facility in Holstebro, Denmark, for expanded tobacco, investments in the machine-made cigar production facilities in Belgium, the Netherlands, Denmark and Pandaan in Indonesia in connection with the 6-2-4 Project and investments in modifying and updating packaging machines due to TPD packaging regulations. Due to these investments, STG believes that it has sufficient production capacity to execute its current strategy.

Handmade Cigars

STG has handmade cigar production facilities in the three most significant tobacco growing countries supplying the U.S. handmade cigar market, the Dominican Republic, Honduras and Nicaragua. STG's presence and production in these countries provides access to a wide range of tobaccos and a vast blending capacity, which enables STG to produce cigars with consistent quality and taste, and also supports product innovation and brand development. In addition, STG produces cigar boxes at its production facilities in the Dominican Republic and Honduras.

The following graphic sets forth an overview of STG's handmade cigar production footprint:

Dominican Republic

STG processes tobacco for and produces handmade cigars, as well as machine-made cigars, at its production facility in Santiago de los Caballeros, Dominican Republic. At this facility, STG produces various brands of cigars, including premium and super premium cigars under the Macanudo, Partagas, Cohiba and El Credito brands. The production facility commenced operations in 1975 and occupies five buildings. The operations also include 2.7 million square metres of tobacco growing fields as well as tobacco barns, a tobacco warehouse and a horticultural centre. One farm is utilised by General Cigar for experimental tobacco, while the remaining fields and tobacco barns are leased to third-party tobacco growers. In addition, STG produces cigar boxes at the Santiago de los Caballeros production facility. The Santiago de los Caballeros production facility covers approximately 46,000 square metres and had 1,834 employees working in supply chain operations (*i.e.*, production, technical, purchasing and logistics functions) as at 30 September 2015.

Honduras

STG processes tobacco for and produces handmade cigars under brands such as Punch, Hoyo de Monterrey, Don Tomás and Excalibur at its production facility in Danli, Honduras. STG also has a tobacco warehouse located nearby in Flor de Copan, Honduras, for storing raw tobacco. In addition, STG produces cigar boxes at the Danli production facility. The Danli production facility was originally founded in 1964 and was acquired by Swedish Match in 2003. The facility became a part of STG in 2010 as part of the combination of STG and certain businesses of Swedish Match. The Danli production facility covers approximately 46,000 square metres, including a tobacco warehouse in Flor de Copan, Honduras, and had 1,187 employees working in supply chain operations as at 30 September 2015.

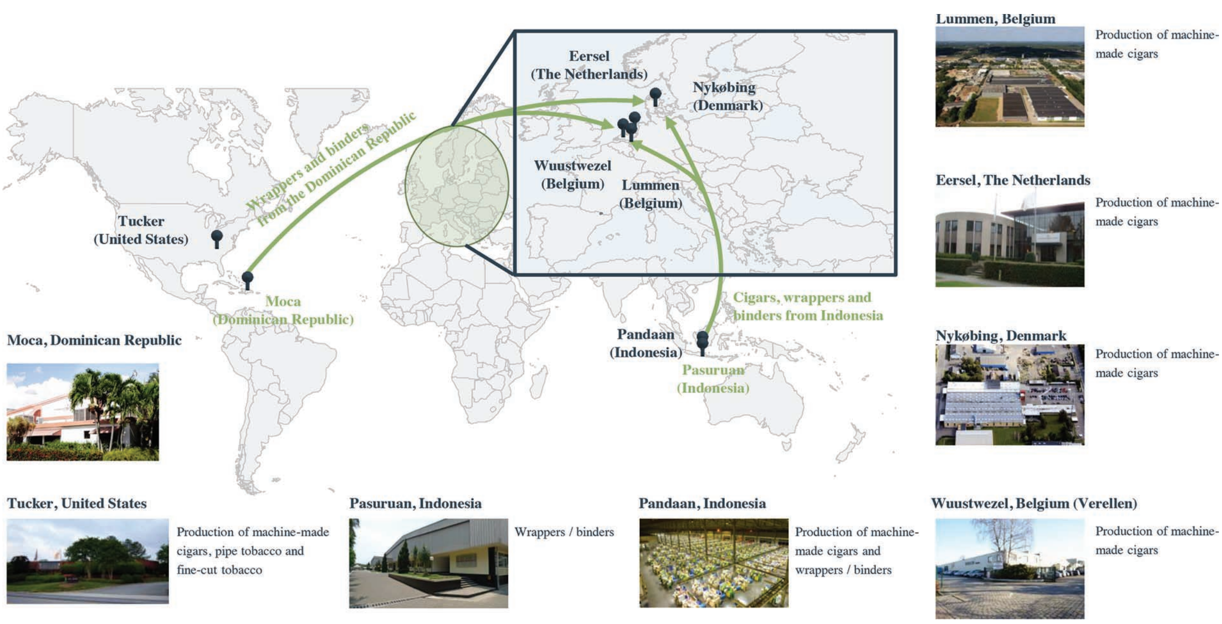
Nicaragua

STG produces handmade cigars for the global market mainly within the portfolio of CAO and Toraño brands at its production facility in Estelí, Nicaragua. The facility also includes a tobacco warehouse for storing raw tobacco. The Estelí production facility was founded in 1997, and it was acquired by STG in 2008. The Estelí production facility covers approximately 7,200 square metres and had 302 employees working in supply chain operations as at 30 September 2015.

Machine-made Cigars

The machine-made cigar production process is mostly automated and is carried out in several steps at STG's production facilities in the Dominican Republic, Europe, Indonesia and the United States. STG strategically locates many of the labour-intensive production processes, such as wrapper and binder production, in countries with low labour costs, while concentrating more automated production processes close to core consumption markets in order to reduce lead times and increase flexibility.

The following graphic sets forth an overview of STG's machine-made cigar production footprint:



Belgium

STG's production facility in Lummen, Belgium, is one of the largest machine-made cigar production facilities in Europe in terms of production capacity. The Lummen facility produces cigars for markets worldwide. The facility produces various brands of cigars, including Café Crème, Blues, Colts, Old Port, Mercator, La Paz and Captain Black. Construction of the Lummen production facility was completed in 2010. The Lummen production facility covers approximately 47,000 square metres and had 479 employees working in supply chain operations as at 30 September 2015.

STG produces cigars mainly for the Belgian and French markets at its production facility in Wuustwezel, Belgium. STG acquired the Wuustwezel production facility as part of the acquisition of Verellen in 2014. The land and buildings are leased from the previous owners of the factory. The Wuustwezel production facility covers approximately 6,900 square metres and had 69 employees working in supply chain operations as at 30 September 2015.

Denmark

STG produces cigars for all markets worldwide at its production facility in Nykøbing, Denmark. The brands produced in Nykøbing include Nobel Petit, Chambord No. 7 and Henri Wintermans Founder's Blend Small Cigars. The current Nykøbing production facility was completed in 1974 and was acquired by STG in 1991. The Nykøbing production facility covers approximately 11,000 square metres and had 148 employees working in supply chain operations as at 30 September 2015.

Dominican Republic

STG produces wrappers and binders for its machine-made cigar production facilities in Europe at its production facility in Moca, Dominican Republic. STG leases the land and buildings at the site. The Moca production facility was founded in 1989 and was acquired by STG in 1996 as part of the acquisition of Henri Wintermans Cigars. The Moca production facility covers approximately 7,300 square metres and had 394 employees working in supply chain operations as at 30 September 2015.

Indonesia

STG produces machine-made cigars, wrappers, binders and cigar boxes for its machine-made cigar production facilities in Europe at its production facility in Pandaan, Indonesia. The land for the Pandaan production facility is owned through time-limited land rights, the first parts of which expire in 2024, at which point STG can apply for an extension. STG owns the buildings at the site. The Pandaan production facility was founded in 1992. The Pandaan production facility covers approximately 17,000 square metres and had 1,139 employees working in supply chain operations as at 30 September 2015.

STG produces wrappers and binders for its machine-made cigar production facilities in Europe at its production facility in Pasuruan, Indonesia. The land for the Pasuruan production facility is owned through time-limited land rights, of which the first parts expire in 2024, at which point STG can apply for an extension. STG owns the buildings at the site. The Pasuruan production facility was founded in 1994. The Pasuruan production facility covers approximately 6,000 square metres and had 587 employees working in supply chain operations as at 30 September 2015.

The Netherlands

STG produces machine-made cigars for markets worldwide at its production facility in Eersel, the Netherlands. The brands produced at the Eersel production facility include Café Crème and Henri Wintermans Founder's Blend. Finishing and packing of handmade cigar brands for markets outside the United States is also managed by business services located in Eersel, while packing and shipping takes place in other STG facilities located close to the Eersel production facility. The machine-made cigars segment's supply chain management, customer service function and various other central functions are located at the Eersel production facility. Most of STG's European machine-made cigars are dispatched from Eersel. The Eersel production facility was founded in 1934, and it was acquired by STG in 1996 as part of the acquisition of Henri Wintermans Cigars. The Eersel production facility covers approximately 25,000 square metres and had 266 employees working in supply chain operations as at 30 September 2015.

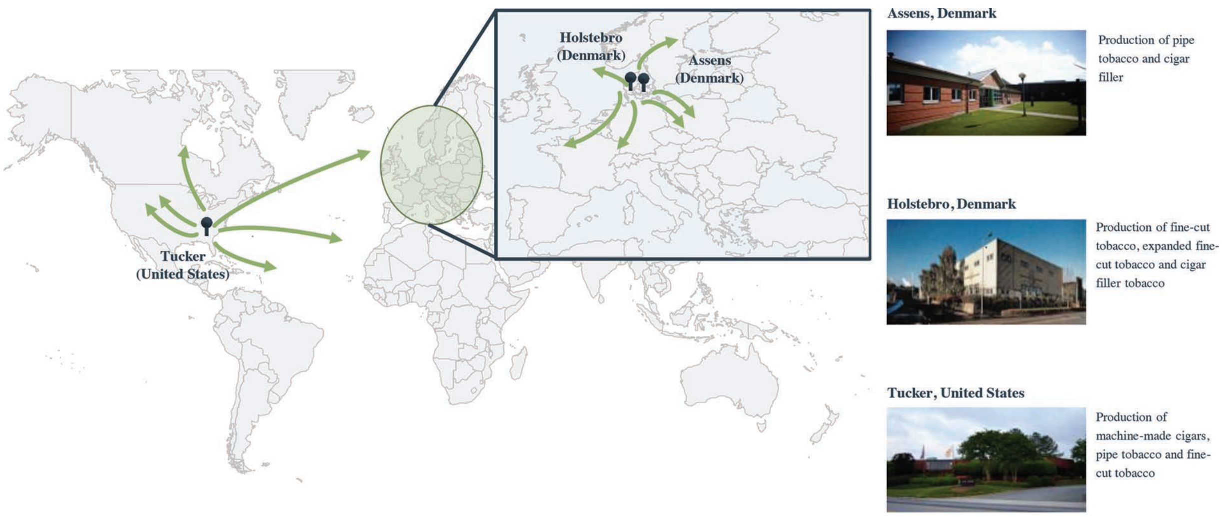
United States

STG produces and distributes a variety of machine-made cigars for the U.S. market as well as certain export markets at its production facility in Tucker, United States. The cigar brands produced at the Tucker production facility include Winchester and Captain Black. The Tucker production facility was founded in

1983, and acquired by STG in 2011. The Tucker production facility covers approximately 12,000 square metres and had 66 employees working in supply chain operations as at 30 September 2015.

Pipe Tobacco and Fine-cut Tobacco

The following graphic sets forth an overview of STG's pipe tobacco and fine-cut tobacco production footprint:



Denmark

STG's production facility in Assens, Denmark, is one of the world's largest traditional pipe tobacco production facilities based on 2014 production volumes. At the Assens production facility, STG produces mainly pipe tobacco, which is exported to approximately 70 countries worldwide. The Assens production facility was founded in 1990 and STG acquired 50 percent of the operations in the same year. STG acquired full ownership of the facility in 2008. The Assens production facility was expanded in 2014. The Assens production facility covers approximately 19,000 square metres and had 112 employees working in supply chain operations as at 30 September 2015.

STG has two production facilities in Holstebro, Denmark. STG produces fine-cut tobacco for the global market and nasal snuff for a few select markets in Northern Europe at one of the facilities. The production hall that is currently utilised was built in 1947 and has undergone multiple extensions. STG produces expanded tobacco at the other production facility in Holstebro, which was opened in September 2014. With the addition of the new production facility for expanded tobacco, STG aims to secure the supply and quality of expanded tobacco utilised in its fine-cut tobacco and machine-made cigar production operations while reducing its raw material costs. In addition, STG gained the ability to supply expanded tobacco to third parties. The Holstebro production facilities cover approximately 26,000 square metres and had 98 employees working in supply chain operations as at 30 September 2015.

United States

STG produces and distributes a variety of pipe tobacco and fine-cut tobacco for the U.S. market as well as export markets at its production facility in Tucker, United States. The Tucker production facility also produces machine-made cigars, as discussed under "*—Machine-made Cigars—United States*" above. The pipe tobacco and fine-cut tobacco brands produced at the Tucker production facility include Captain Black and Bugler. The Tucker production facility was founded in 1983, and acquired by STG in 2011. The Tucker production facility covers 11,890 square metres and had 66 employees working in supply chain operations as at 30 September 2015.

Other

STG produces cigars, pipe tobacco and fine-cut tobacco products under contract manufacturing agreements. Pursuant to certain of the agreements, STG also distributes the products that it is contracted to produce.

Raw Materials

Cigars

Procurement of tobacco leaf for cigars is complex as specific high quality products require specific tobacco leaf from a certain origin and part of the tobacco plant. STG has limited tobacco growing operations and purchases much of its tobacco from third-party growers. Most tobacco procured for cigars has been fermented. Tobacco leaf prices can vary between suppliers depending on the harvest as well as changes in demand for a particular tobacco or tobacco from a particular region. The market is illiquid with a yearly procurement cycle for many sorts of tobacco. In order to minimise its exposure to bad crops and to maintain a consistent quality and taste for its cigars, STG carries cigar tobacco leaf inventory levels sufficient to fulfil its needs for a minimum of 18 to 24 months. STG's tobacco leaf inventories have historically been more than its needs for 18 to 24 months and, therefore, STG has an ongoing initiative to reduce inventories and, therefore, working capital. See "*Operating and Financial Review—Principal Factors Affecting STG's Results of Operations—Improving Efficiency—Efficiency Measures and Working Capital Initiatives*".

As is customary in the tobacco industry, there are generally no written supply agreements with tobacco suppliers, but the supply is based on mutual long-term relationships and mutual dependency. Each year, STG provides its suppliers with a non-binding indication of the expected demand for the following year indicating the quality group and price level.

STG owns 20 percent of Caribbean Cigar, one of the largest tobacco growers in Central America and a producer of handmade cigars with operations in Honduras and Nicaragua. Caribbean Cigar is one of the larger suppliers of tobacco for STG's handmade cigar production, and it also supplies tobacco for STG's machine-made cigar production. In addition, STG has long-standing relationships with tobacco wholesalers globally and it sources tobacco from three continents and from a wide range of suppliers in different quality categories.

STG generally purchases tobacco specifically to be utilised as either wrapper, binder or filler. STG inspects the tobacco throughout the growing process and inspects each bale of tobacco upon arrival at STG's facility. For wrapper and binder, a sample of the tobacco is inspected for colour, thickness, texture, elasticity, smell and taste. For filler, the tobacco is inspected for texture, smell and burning properties.

Handmade Cigars

STG sources tobacco leaf from various locations and farms in the United States, the Dominican Republic, Honduras, Nicaragua, Mexico, Ecuador, Brazil and Africa, among other locations, depending on the taste and profile of a specific brand. General Cigar also cultivates proprietary tobacco that it utilises exclusively in its blends and has research and development operations that develop new varieties of tobacco and revitalise vintage tobacco seeds. STG's broad sourcing base allows it to react to market trends relating to specific origins. Due to its broad handmade cigar product portfolio, STG deals with both large and small tobacco suppliers, typically in yearly purchasing cycles. STG actively works with its suppliers and focuses on maintaining a sufficient number of suppliers to ensure a constant supply of the appropriate quality tobacco.

Machine-made Cigars

For machine-made cigars, STG purchases tobacco produced in Indonesia, Ecuador, Brazil, Honduras, Nicaragua, the United States, Germany, Italy, the Dominican Republic, the Philippines, Colombia, Africa and elsewhere. STG purchases tobacco from approximately 10 to 12 suppliers located in various geographies. However, certain of these suppliers are linked to each other through their affiliation with large tobacco dealers. STG's suppliers include tobacco wholesalers, which purchase tobacco from individual farmers, and large tobacco-growing enterprises.

Pipe Tobacco and Fine-cut Tobacco

STG purchases tobacco for its pipe tobacco and fine-cut tobacco products from 18 countries, with Brazil, Malawi, Tanzania, Argentina and the Philippines being the most significant. STG purchases all of its tobacco for pipe tobacco and fine-cut tobacco products from tobacco dealers, with three large multinational tobacco dealers accounting for 71 percent of STG's purchases by volume in 2014.

The procurement market for pipe tobacco and fine-cut tobacco is more liquid than the market for cigar tobacco. Tobacco leaf prices vary depending on harvest as well as overall demand and supply. Procurement is flexible due to the lack of long-term agreements and the flexibility also reduces the need to maintain a large inventory as compared to cigars.

Non-tobacco Materials

The most significant non-tobacco materials for STG are packaging and non-tobacco ingredients. For the handmade cigars segment, non-tobacco materials include primarily wood for boxes and other packaging materials. For the machine-made cigars segment, non-tobacco materials include primarily tins, folding cartons and shoulder boxes. Non-tobacco materials for pipe tobacco and fine-cut tobacco segments include tins, pouches, composite cans and outers/labels.

Most of STG's non-tobacco materials supply agreements are short term. STG sources non-tobacco materials for the handmade cigars segment primarily from suppliers in the United States and the Dominican Republic. For the machine-made cigars segment, STG sources non-tobacco materials primarily from Europe with small quantities being sourced from China. STG sources non-tobacco materials for the pipe tobacco and fine-cut tobacco segments primarily from Europe and the United States with a limited number of special tins sourced from China.

Other

Raw materials for contract manufactured products are either procured by STG or provided by the contracting party. STG procures tobacco-related accessories, lighters, matches and fire lighting products from third parties.

Intellectual Property

STG owns a large portfolio of trademarks and copyrights, know-how and confidential information relating to its business. It owns the material trademarks relating to all of the brands it produces (excluding contract manufacturing) and is, therefore, dependent on the maintenance and protection of its trademarks and all related rights.

Brands are among the most important assets in the tobacco industry because a strong global brand provides a significant competitive advantage to the owner. STG generally registers and protects its brands in the markets in which they are sold. As trademarks can potentially be infinite in duration, they are of key value to the Group and their protection and reputation are essential to STG's business. STG owns the material trademarks utilised by it in its business in all countries where they are utilised. STG holds approximately 4,200 trademark registrations covering, among other things, its more than 200 active brands. For more information on STG's key brands, see "*—Product and Brand Overview*" above. STG derives income reported under the other segment from licensing certain of its brands to third parties in certain markets.

STG also has proprietary secrets, technology, know-how, processes and other intellectual property rights that are not registered but are protected by appropriate confidentiality measures. STG considers the blends of tobacco and the flavour formulas utilised to make its brands to be trade secrets.

In addition, STG has registered approximately 750 internet domain names, including "st-group.com", "cigarsinternational.com", "cigar.com", "cigarbid.com" and "pipesandcigars.com".

Acquisitions

STG has significant experience in identifying, executing and integrating acquisitions. STG was established in 2010 through the combination of the cigar, pipe tobacco, fine-cut tobacco and tobacco-related accessories businesses of the former Skandinavisk Tobakskompagni A/S and the cigar, pipe tobacco and tobacco-related accessories businesses of Swedish Match (excluding Swedish Match's U.S. mass-market cigar business and certain other assets). Following the combination, STG was engaged until 2014 in substantial post-combination integration of its production operations and sales and distribution networks, including the 6-2-4 Project. Since 2010, STG has acquired Lane in the United States in 2011, Pipes and Cigars in 2013, and Verellen in Belgium and the Toraño brand in 2014, and has integrated these acquisitions into its business. Historically, STG has funded acquisitions through internal and external financing.

The cigar markets in which STG operates are fragmented and are generally characterised by a large number of smaller, family-owned producers, presenting STG with opportunities to acquire businesses as well as assets, such as brands. As a result of STG's leading market positions, reputation, scale and strong track-record in acquisition integration, STG believes that it is a well-suited buyer for other cigar producers contemplating selling their businesses or assets.

The primary objectives for STG when considering acquisitions are to strengthen its brand portfolio, increase its sales in new or existing markets, obtain know-how or achieve sufficient scale of operations in new markets to establish sales companies. For example, STG acquired Lane and Verellen to strengthen its positions in their respective markets. The acquisition of Verellen was complimentary to STG's established presence in Belgium and France, where Verellen also had strong market shares. This enabled STG to benefit from synergies in the sales and distribution network, as well as other areas.

STG believes that the key to a successful acquisition is a rapid and controlled integration of the acquired business or asset into its organisation. Following an acquisition, STG aims to increase the value of acquired businesses by extracting synergies within production operations and sales and distribution networks. STG also aims to leverage its scale, brand portfolio and infrastructure to grow the acquired business or asset. Through the integration of acquired businesses or assets into its operations, STG seeks to utilise the competitive advantages inherent in its business and the acquired business or asset. As part of the integration process, STG explores all possibilities to integrate sales and marketing networks and to integrate or rationalise production operations. Integration procedures, such as reducing headcount or closing production facilities, can involve significant nonrecurring costs.

Insurance

STG's major insurance programmes are established as global master policies providing insurance coverage for all STG entities and are managed centrally. STG's global master programmes include property insurance, liability insurance, marine cargo insurance and directors' and officers' liability insurance. STG also has a global coverage for employment practices liability and local insurance policies where required for compliance with applicable laws and regulations and/or is cost efficient. The global master policies and the local policies are linked in order to provide a comprehensive and flexible insurance programme for STG. Claims regarding the health consequences associated with the use of tobacco products are not insurable. STG believes that its insurance coverage is adequate and conforms to market practice.

Employees

As at the date of this Offering Circular, STG has 7,964 employees. The following table sets forth a breakdown of STG's employees by geographic region as at the dates indicated:

	As at 28 January 2016	As at 31 December 2014	2013	2012
Americas	4,341	4,475	4,764	4,873
Europe	1,907	2,016	1,983	1,992
Rest of world	1,716	1,878	2,435	2,558
Total	7,964	8,369	9,182	9,423

STG believes that its relationships with its employees and the labour unions are good. A significant portion of STG's employees in Europe and Indonesia are covered by collective bargaining agreements. Applicable legislation in certain countries in which STG operates restricts keeping records of union participation. STG has also established works councils where it is required or customary to do so.

STG believes that its employees give it a competitive advantage and enable it to deliver on its strategy. STG aims to nurture talent and curiosity to take advantage of the diversity and different skill-sets and perspectives of its employees. STG invests in a systematic approach to leadership, people reviews and succession planning to ensure the quality and consistency of leadership across its business. The purpose of STG's leadership initiatives is to maximise the potential of each individual leader and its leaders as a team.

According to a Group-wide employee engagement survey performed in 2014, STG outperforms or is in line with the results of other companies in the "fast-moving consumer goods" and manufacturing industries in respect of most parameters of the employees' assessment of their workplace. With respect to engagement, empowerment and accountability, and efficiency, the survey places STG at the level of high-performing benchmark companies. STG considers its employees' high engagement, willingness to put in extra effort to contribute to STG's success and positive view on the general morale in STG, as well as STG's ethical standards and level of efficiency important assets in its continued development.

STG promotes safe and healthy working conditions and has implemented an environment, health and safety ("**EHS**") programme that applies to all its production sites. The EHS programme is overseen by the supply chain management and headed by a central EHS manager supported by local site-based managers. While child labour is a widespread problem in the tobacco growing industry, STG does not employ children itself and it participates in the fight against child labour in tobacco growing countries. STG is in the process of updating its systems and processes to identify, prevent, mitigate and account for any child labour in its supply chain.

Information Technology

STG has established an IT governance board consisting of members of the Executive Management and IT management to determine the direction and prioritisation of activities in order to facilitate implementation of STG's IT strategy. The major objectives of STG's IT strategy are to support STG's business through the harmonisation of business processes and to standardise the IT infrastructure, applications and IT support across its businesses. All businesses except Cigars International are integrated in STG's standardised IT infrastructure. Cigars International has a separate IT infrastructure as it processes sensitive customer data.

To support the harmonisation of business processes, STG has recently implemented an ERP system in the machine-made cigars, pipe tobacco and fine-cut tobacco supply chain functions as well as for a selected number of sales companies. The ERP system is currently being implemented in additional sales companies. STG plans to implement the Group-wide ERP system for General Cigar and the handmade cigars supply chain function in the future. Cigars International is currently implementing the same ERP system covering their online retail platform, retail stores and inventory management function.

To support decision making, analytics and key performance indicator (KPI) tracking, STG has a business intelligence solution available on STG's global internal network encompassing the companies already included in the Group-wide ERP system.

STG has established a financial reporting and consolidation system that covers all of its operations. Through its financial reporting system, STG receives monthly reporting from all companies in the Group and thereby tracks all financial information. The financial information, such as net sales, is reported on dimensions, including segments and geographic markets. In addition, STG utilises a standardised and harmonised sales forecasting tool. The monthly updated sales forecast is utilised in the ERP system as a basis for procurement and production planning in the machine-made cigars, pipe tobacco and fine-cut tobacco segments.

STG also has harmonised business processes within customer relationship management. The initial implementation of a new CRM system has been completed at a limited number of STG's businesses in the EU, and STG plans to implement the new CRM system in the rest of the sales entities by the end of 2016.

Material Contracts

Except as disclosed below, there are no contracts, other than contracts entered into in the ordinary course of business, to which the Company or any member of the Group is a party that: (i) are, or may be, material to it and that have been entered into in the two years immediately preceding the date of this Offering Circular; or (ii) contain any obligations or entitlements that are, or may be, material to STG as of the date of this Offering Circular.

Financing Agreements

For a description of certain of STG's financing arrangements, see "*Operating and Financial Review—Liquidity and Capital Resources—Financial Indebtedness—Facilities Agreement*".

Caribbean Cigar Shareholders' Agreement

On 16 March 2010, San Cristobal Holdings, S.A. ("**San Cristobal**"), a company owned by Nestor Plasencia, and Intermatch Sweden AB ("**Intermatch**") entered into a shareholders' agreement (the "**Caribbean Cigar Shareholders' Agreement**") regarding their rights and obligations as holders of shares in Caribbean Cigar, a company established under the laws of the Republic of Panama. In 2011, Intermatch transferred its shares in Caribbean Cigar to Scandinavian Tobacco Group Eersel BV ("**STG Eersel**"). San Cristobal and STG Eersel hold 80 percent and 20 percent, respectively, of the shares in Caribbean Cigar.

The Caribbean Cigar Shareholders' Agreement governs the parties' exercise of their votes in Caribbean Cigar in respect of, among other things, the composition of the board of directors and allocation of Caribbean Cigar's revenue. The Caribbean Cigar Shareholders' Agreement includes a right of first refusal clause, and drag-along and tag-along rights. Furthermore, according to the Caribbean Cigar Shareholders' Agreement, San Cristobal may, at its discretion, require STG Eersel to sell all its shares in Caribbean Cigar to San Cristobal in the event of a change of control through an acquisition by a merger, consolidation or sale of (i) more than 50 percent of the shares in the Company, or (ii) a controlling interest, or substantially all of the assets, in such affiliate or subsidiary of the Company that owns, operates or is otherwise involved in any portion of STG's handmade or machine-made cigar business in North America. The price for any such sale is specified in the Caribbean Cigar Shareholders' Agreement. The Offering will not trigger this change of control clause. In addition, pursuant to the Caribbean Cigar Shareholders' Agreement, STG Eersel (and its affiliates) is subject to a non-solicitation clause as long as it holds shares in Caribbean Cigar, and for a period of two years after it ceases to hold shares in Caribbean Cigar (subject to certain exceptions).

Legal Proceedings

Except as disclosed below, STG has no pending governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Company is aware) which may have, or have had, in the past 12 months, a significant effect on the financial position or profitability of the Company or STG.

Legal Proceedings in the United States

In the United States, Cubatabaco has sought to cancel General Cigar's registration for the Cohiba trademark. General Cigar received its first registration of the Cohiba trademark in the United States in 1981, and received a second registration in 1992. The Cohiba litigation has been ongoing since 1997. In 2014, sales of Cohiba brand cigars accounted for 3.4 percent of STG's total handmade cigar net sales in the United States and 0.8 percent of STG's total net sales.

In January 1997, Cubatabaco filed an application to register the Cohiba trademark in the United States and commenced a proceeding in the U.S. Trademark Trial and Appeal Board (the "**TTAB**") to cancel General Cigar's U.S. trademark registrations for Cohiba. The TTAB proceeding was suspended in January 1998, on motion by Cubatabaco, following Cubatabaco's commencement of an action against General Cigar in U.S. federal court in September 1997. In the federal court action, Cubatabaco sought cancellation of the General Cigar registrations among other relief. Cubatabaco was successful at the trial court level, but the Second Circuit Court of Appeals concluded in 2005 that General Cigar was the rightful owner of the Cohiba trademark in the United States and found that Cubatabaco was precluded by the U.S. embargo against Cuba from acquiring the right to challenge General Cigar's ownership of the Cohiba trademark in the United States. Cubatabaco appealed the matter to the U.S. Supreme Court, which denied review of the case.

Based on Cubatabaco's claim that a change in the law had occurred since the 2005 decision of the Second Circuit Court of Appeals, the case was reopened in 2008. On 15 January 2010, that court entered a judgement that sustained Cubatabaco's claim and prohibited General Cigar from using the Cohiba trademark in connection with any cigar product. On 14 July 2010, the Second Circuit Court of Appeals reversed the district court's judgement and vacated the injunction on the grounds that the district court had abused its discretion by entering that judgement.

On 21 December 2010, Cubatabaco filed a motion in the TTAB to resume the cancellation proceeding, and the proceedings were reopened in 2011. In 2013, the TTAB granted General Cigar's motion for summary judgement, and dismissed with prejudice Cubatabaco's petition to cancel General Cigar's Cohiba registrations on the grounds that Cubatabaco lacked any property interest in the Cohiba trademark as the Second Circuit Court of Appeals had held that Cubatabaco may not sell Cohiba cigars in the United States or acquire any interest in the Cohiba trademark and, therefore, Cubatabaco had no standing to challenge General Cigar's registrations of the Cohiba trademark.

Cubatabaco appealed the TTAB's dismissal to the Court of Appeals for the Federal Circuit. The Court of Appeals reversed the dismissal of Cubatabaco's petition and concluded that the Second Circuit Court of Appeals ruling had no effect on Cubatabaco's cancellation petition in the TTAB. General Cigar petitioned the U.S. Supreme Court, which denied the petition on 23 February 2015. The case will now move back to the TTAB, and STG expects the proceedings to resume within the next 12 months. STG believes that Cubatabaco's claim is without merit and intends to continue to vigorously defend its trademark rights to the Cohiba trademark in the United States.

In connection with the formation of STG in 2010, Swedish Match undertook, subject to certain limitations, to indemnify the Company from certain losses that may be incurred by the Company resulting from or arising out of any dispute with Cubatabaco (or any related person or company or any successor-in-interest to whom Cubatabaco has vested its rights) related to the rights to and use of the Cohiba trademark in the United States.

The indemnity remains in force until 1 October 2020, whereupon it will automatically terminate.

Governmental Proceedings in the United States (OFAC)

In October – November 2015, STG became aware that three brands of cigars exported to the United States contained nominal amounts of Cuban-origin tobacco, which was used as a component in the filler of the cigars, in potential violation of the U.S. Cuban Assets Control Regulations, 31 C.F.R. Part 515. STG and its U.S. counsel's internal compliance review into this matter has confirmed that over the past five years there have been 18 shipments to the United States of these cigars, which were legally manufactured in Europe by STG Eersel B.V. and STG Nykøbing ApS. No STG U.S. subsidiaries or affiliates, or other U.S. persons working for STG, have been involved in these transactions.

When STG learned that the export to the United States of these products raised compliance concerns under U.S. sanctions against Cuba, STG promptly took corrective action and immediately ceased all exports to or through the United States of the products in question. STG has also replaced the Cuban-origin tobacco used as a filler component in the specific products intended for the U.S. market to ensure that shipment of these products to the United States in the future do not raise compliance issues. In early November 2015, STG's U.S. counsel (acting on behalf of STG) submitted an initial notice of voluntary self-disclosure to the U.S. Treasury Department's Office of Foreign Assets Control ("**OFAC**") in respect of these exports. On 3 December 2015, STG submitted a final report to OFAC. A license application has been submitted to OFAC seeking authorisation to dispose of a number of these Cuban content cigars that are currently being held in a bonded warehouse in the United States. Based on discussions with its U.S. counsel on the potential exposure resulting from the identified exports, STG anticipates that OFAC may conclude that the disclosed exports resulted in violations of U.S. economic sanctions laws and warrant the imposition of a warning letter or civil penalties.

STG does not expect the matters discovered to lead to the imposition of any material fines or other sanctions against STG. STG may be liable to pay damages to customers having suffered losses on account of these incidents.

In addition to the investigation into the above-mentioned exports, STG initiated an internal investigation to identify similar potential violations, if any, of U.S. sanctions against Cuba. These investigations did not reveal exports of cigars containing Cuban tobacco to the United States other than the ones noted above. In addition, STG has taken steps to strengthen its trade compliance and build an effective trade compliance program. As part of these efforts, STG has adopted a trade compliance procedure to ensure compliance with applicable trade controls and sanctions, including U.S. sanctions related to Cuba. The procedure will be accompanied by training and education and STG will also conduct audits to ensure and confirm that the procedure is complied with.

Legal Proceedings in the Dominican Republic

STG produces, labels and packages Cohiba branded cigars in the Dominican Republic solely for export to the United States. On 14 February 2007, Cubatabaco, which owns the rights to the Cohiba trademark in the Dominican Republic, filed a lawsuit against General Cigar Dominicana in the Dominican Republic alleging that General Cigar Dominicana violated Dominican intellectual property law by unlawfully using the Cohiba trademark in the Dominican Republic. In April 2010, a Dominican Republic court ruled in favour of General Cigar Dominicana on procedural grounds; however, this ruling was overturned by the Supreme Court of the Dominican Republic in 2013, and Cubatabaco's request for a new trial was granted. STG believes that Cubatabaco's claim is without merit and intends to continue to vigorously defend its interests.

Since 1999, STG and Cubatabaco have also had a dispute in the Dominican Republic regarding which company has priority in its trademark application for the La Gloria Cubana brand. Both STG and Cubatabaco have submitted applications regarding the trademark to the Office of Patents and Trademarks, and both applications are pending. In 2015, the Minister of Commerce and Industry issued a directive ordering the Office of Patents and Trademarks to finally issue the trademark in favour of STG; however, the Office of Patents and Trademarks has not issued the trademark as at the date of this Offering Circular. STG believes that Cubatabaco's claims with respect to the La Gloria Cubana trademark is without merit and intends to continue to vigorously defend its interests.

REGULATION

Overview

For decades, tobacco products have been subject to regulatory measures from governments and health officials due to the health risks associated with smoking. As at the date of this Offering Circular, there are substantial restrictions on the product design, development, content, production, labelling, packaging, distribution, promotion, marketing, advertising, display, sale and consumption of tobacco products. The regulatory environment continues to become more restrictive for the tobacco industry and STG expects further tobacco regulation in most of the markets in which it operates.

The vast majority of the markets in which STG operates have implemented regulation on tobacco. The restrictions often vary under each country's national law, reflecting each country's specific legal, social and cultural circumstances, but there are also many common traits in the national regulation because of international bodies such as the WHO and the European Union.

WHO's Framework Convention on Tobacco Control (FCTC)

The FCTC is an instrument for the regulation of tobacco products on a global level that has been ratified by 180 countries as at the date of this Offering Circular. The EU has signed the FCTC while the United States is not a signatory to the treaty. The treaty has been supplemented by a protocol and guidelines, some of which are currently under development. While the guidelines are not legally binding, they provide a framework of recommendations for the implementation of the FCTC.

The FCTC was adopted on 21 May 2003 with the intent to reduce the demand for and supply of tobacco. The FCTC came into force on 27 February 2005, 90 days after it had been ratified by 40 signatory nations. The parties to the FCTC meet at the Conference of the Parties, the intergovernmental governing body of the FCTC to discuss the implementation of the convention and adopt guidelines, among other things. A seventh meeting is to be held in India in January 2017.

The purpose of the FCTC is to protect future generations from the consequences of tobacco consumption and exposure to tobacco smoke. The provisions of the FCTC include the following:

- implementation of price and tax measures to reduce the demand for tobacco, without prejudice to the sovereign right of the parties to determine and establish their taxation policies;
- implementation of effective measures, in areas of existing national jurisdiction as determined by national law, protecting persons from exposure to tobacco smoke in indoor workplaces, public transport and public spaces;
- implementation of effective measures, where approved by competent national authorities, on testing and measuring the content and emissions of tobacco products, as well as regulations on the contents and emissions themselves;
- implementation of effective measures, in accordance with national laws, requiring manufacturers and importers of tobacco products to disclose to governmental authorities information about the contents and emissions of tobacco products;
- implementation of packaging and labelling restrictions and requirements, in accordance with national laws, including required health warnings;
- implementation of effective measures on education, communication, training and public awareness of tobacco control issues;
- implementation of a comprehensive ban or restrictions on advertising, promotion and sponsorship, in accordance with respective constitution or constitutional principles;
- prevention of illicit trade, including through labelling restrictions requiring indication of the country of sale, in accordance with national laws and relevant bilateral or multilateral agreements;
- prohibition of sale of tobacco products to minors; and
- promotion of economically viable alternatives for tobacco workers, growers and individual sellers as appropriate.

The key guidelines of the FCTC that have been adopted include:

- Guidelines concerning Article 5, Paragraph 3 "*Protection of public health policies with respect to tobacco control from commercial and other vested interests of the tobacco industry*";
- Guidelines concerning Article 8 "*Protection from exposure to tobacco smoke*";
- Guidelines concerning Article 11 "*Packaging and labelling of tobacco products*" and Article 13 "*Tobacco advertising, promotion and sponsorship*";
- Guidelines concerning Article 12 "*Education, communication, training and public awareness*" and Article 14 "*Demand reduction measures concerning tobacco dependence and cessation*"; and
- Partial guidelines concerning Article 9 "*Regulation of the contents of tobacco products*" and Article 10 "*Regulation of tobacco product disclosures*".

In November 2012, a protocol on Article 15 "*Illicit trade in tobacco products*" was adopted at the fifth session of the Conference of the Parties, and the protocol is currently open for ratification, acceptance, approval or accession by the parties to the FCTC, and each party to the protocol must transpose the protocol into national regulation. The purpose of the protocol is to eliminate all forms of illicit trade in tobacco products and parties to the protocol are to, as a general obligation, adopt and implement effective measures to that effect. The requirements set forth in the protocol include the following:

- a license or equivalent approval or control systems for tobacco products and manufacturing equipment from a competent authority;
- due diligence and record keeping measures for all natural and legal persons engaged in the supply chain of tobacco, tobacco products and manufacturing equipment to ensure that the quantities supplied are commensurate with demand for such products;
- tracking and tracing measures on tobacco products; and
- security and preventative measures, measures on sale by internet, telecommunication or any other evolving technology, and measures on free zones and duty free sales.

EU Tobacco Products Directive (TPD)

In May 2014, the TPD, which regulates the manufacture, presentation and sale of tobacco products in the EU, was published. The TPD includes new and more restrictive measures on how tobacco products can be produced, presented and sold, and aims to approximate the regulation of tobacco products of the EU member states. The TPD replaces the previous tobacco products directive in place since 2001. The TPD must be transposed into the national law of each EU member state by May 2016 (and within the EEA, subject to incorporation by each member state) and in many member states this process is expected to be completed close to the deadline. The final form of member states' national legislation will be unknown until it is adopted. Certain implementing acts from the EU Commission will also need to be adopted/ published for the industry to know the full requirements pertaining to the TPD. Therefore, and because the TPD also prescribes that all products produced after 20 May 2016 must comply with the rules of the TPD, it is challenging for industry participants to prepare for the implementation of the TPD.

The TPD contains a number of measures, some of which are new and some of which expand on the provisions of the current EU tobacco products directive. The regulated matters include:

- maximum emission levels for cigarettes in respect of tar, nicotine and carbon monoxide, and the standardised measurement methods for such levels;
- submission by manufacturers and importers of tobacco products of ingredients, including relevant toxicological data on ingredients, and quantities thereof, as well as emission levels for cigarettes only. The reporting must also include submission of any internal and external studies on market and consumer research as well as executive summaries of any market surveys they carry out when launching new products. Manufacturers and importers shall also report their sales volumes per brand and type and member state on a yearly basis;
- enhanced reporting obligations in relation to at least 15 additives contained in cigarettes and fine-cut tobacco, which are included in a priority list (to be adopted and updated by the EU Commission in implementing acts). The manufacturers and importers of cigarettes and fine-cut tobacco containing an additive included on the list must carry out comprehensive studies with respect to each additive, including whether it contributes to the toxicity or addictiveness of the tobacco products to a significant

or measurable degree, it results in a characterising flavour, it facilitates inhalation or increases the carcinogenic or mutagenic effects or toxicity for reproduction (CMR) of the products;

- a ban on tobacco products with a "characterising flavour". Products other than cigarettes and fine-cut tobacco are exempt from this provision. For tobacco products with a characterising flavour whose sales volumes represent 3 percent or more in a particular product category, the ban will apply from 20 May 2020. The EU Commission will adopt an implementing act laying down uniform rules for the procedures for determining whether a tobacco product has a characterising flavour;
- increased number and size of health warnings on tobacco product packaging compared to the current rules and detailed rules on the placement of health warnings. Two of the required four health warnings must be "combined health warnings" (*i.e.*, warnings with a text and a corresponding colour photograph) and must cover 65 percent of the front and the back surface of the pack. The combined health warnings will rotate each year. Health warnings must be irremovably printed or, in the case of products other than cigarettes and roll-your-own fine-cut tobacco in pouches, affixed by means of irremovable stickers. Health warnings must be on the official language of the member state where the product is placed on the market. Member states may exempt smoking tobacco products other than cigarettes, fine-cut tobacco and water pipe tobacco from the obligation to carry combined health warnings and one of the additional warnings as consumption of such products is more limited and consumers are generally older. Specific rules apply to health warnings on smokeless tobacco;
- a ban on tobacco product labels including any element that promotes or encourages its consumption by creating an erroneous impression about its characteristics or health effects. In addition, labels may not include information about the nicotine, tar or carbon monoxide content of the product. There may be no suggestion that a particular product has natural, organic or certain other properties, and there may be no reference to taste or smell, additives or the absence of additives. Tobacco products may not include any element or feature that resembles a food or cosmetic product or suggest that the product has improved biodegradability or other environmental advantages;
- certain shapes and minimum sizes are prescribed for packs of cigarettes and fine-cut tobacco;
- all unit packs of tobacco products must include a unique identifier, which must include access to, among others, detailed information on the manufacture of the product, the intended market of retail sale, the intended and actual shipment route from manufacturing to the first retail outlet, including all warehouses, identity of all purchasers, invoices and payment records, etc. All economic operators involved in the trade must record all packs in their possession and maintain records of all relevant transactions. Manufacturers of tobacco products must provide all economic operators involved the equipment necessary for such recordings. Manufacturers must conclude data storage contracts with an independent third party, for the purpose of hosting the data storage facility for all relevant data. The third party's activities shall be monitored by an external auditor, who is proposed and paid by the tobacco manufacturer and approved by the EU Commission. All unit packs of tobacco products must further carry a so-called security feature that facilitates the verification of the authenticity of tobacco products. The track-and-trace obligations and the requirement of a security feature will apply to cigarettes and fine-cut tobacco products from 20 May 2019 and to other tobacco products from 20 May 2024;
- tobacco for oral use must be prohibited (except in Sweden, which holds an exemption dating back from its accession to the EU, and Norway);
- member states may prohibit cross-border distance sales to consumers. In countries where it is not prohibited, cross-border distance sale of tobacco products to consumers requires registration of the retail outlet in the member state where the retail outlet is established and in the member state in which the consumers or potential consumers are located. All retail outlets engaged in cross-border trade must operate an age verification system; and
- regulation of electronic cigarettes and refill containers in many ways similar to what applies to tobacco products, including notification requirements for manufacturers and importers in respect of the products, reporting on ingredients in and emissions from these products, toxicological data and data on sales volumes, among others. A maximum level of nicotine of 20 milligrams per millilitre in nicotine-containing liquids will apply. Certain ingredients are banned and information on ingredients and health warnings must be provided on the product packaging and in a leaflet inside the pack. Advertising is prohibited in printed publications, internet, radio and television similar to what applies to tobacco products.

Member states may allow tobacco products produced or released for free circulation before 20 May 2016 and labelled in accordance with the current directive to be placed on the market until 20 May 2017 (*i.e.*, the member states may choose a shorter transitional period). Member states may allow a transitional period for electronic cigarettes and refill containers until November 2016.

The TPD and the national laws implementing the TPD will require STG to take a number of measures, most important of which for STG pertain to the packaging and labelling of tobacco products. STG will need to redesign all packaging to accommodate for the new health warnings and the placement of the warnings. The final designs of the packaging for STG's cigars and pipe tobacco products depend on the specific requirements in each member state, including whether the member state exempts cigars and pipe tobacco from the additional and larger health warnings as described above. The new labelling requirements and the rules on rotation of health warnings have, in practice, considerably restricted the ability for STG to continue to utilise stickers for the application of health warnings and, therefore, require packaging with pre-printed health warnings that are specific to each market. As a consequence of the costs associated with this, STG will change to new packaging formats for a number of products, which will require STG to purchase new machinery or modify its existing machinery. Further, as a consequence of the TPD, all product names, descriptors and texts referring to the taste or smell of the product are being revised to ensure compliance with the ban on any such references. Member states may enact legislation that is more stringent than the requirements set forth in the TPD, for example, require standardised or "plain" packaging, provided that such provisions are compatible with the Treaty on the Functioning of the European Union and WTO obligations. In connection with the implementation of the TPD, some member states will likely require plain packaging. In the United Kingdom and France, regulation requiring plain packaging for cigarettes and fine-cut tobacco products has been passed. In Ireland, a legislative process that will introduce plain packaging for all tobacco products is far. In Norway, a public consultation of a proposal to prescribe plain packaging for all tobacco products was concluded, but no concrete proposal based on the consultation had been presented as at the date of this Offering Circular. In Hungary, the first draft law for the implementation of the TPD was presented, including a proposal to require plain packaging for cigarettes and fine-cut tobacco. In Sweden, a report is being prepared by an official expert committee that, among other things, in relation to the implementation of the TPD, will consider requiring plain packaging.

In certain respects, the TPD regulates cigars and pipe tobacco differently than cigarettes and fine-cut tobacco. In particular, the EU member states may exempt cigars and pipe tobacco from certain labelling requirements as consumption of these products is more limited and consumers are generally older. Further, the ban on characterising flavours does not apply to cigars and pipe tobacco, which is important, in particular, in respect of pipe tobacco as pipe tobacco traditionally is heavily flavoured. The enhanced reporting obligations on additives only apply to cigarettes and fine-cut tobacco, which are also the only product categories subject to the TPD requirements regarding pack formats and minimum product content. In addition, the track-and-trace obligations and the requirement of a security feature will apply to cigarettes and fine-cut tobacco from 20 May 2019, and five years later for cigars and pipe tobacco products.

EU Tobacco Advertising Directive

The Tobacco Advertising Directive (2003/33/EC) includes an EU-wide ban on tobacco product advertising in printed media, on the internet and on radio. Tobacco product advertising on television is prohibited under separate rules in directive 89/552/EEC of 3 October 1989. Advertising is allowed in printed and other media that is intended exclusively for professionals in the tobacco trade and in publications which are printed and published in third countries, where those publications are not principally intended for the EU market. Sponsorship of events and activities involving or taking place in several member states or otherwise having a cross-border effect is also prohibited. Accordingly, sponsorship of events such as the Olympic Games and Formula One races are not allowed. The deadline to transpose the Tobacco Advertising Directive into national law was 31 July 2005.

Plain and Standardised Packaging

The FCTC recommends introducing plain packaging in its non-binding guidelines on advertising, promotion and sponsorship and on packaging and labelling. The Australian government's tobacco plain packaging legislation applicable to all types of tobacco products took effect in December 2012 as the first and so far only plain packaging legislation in the world. As discussed above, a number of EU countries are currently considering whether they should introduce plain packaging in connection with the implementation of the TPD, in some instances (*e.g.*, France) exempting tobacco products such as cigars and pipe tobacco from the packaging requirements. In Ireland, regulation on plain packaging also for cigars and pipe tobacco is expected to take effect in connection with its implementation of the TPD. New Zealand is also planning for regulation on plain packaging.

Product Display Bans at Retail Outlets

Product display restrictions and bans at the point of sale have been in place in certain countries for a number of years. For example, Iceland, Canada, Australia, New Zealand, Ireland, Thailand, Norway and Finland have legislation banning display of tobacco products to consumers. The bans take different forms, but generally restrict the storage of tobacco products in retail shops to under the counter, in special cabinets or behind curtains (*i.e.*, not visible to consumers). Ireland was the first EU member state to introduce a point-of-sale display ban, which became effective in July 2009, and England has banned displays in large retail outlets since April 2012. Northern Ireland implemented a display ban in large retail outlets in October 2012, with Wales and Scotland following in December 2012 and April 2013, respectively. The display ban took effect in smaller shops in England, Scotland, Wales and Northern Ireland in April 2015.

Pictorial Health Warnings

Many countries across the world require pictorial health warnings on tobacco products, including Canada, Brazil, Australia, New Zealand, Thailand, Singapore and EU countries, including France, Spain, Latvia, Denmark, Ireland and the United Kingdom. Following national transposition of the TPD, cigarette and fine-cut tobacco packs in all EU member states will be required to carry pictorial health warnings. Other tobacco products will also be required to carry pictorial health warnings, except in those EU member states that exempt products such as cigars and pipe tobacco from the pictorial health warnings as permitted by the TPD.

Smoking in Public Places

The vast majority of STG's most important markets have enacted restrictions on smoking in workplaces, restaurants and bars, and in public places, although the degree of these restrictions varies. Comprehensive smoking bans in hospitality venues are in place in nearly all European markets as well as New Zealand, Australia, Canada and the United States. Certain countries are also seeking to regulate public smoking in other areas, such as outdoor areas, including parks and beaches, on balconies and in cars carrying children. Certain U.S. and Australian states and Canadian provinces have already passed legislation to this effect.

Regulation of Flavoured Tobacco Products

Certain countries have implemented or are considering restrictions or bans on the use of certain flavours in tobacco products, often arguing that the flavours appeal to minors and make it easier to take up smoking. In the United States, the Tobacco Control Act bans characterising flavours other than tobacco and menthol in fine-cut tobacco products and cigarettes. In Canada, the manufacture and sale of cigarettes and blunt wrappers with flavour additives as well as, cigars weighing less than 6.0 grams or with a tipping paper and flavour additives have been banned since December 2015. For cigars with a wrapper in spiral form that weigh more than 1.4 grams, but not more than 6 grams (excluding those with tipping paper and little cigars), flavouring additives that impart a flavour that is generally attributed to wine, port, whisky or rum are permitted. In addition, menthol is not prohibited in any of the targeted cigar types. Several Canadian provinces are considering more extended or complete bans on flavours in tobacco products.

The majority of Australian states have banned flavours in cigarettes that give an "overtly" fruit-flavoured taste. The Australian government is currently considering further regulatory options, and the ban may be extended to cigars at some point in the future. The TPD bans the use of characterising flavours in fine-cut tobacco and cigarettes from May 2016 with a derogation for products with a characterising flavour whose EU-wide sales volumes represent 3 percent or more in a particular product category until May 2020. This derogation is meant to permit the sale of menthol flavoured cigarettes until 2020.

Regulation of Tobacco Products in the United States

Since 2009, the FDA has had the power to regulate the production, distribution and marketing of tobacco products pursuant to the Tobacco Control Act. The FDA has used this authority to regulate fine-cut tobacco, cigarettes and smokeless tobacco, and the regulation is applicable to STG's fine-cut tobacco operations in the United States. As at the date of this Offering Circular, the FDA does not regulate cigars or pipe tobacco. The most significant implication of the current regulation for STG is the requirement for FDA review of fine-cut tobacco products before they are offered for sale. The Tobacco Control Act provides four paths for a product to enter or remain on the market, with the two that have been relevant for STG being:

- *grandfathered products:* a product that has been on the market unchanged since 15 February 2007 may remain on the market without FDA review; and
- *substantial equivalence:* a product that has been introduced or modified since 15 February 2007 must be "substantially equivalent" to a grandfathered product (*i.e.*, the new or modified product must be the "same" as the grandfathered product or any differences must not "raise different questions of public health"). The FDA determines substantial equivalence based on a substantial equivalence report submitted by a company. Products that were on the market as of 22 March 2011 may remain on the market while the FDA considers the substantial equivalence report. As of 22 March 2011, no new "substantially equivalent" product may be introduced into the market prior to receiving FDA approval. The substantial equivalence application process is costly and time consuming. Further, FDA has been slow to issue rulings, and has a significant backlog of pending substantial equivalence applications.

Other regulatory requirements and restrictions applicable to products regulated by the FDA (*i.e.*, excluding cigars and pipe tobacco) under the Tobacco Control Act as at the date of this Offering Circular include:

- products may not contain characterising flavours other than menthol;
- vending machines and self-service displays of regulated products are prohibited, except in adult-only facilities;
- distribution of free product samples is prohibited (except for smokeless tobacco under limited circumstances);
- brand-name event sponsorship and distribution of branded non-tobacco goods are prohibited;
- producers are subject to a broad range of FDA controls, including registration, product listing, ingredient reporting, adverse event reporting and adulteration and misbranding prohibitions; and
- manufacturers are subject to audit by the FDA without notice.

On 25 April 2014, the FDA published the Deeming Regulations, which would bring all remaining tobacco products under the regulatory authority of the FDA. As with cigarettes, fine-cut tobacco and other previously regulated tobacco products, cigars and pipe tobacco products would require FDA review before they are offered for sale. The commentary period for the proposed Deeming Regulations ended in August 2014, and the FDA is expected to publish the final version of the Deeming Regulations in the near future (first quarter of 2016 or later). The contents of the final Deeming Regulations, as well as their impact on STG, are uncertain.

In the proposed Deeming Regulations, the FDA left unchanged the 15 February 2007 grandfather date used for cigarettes, fine-cut tobacco and other products first regulated in 2009. Depending on the grandfather date in the final Deeming Regulations, STG could be required to submit substantial equivalence reports for a significant number of its products. In addition, STG would need to remove products from the market that were introduced after the grandfather date and that are not substantially equivalent to a grandfathered product.

The Deeming Regulations would also add the following warning statement to labels and advertisements for fine-cut tobacco, pipe tobacco and cigars: "WARNING: This product contains nicotine derived from tobacco. Nicotine is an addictive chemical". For cigars, the new warning would replace one of the five warning statements currently rotated on labelling and advertising under the 2000 consent order between the Federal Trade Commission and the major cigar manufacturers, to which General Cigar is a party.

The newly regulated products under the Deeming Regulations would be subject to most of the current provisions of the Tobacco Control Act, including the bans on free samples and the FDA controls applied to currently regulated products. However, it is unknown whether all cigars will be treated equally under the Deeming Regulations of if certain cigars (*e.g.*, handmade cigars, larger cigars or more expensive cigars) will be exempt from certain parts of the Deeming Regulations. Further, the ban on characterising flavours applicable to currently regulated products would not automatically be applied to cigars and pipe tobacco. However, the final contents of the Deeming Regulations will not be known until they are published. Internet and mail order sales of tobacco products, including cigars and pipe tobacco, are allowed in the

United States, and such sales would not be affected by the proposed Deeming Regulations. However, restrictions on internet or mail order sale of tobacco products could be adopted in the future.

Taxes on Tobacco Products

Excise taxes on tobacco products are considered a source of public finance and a measure to regulate consumption and promote public health in various countries around the world. Value-added tax, consumption tax or other taxes of a similar nature also apply to tobacco products. While the taxation system and tax rates vary from country to country, the total tax burden accounts for a substantial portion of the retail price of tobacco products.

EU Tobacco Excise Duties

In the EU, excise duties for tobacco products are regulated principally through the Tobacco Products Excise Directive, which defines the product categories, excise duty structures (*e.g.*, ad valorem or per item) and minimum rates for excise duties on the various tobacco product categories. The Tobacco Products Excise Directive differentiates between cigarettes, cigars/cigarillos, fine-cut tobacco and other smoking tobacco. For tobacco products other than cigarettes, EU member states can choose between a specific duty (*i.e.*, a fixed amount per kilogram or per thousand cigars or cigarillos) or an ad valorem duty (*i.e.*, a percentage of the retail price), or may apply a mixture of the two. For cigarettes, the excise duty consists of a combination of a specific and an ad valorem duty. The Tobacco Products Excise Directive sets out different minimum rates for the four categories of tobacco products. The actual tobacco excise rates vary considerably between the various member states. However, the tobacco excise duty almost always makes up a considerable part of the retail price of any tobacco product.

Every four years beginning in 2015, the EU Commission will submit to the EU Council a report and, where appropriate, a proposal concerning excise tax rates and structure. The Commission published its report to the EU Council in December 2015. With reference to recommendations from external consultants, the Commission mentions the following, among other items, to be worthy of further consideration: more accurate tobacco product definitions in order to reduce legal uncertainty, avoid different approaches in the EU member states and distortion of the internal market; a simplification of the current structure by adjusting categories or definitions in the excise legislation to take account of the classification for custom purposes; and a possible introduction of new product categories to facilitate an appropriate, equal taxation of (new) products within the internal market and allow member states to monitor and control sufficiently. With respect to a possible alignment of minimum excise taxes on cigars/cigarillos with those of cigarettes to reduce circumvention, the Commission mentions that the current directive empowers the member states to address circumvention by increasing the excise duty on cigars only. The Commission will now consider the next steps in discussion with member state experts. This could include a revision of the EU Tobacco Excise Directive. If the Council decides to change the directive, the focus is expected to be on the tobacco product definitions and a possible extension of the scope of the directive to include electronic cigarettes. If the EU Council decides to amend the directive, the formal revision process will likely be initiated in 2017, and a revised directive could enter into force in 2018 or 2019. Amendments to the Tobacco Products Excise Directive require unanimity in the EU Council. Any amendments to the Tobacco Products Excise Directive will subsequently have to be implemented in the national law of each member state, which could occur in 2019.

Excise taxes in the United States

In the United States, federal excise tax is levied on all tobacco products upon production or importation into the United States. The TTB collects federal excise tax on tobacco products removed from the facilities of domestic manufacturers for consumption within the United States. The U.S. Customs and Border Protection collects federal excise tax on imported tobacco products, along with applicable duties.

In addition to federal excise tax, individual states levy excise taxes on tobacco products. The state excise tax rates vary across the states. Pennsylvania and Florida do not levy state excise tax on large cigars.

The excise tax rates for pipe tobacco are significantly lower than for other smoking tobacco products in the United States. Pipe tobacco is defined by the TTB as any tobacco that, because of its appearance, type, packaging or labelling, is suitable for use and likely to be offered to, or purchased by, consumers as tobacco to be smoked in a pipe. Following an increase in the federal excise tax on fine-cut tobacco in 2009, the amount of pipe tobacco sold in the United States has grown significantly while the amount of tobacco that is sold as roll-your-own fine-cut tobacco has decreased significantly. It is likely that a material part of the tobacco labelled as pipe tobacco could be termed "dual-usage" pipe tobacco (*i.e.*, tobacco that can be consumed in a pipe, but also can be used by fine-cut tobacco consumers). The shift in the categorisation is due to the fact that neither the TTB nor the FDA has implemented a clear, objective definition of pipe tobacco.

Economic Sanctions

The United States and the EU have economic sanctions that prohibit or restrict dealings with Iran and Russia, where STG sells its products. The prohibitions and their applicability vary widely. STG also does business in countries where the United States and the EU prohibit or restrict dealings with specified entities and individuals associated with human rights abuses or the suppression of democracy. With respect to one or more of these countries, applicable sanctions also restrict or prohibit sales of military-related goods or technology or instruments of internal repression.

STG's business in these countries consists of purchases or sales of tobacco products to customers in those countries. To STG's knowledge, none of those customers is on any U.S. or EU list of entities or individuals with whom dealings are prohibited or restricted or involves military-related goods or technology or instruments of internal repression. See also "*Risk Factors—Risks Relating to STG's Industry—STG's activities are subject to economic and trade sanction regimes and its governance and compliance processes may not prevent violations of such sanctions*".

Since the early 1960s, the United States has maintained a trade embargo against Cuba, including a ban on the importation of Cuban origin cigars and products containing Cuban tobacco. See "*Risk Factors—Risks Relating to STG's Industry—If the U.S. embargo against Cuba were to be lifted, it could have a material adverse effect on STG's cigar sales in the United States*". For information regarding ongoing governmental proceedings, see "*Business—Legal Proceedings—Governmental Proceedings in the United States (OFAC)*".

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The selected consolidated financial information set forth below has been derived from the Consolidated Financial Statements, which have been prepared in accordance with IFRS as adopted by the EU.

Investors should read the following data together with the Consolidated Financial Statements, including the notes thereto, included in the F-pages to this Offering Circular, "*Operating and Financial Review*" and "*Presentation of Financial and Certain Other Information*".

	For the nine months ended 30 September		For the year ended 31 December		
	2015	**2014**	**2014**	**2013**	**2012**
	(unaudited)		(audited)		
	(DKK in millions)				
CONSOLIDATED INCOME STATEMENT DATA					
Net sales	4,965.4	4,495.8	6,126.0	5,925.3	5,978.0
Cost of goods sold	(2,548.4)	(2,349.4)	(3,178.7)	(3,010.8)	(2,986.5)
Gross profit	2,417.0	2,146.4	2,947.3	2,914.5	2,991.5
Other external costs	(799.7)	(744.7)	(1,049.9)	(1,108.4)	(1,066.5)
Staff costs	(679.8)	(535.1)	(748.9)	(631.8)	(623.8)
Other income	1.3	0.7	28.7	0.3	0.1
Earnings before interest, tax, depreciation and amortisation (EBITDA)	938.8	867.3	1,177.2	1,174.6	1,301.3
Depreciation	(90.5)	(74.4)	(102.0)	(128.8)	(125.0)
Earnings before interest, tax and amortisation (EBITA)	848.3	792.9	1,075.2	1,045.8	1,176.3
Amortisation	(137.5)	(122.8)	(167.5)	(271.1)	(244.9)
Earnings before interest and tax (EBIT)	710.8	670.1	907.7	774.7	931.4
Share of profit of associated companies, net of tax	7.0	3.6	6.2	5.4	11.9
Financial income	15.5	17.0	29.1	5.7	5.4
Financial costs	(75.5)	(70.8)	(97.4)	(110.1)	(106.1)
Profit before tax	657.8	619.9	845.6	675.7	842.6
Income taxes	(164.4)	(158.3)	(205.8)	(102.9)	(224.4)
Net profit for the period	493.4	461.6	639.8	572.8	618.2

	As at 30 September 2015	As at 31 December 2014	2013	2012
	(unaudited)		(audited)	
		(DKK in millions)		
BALANCE SHEET DATA				
ASSETS				
Intangible assets				
Goodwill	4,434.6	4,205.3	3,874.5	3,974.4
Trademarks	3,339.6	3,352.1	3,133.7	3,404.6
Other intangible assets(1)	306.0	332.7	370.8	412.7
Total intangible assets	8,080.2	7,890.1	7,379.0	7,791.7
Property, plant and equipment				
Land and buildings	673.3	678.6	565.0	579.7
Plant and machinery	339.6	339.1	247.7	254.6
Other property, plant and equipment(2)	273.9	185.2	299.0	157.1
Total property, plant and equipment	1,286.8	1,202.9	1,111.7	991.4
Other non-current assets				
Total other non-current assets	273.2	282.6	180.8	194.2
Total non-current assets	9,640.2	9,375.6	8,671.5	8,977.3
Current assets				
Inventories	3,093.2	3,099.2	2,926.9	2,780.7
Receivables				
Trade receivables	832.4	811.1	817.1	971.8
Other receivables(3)	373.6	295.0	316.0	321.5
Total receivables	1,206.0	1,106.1	1,133.1	1,293.3
Cash and cash equivalents	291.2	581.0	464.3	684.2
Total current assets	4,590.4	4,786.3	4,524.3	4,758.2
Total assets	14,230.6	14,161.9	13,195.8	13,735.5
EQUITY AND LIABILITIES				
Total equity	8,688.7	9,087.0	8,332.8	8,424.9
Bank loans	3,311.4	2,307.5	2,756.5	3,008.9
Deferred income tax liabilities	726.9	694.3	519.3	582.2
Other non-current liabilities(4)	326.5	319.3	311.9	399.3
Total non-current liabilities	4,364.8	3,321.1	3,587.7	3,990.4
Bank loans	–	650.8	221.9	232.0
Trade payables	319.4	375.9	359.9	352.6
Other current liabilities(5)	857.7	727.1	693.5	735.6
Total current liabilities	1,177.1	1,753.8	1,275.3	1,320.2
Total liabilities	5,541.9	5,074.9	4,863.0	5,310.6
Total equity and liabilities	14,230.6	14,161.9	13,195.8	13,735.5

(1) Other intangible assets includes IT software and other intangible assets.
(2) Other property, plant and equipment includes equipment, tools and fixture, leasehold improvements and construction in progress.
(3) Other receivables includes receivables from affiliated companies, prepaid corporate tax, prepayments and other receivables.
(4) Other non-current liabilities includes pension obligations, other provisions and other liabilities.
(5) Other current liabilities as at 30 September 2015 includes credit facilities and other liabilities. Other current liabilities as at 31 December 2014, 2013 and 2012 includes corporate tax liabilities, other provisions and other liabilities.

	For the nine months ended 30 September		For the year ended 31 December		
	2015	2014	2014	2013	2012
	(unaudited)		(audited)		
	(DKK in millions)				
CONSOLIDATED CASH FLOW STATEMENT DATA					
Cash flow from operating activities	896.7	737.9	1,056.0	744.8	716.4
Cash flow from investing activities	(165.8)	(458.9)	(471.2)	(317.7)	(388.2)
Cash flow from financing activities	(1,028.9)	(263.5)	(468.2)	(647.0)	(595.7)
Net cash flow for the period	(298.0)	15.5	116.7	(219.9)	(267.5)
Cash and cash equivalents, net at 1 January	581.0	464.3	464.3	684.2	951.7
Net cash flow for the period	(298.0)	15.5	116.7	(219.9)	(267.5)
Cash and cash equivalents, net at the end of the period	283.0	479.8	581.0	464.3	684.2

	As at and for the nine months ended 30 September		As at and for the year ended 31 December		
	2015	2014	2014	2013	2012
	(DKK in millions, unless otherwise indicated)				
KEY PERFORMANCE INDICATORS					
Net sales development adjusted for currency fluctuations (percent)	1.9(1)	n/a	4.1(2)	0.7(3)	n/a
Adjusted net sales(4)	4,972.3	4,495.8	6,126.0	5,925.3	5,978.0
Adjusted gross profit(5)	2,460.7	2,146.4	2,947.3	2,914.5	2,969.7
Adjusted gross profit margin(6) (percent)	49.5	47.7	48.1	49.2	49.7
Adjusted EBITDA(7)	1,050.6	880.0	1,246.6	1,198.1	1,268.2
Adjusted EBITDA margin(8) (percent)	21.1	19.6	20.3	20.2	21.2
Maintenance capital expenditure(9)	85.7	71.4	112.0	128.2	87.7
Maintenance capital expenditure / net sales ratio(10) (percent)	1.7	1.6	1.8	2.2	1.5
Cash conversion ratio(11) (percent)	91.8	91.9	91.0	89.3	93.1
Trade working capital(12)	3,606.2	3,660.9	3,534.4	3,384.1	3,399.9
Net interest-bearing debt (NIBD)(13)	3,323.4	2,990.0	2,698.1	2,808.5	2,907.6
Leverage ratio(14)	n/a	n/a	2.2	2.3	2.3

(1) As compared to the nine months ended 30 September 2014.
(2) As compared to the year ended 31 December 2013.
(3) As compared to the year ended 31 December 2012.
(4) Adjusted net sales is a non-IFRS financial measure. Adjusted net sales is defined as net sales excluding nonrecurring items.
(5) Adjusted gross profit is a non-IFRS financial measure. Adjusted gross profit is defined as gross profit excluding nonrecurring items.
(6) Adjusted gross profit margin is a non-IFRS financial measure. Adjusted gross profit margin is defined as adjusted gross profit as a percentage of adjusted net sales.
(7) Adjusted EBITDA is a non-IFRS financial measure. Adjusted EBITDA is defined as EBITDA excluding nonrecurring items.
(8) Adjusted EBITDA margin is a non-IFRS financial measure. Adjusted EBITDA margin is defined as adjusted EBITDA as a percentage of adjusted net sales.
(9) Maintenance capital expenditure is a non-IFRS measure. Maintenance capital expenditure is defined as capital expenditure related to replacing, repairing, updating or otherwise maintaining STG's existing property, plant and equipment as well as updating and maintaining existing IT software.
(10) Maintenance capital expenditure / net sales ratio is a non-IFRS financial measure. Maintenance capital expenditure / net sales ratio is defined as maintenance capital expenditure as a percentage of adjusted net sales.
(11) Cash conversion ratio is a non-IFRS financial measure. Cash conversion ratio is defined as adjusted EBITDA less maintenance capital expenditure, as a percentage of adjusted EBITDA.
(12) Trade working capital is a non-IFRS financial measure. Trade working capital is defined as inventories and trade receivables less trade payables.
(13) Net interest-bearing debt is a non-IFRS financial measure. Net interest-bearing debt is defined as interest-bearing liabilities and pensions less cash equivalents and interest-bearing receivables.
(14) Leverage ratio is a non-IFRS financial measure. Leverage ratio is defined as net interest-bearing debt divided by adjusted EBITDA.

Certain Non-IFRS Financial Measures

The following tables contain certain financial measures that are not recognised measures of financial performance under IFRS. These measures are presented as they are used by STG to monitor the underlying performance of its business and operations. Not all companies calculate non-IFRS financial measures in the same manner or on a consistent basis. As a result, these measures may not be comparable to measures used by other companies under the same or similar names. Accordingly, undue reliance should not be placed on the non-IFRS financial measures presented below and they should not be considered as a substitute for net sales, gross profit, EBITDA or any other financial measure computed in accordance with IFRS. For definitions of these non-IFRS financial measures, see "*Presentation of Financial and Certain Other Information—Non-IFRS Financial Measures*".

The following table sets forth a reconciliation of adjusted net sales to net sales for the periods indicated:

	For the nine months ended 30 September		For the year ended 31 December		
	2015	2014	2014	2013	2012
	(unaudited)		(audited)		
	(DKK in millions)				
Net sales	4,965.4	4,495.8	6,126.0	5,925.3	5,978.0
Nonrecurring items					
Provisions for products returned due to regulatory changes	6.9[(1)]	–	–	–	–
Total nonrecurring items	6.9	–	–	–	–
Adjusted net sales	4,972.3	4,495.8	6,126.0	5,925.3	5,978.0

(1) Provisions for products returned due to regulatory changes for the nine months ended 30 September 2015 related to products returned as a result of the implementation of a ban on certain flavourings in Canada.

The following table sets forth a reconciliation of adjusted gross profit to gross profit for the periods indicated:

	For the nine months ended 30 September		For the year ended 31 December		
	2015	2014	2014	2013	2012
	(unaudited)		(audited)		
	(DKK in millions)				
Gross profit	2,417.0	2,146.4	2,947.3	2,914.5	2,991.5
Nonrecurring items					
Reversal of provision following the combination with Swedish Match	–	–	–	–	(21.8)[(1)]
Provisions for obsolete stock due to regulatory changes	43.7[(2)]	–	–	–	–
Total nonrecurring items	43.7	–	–	–	(21.8)
Adjusted gross profit	2,460.7	2,146.4	2,947.3	2,914.5	2,969.7

(1) Reversal of provision for the year ended 31 December 2012 related to the reversal of a portion of the provisions for tobacco inventory that were recorded in connection with the establishment of STG in 2010.

(2) Provisions for obsolete stock due to regulatory changes for the nine months ended 30 September 2015 related mainly to products and packaging STG expects to become obsolete following the implementation of the TPD and to a lesser extent provisions made for products returned as a result of the implementation of a ban on certain flavourings in Canada.

The following table sets forth a reconciliation of adjusted EBITDA to EBITDA for the periods indicated:

	For the nine months ended 30 September		For the year ended 31 December		
	2015	2014	2014	2013	2012
	(DKK in millions)				
EBITDA	938.8	867.3	1,177.2	1,174.6	1,301.3
Nonrecurring items					
Restructuring expenses	56.8[(1)]	12.7[(2)]	65.9[(3)]	23.5[(4)]	–
Transaction expenses	9.2[(5)]	–	20.0[(5)]	–	–
Provisions for obsolete stock due to regulatory changes	45.8[(6)]	–	–	–	–
Reversal of provisions following the combination with Swedish Match	–	–	–	–	(30.1)[(7)]
Gains from sale of buildings	–	–	(16.5)[(8)]	–	(3.0)[(9)]
Total nonrecurring items	111.8	12.7	69.4	23.5	(33.1)
Adjusted EBITDA	1,050.6	880.0	1,246.6	1,198.1	1,268.2

(1) Restructuring expenses for the nine months ended 30 September 2015 related mainly to the reduction in workforce in the machine-made cigars segment that STG announced in September 2015 as part of its ongoing efficiency measures aimed at optimising its supply chain (DKK 42 million), together with certain other reductions in workforce and other restructurings.

(2) Restructuring expenses for the nine months ended 30 September 2014 related mainly to reductions in STG's supply chain workforce in Europe in connection with the 6-2-4 Project.

(3) Restructuring expenses for the year ended 31 December 2014 related mainly to reductions in STG's sales workforces in France and Belgium following the acquisition of Verellen N.V. as well as reductions in STG's supply chain workforce in Europe in connection with the 6-2-4 Project, in Indonesia and in the United States.

(4) Restructuring expenses for the year ended 31 December 2013 related mainly to a reduction in workforce in group functions, as well as a reduction in STG's supply chain workforce in the United States.

(5) Transaction expenses related to expenses incurred in connection with various strategic alternatives considered by the Company and the Selling Shareholders and related management transaction incentives.

(6) Provisions for obsolete stock due to regulatory changes for the nine months ended 30 September 2015 related mainly to products and packaging STG expects to become obsolete following the implementation of the TPD and to a lesser extent provisions made for products returned as a result of the implementation of a ban on certain flavourings in Canada.

(7) Reversal of provisions for the year ended 31 December 2012 related to the reversal of a portion of the provisions for tobacco inventory that were recorded in connection with the establishment of STG in 2010 (DKK 21.8 million) and reversals of a portion of the provisions related to distribution contracts with third-party distributors in connection with the combination with Swedish Match (DKK 8.3 million).

(8) Gains from sale of buildings for the year ended 31 December 2014 related to the divestment of the production facility in Houthalen, Belgium, in connection with the completed 6-2-4 Project.

(9) Gains from sale of buildings for the year ended 31 December 2012 related to a sale of a building in France following the combination with Swedish Match.

OPERATING AND FINANCIAL REVIEW

The following is a discussion of STG's financial condition and results of operations as at and for the nine months ended 30 September 2015 and 2014 and as at and for the years ended 31 December 2014, 2013 and 2012. This discussion should be read in conjunction with the selected historical financial information included in "Selected Historical Consolidated Financial and Operating Information" and the Consolidated Financial Statements included in the F-pages to this Offering Circular. For information on the basis of preparation of the Consolidated Financial Statements, see "Presentation of Financial and Certain Other Information".

The following discussion contains forward-looking statements, which are based on estimates and assumptions and as such, are subject to risks and uncertainties. Investors should read the section entitled "Special Notice Regarding Forward-looking Statements" for a discussion of the risks and uncertainties related to those statements. Investors should also read the section entitled "Risk Factors" for a discussion of certain factors that may affect STG's business, financial condition and results of operations.

The following discussion contains certain adjusted financial measures that are not recognised measures of financial performance or liquidity under IFRS and have been derived from STG's regularly maintained records and operating systems. These measures, which are unaudited, are presented as they are utilised by management to monitor the underlying performance of STG's business. For definitions of these non-IFRS financial measures, see "Presentation of Financial and Certain Other Information—Non-IFRS Financial Measures", and for a reconciliation of these adjusted financial measures to the nearest IFRS financial measure, see "Selected Historical Consolidated Financial and Operating Information—Certain Non-IFRS Financial Measures".

Overview

STG is a world leading producer of cigars and traditional pipe tobacco and STG also produces fine-cut tobacco and sells tobacco-related accessories and fire lighting products. STG holds market leading positions in the machine-made cigar market in Europe, the handmade cigar market in the United States, online and catalogue retail sales of handmade cigars in the United States, the traditional pipe tobacco market globally and selected fine-cut tobacco markets. More than 70 percent of STG's net sales for 2014 were derived from markets in which it held a number one or two market position within the segment, in each case measured by sales volumes.

STG offers a comprehensive range of handmade cigars, machine-made cigars, pipe tobacco and fine-cut tobacco products, and STG believes it is the only company globally with a core strategic focus on production and distribution in all of these product categories. STG's brand portfolio includes more than 200 international, regional and locally established brands that target a wide range of consumer segments, local taste preferences and price points from premium to value.

The following table sets forth information on STG's segments:

	Segment contribution to net sales for the first nine months of 2015	Selected key brands
	(percent)	
Handmade cigars	29.0	Macanudo, CAO, Punch[1], La Gloria Cubana[1], Cohiba[1], 5Vegas, Diesel
Machine-made cigars	40.1	Café Crème, La Paz, Mercator, Colts, Captain Black, Break
Pipe tobacco	9.3	Captain Black, Erinmore, Borkum Riff, W.Ø. Larsen, Clan
Fine-cut tobacco	8.8	Bugler, Break, Escort, Bali Shag, Tiedemanns
Other	12.8	n/a

(1) STG owns the brand in the United States and has limited or no ownership of the brand outside of the United States.

STG's products are sold in more than 100 countries. STG has 18 sales offices and over 500 sales representatives across North America, Europe, Australia and New Zealand (as at 30 September 2015), including local sales organisations serving key cigar, pipe tobacco and fine-cut tobacco markets, which STG believes is the optimal way to reach its customers. STG's sales organisation supports the sale of STG's products through various sales and distribution channels, including wholesalers, supermarkets, tobacconists, convenience stores, liquor stores, drug stores, distributors, partners, online and catalogue retail, and its brick-and-mortar retail locations. Cigars International, STG's online and catalogue direct marketing business for cigars, pipe tobacco and tobacco-related accessories in the United States, holds the leading position in online and catalogue retail of handmade cigars in the United States. The diversified geographic and channel mix limits STG's dependence on any single market, channel or customer.

STG has extensive knowledge and experience in areas such as tobacco purchasing and blending, development of flavour combinations, production methods and packaging throughout its organisation. By actively utilising and transferring this knowledge and experience among segments, STG leverages its internal know-how to create new and appealing products and to quickly adapt to changes in consumer preferences. STG has launched several successful initiatives in recent years, including new brands, product variants and concepts, relaunches of existing brands and product line extensions. These initiatives are aimed at meeting consumer trends and curiosity for new products and variants while supporting STG's leading market positions, pricing terms and organic growth. STG also actively manages its brand portfolio, with recent examples including leveraging brands across product categories (*e.g.*, Captain Black), internationalising strong local brands (*e.g.*, Colts) and other activities aimed at optimising its brand portfolio.

STG's global production footprint consists of 14 facilities in eight countries, including facilities in many of the significant tobacco growing regions, the Dominican Republic, Honduras, Nicaragua and Indonesia, as well as facilities in the United States and the EU close to major consumption markets. STG also owns 20 percent of Caribbean Cigar, one of the largest tobacco growers in Central America and a producer of handmade cigars with operations in Honduras and Nicaragua. STG's local presence in tobacco growing regions enables it to be involved in all stages of the tobacco supply chain from seed development to the final product. Through this access and involvement, STG can maintain the quality of its products and secure access to a wide range of tobaccos to develop new products. STG also benefits from strategically locating many of the labour-intensive production processes in these countries as they have low labour costs, while concentrating more automated production processes close to core consumption markets in order to reduce lead times and increase flexibility.

Principal Factors Affecting STG's Results of Operations

STG derives its revenue mainly from the sale of tobacco products, including handmade cigars, machine-made cigars, pipe tobacco and fine-cut tobacco. STG also derives revenue reported under the other segment from contract manufacturing of cigars, pipe tobacco and fine-cut tobacco products for third parties, sales of tobacco-related accessories, including lighters, matches and fire lighting products, and licensing of certain of its brands to third parties in certain markets.

Cost of goods sold, which includes the costs of tobacco leaf, non-tobacco materials (*e.g.*, packaging), direct labour costs and indirect production costs, such as maintenance as well as operation, administration and management of factories, as well as the cost of third-party tobacco products and accessories sold by STG, constitutes the majority of STG's costs. STG's costs also include staff costs, other external costs (mainly expenses related to sales, marketing, distribution and premises as well as office expenses and fees paid to external advisers), depreciation and amortisation, financial costs and taxes.

During the periods under review, the following factors have affected, and may continue to affect, STG's net sales:

- volume and price development;
- currency fluctuations;
- impact of acquisitions;
- seasonality; and
- impact of regulation and taxation of tobacco products.

During the periods under review, the following factors have affected, and may continue to affect, STG's costs:

- volume and price development;
- currency fluctuations;
- improving efficiency;

- impact of acquisitions;
- seasonality;
- costs;
- impact of regulation and taxation of tobacco products; and
- depreciation and amortisation.

Volume and Price Development

STG sells tobacco products in four main segments (handmade cigars, machine-made cigars, pipe tobacco and fine-cut tobacco) and has a brand portfolio consisting of more than 200 brands. Across product segments in 2014, 42.4 percent of STG's net sales were generated from machine-made cigars, 24.7 percent from handmade cigars, 9.3 percent from pipe tobacco, 9.2 percent from fine-cut tobacco and 14.5 percent from other products.

STG's products are sold in all major geographic markets for its segments, including its core geographic markets of the United States and Europe, which accounted for 34.1 percent and 50.0 percent, respectively, of STG's net sales for 2014. The United States and Europe in aggregate accounted for more than 90 percent of the total global consumption of cigars, traditional pipe tobacco and fine-cut tobacco in 2014. Market volume and price trends, especially in STG's core geographic markets discussed below, affect STG's results of operations. For information on market volume and price trends, see "*Industry Overview*".

Since the 1990s, there has been a general decline in demand for tobacco products in developed countries. Demand for tobacco products is affected by a number of factors, including economic conditions, increasing health awareness, increases in the prices of tobacco products (*e.g.*, due to tobacco excise tax increases or changes in the excise taxes levied on the different categories of tobacco products), restrictions or bans on smoking (*e.g.*, in public places), regulation affecting tobacco products, their packaging, presentation or sale to consumers, demographic changes, or a combination of any of these or other factors that are outside of STG's control. However, within the broad tobacco products category, STG's product segments and the cigar and the traditional pipe tobacco sub-segments in particular differ from the cigarette market in several areas. The global cigarette market is relatively homogenous, where taste and appearance are broadly the same across the world. The markets for STG's product segments, on the other hand, are more differentiated and are significantly impacted by regional consumption and taste differences. For example, some cigars – in particular handmade cigars – are seen as affordable luxury consumer products appealing to a different consumer demographic than cigarettes. In addition, excise taxes are generally lower for cigars and pipe tobacco than for manufactured cigarettes and cigar producers take a larger percentage of retail prices than cigarette producers.

Volume and price changes between 2012 and 2014 differ significantly among different product categories. For cigars, fine-cut tobacco and traditional pipe tobacco the volume and price development differ significantly across the key geographic markets and segments, partly driven by tax differences. For additional information on volume and price developments in STG's markets, see "*Industry Overview*".

In the coming years, STG sees the most significant opportunities for growth in the handmade cigars segment, followed by the machine-made cigars segment, the fine-cut tobacco segment and the pipe tobacco segment. Furthermore, continued high growth in the United States relative to other markets could affect STG's effective tax rate due to the higher taxes in the United States. STG estimates that its effective tax rate for 2015 was approximately 25 percent, and that its effective tax rate will increase by approximately 1 percentage point over the next one to three years.

Handmade Cigars

In the United States, STG sells handmade cigars through General Cigar and Cigars International. In 2014, more than 60 percent of global handmade cigar sales volumes were in the United States where sales volumes overall were largely flat between 2012 and 2014 and the trend is expected to continue in the medium term. STG also sells handmade cigars outside the United States, but STG's sales volumes outside the United States have been relatively small compared to its sales volumes in the United States.

Between 2012 and the first nine months of 2015, General Cigar's sales volumes increased slightly more than the underlying market, except in 2013 when stock reductions by a few large customers had an adverse effect on STG's sales. Sales volumes through Cigars International, STG's online and catalogue retail platform, have grown significantly between 2012 and 2014, and this trend is expected by STG to continue.

The sales growth has been due to Cigars International's operational focus on direct retail sales to consumers and utilising direct marketing systems and tools to leverage the online platform's ability to reach a wider group of consumers as well as attracting existing smokers from other tobacco product categories. STG has also focused on innovation and new product launches across all price points in order to meet consumer trends and curiosity across the total market. Examples of STG's recent key product launches for the U.S. handmade cigar market include Macanudo Estate Reserve, Punch Signature and the new Partagas contemporary line, 1845. General Cigar is also focused on growing its EBITDA faster than its net sales through process improvements.

STG has been able to increase prices of its handmade cigars annually during the periods under review, mainly driven, STG believes, by the fact that consumers of handmade cigars are typically motivated by new experiences and the social element of cigar smoking rather than the price. STG has been able to implement price increases of between 2 and 3 percent per year in recent years, and expects to be able to continue increasing prices in the coming years.

Growth in Cigars International contributes positively to STG's gross profit; however, as internet and catalogue retail sales generally have lower gross profit margins than wholesale sales, growth in the proportion of sales volumes through Cigars International generally lowers STG's gross profit margin, such as the handmade cigars segment experienced in 2013. Since 2012, Cigars International has accounted for more than half of STG's handmade cigars segment's annual net sales.

Machine-made Cigars

Overall, machine-made cigar sales volumes have declined in many markets between 2012 and 2014 and are expected to continue to decline in a number of large markets, such as France, Germany and the United Kingdom between 2014 and 2018. STG's machine-made cigar sales volumes in Europe have generally followed this trend. STG's machine-made cigar sales volumes in the United States remain relatively small compared to its machine-made cigar sales volumes outside the United States.

The reasons for the declines in STG's machine-made cigar sales volumes in Europe vary across markets, but generally include lack of new consumers entering the category and regulatory changes, such as smoking bans, for example, the ban on smoking in restaurants introduced in Belgium in 2012. Sales volumes in certain other European markets, such as Spain, Germany and Italy, have been more stable, or slightly declining. During the periods under review, the declining market volumes in some of the European markets have been partly offset by increasing sales volumes in developing markets, such as Iraq and Ukraine, and in value priced cigars in the United States. STG has strengthened its portfolio in this value category segment by launching Break, Cubero and Talon cigars across a number of markets. In Europe, a number of markets have also experienced a consumer trend towards flavoured and/or value priced cigars. STG has responded to this trend by launching additional flavoured variants across a number of brands and also extended the range of smaller-sized Café Crème cigars across a number of markets in 2014.

STG has been able to apply annual price increases for machine-made cigars during the periods under review, largely in line with the market development. The amount of the price increases varies between markets and brands and, when deciding on the level of any increase, STG takes into account the competitive position in the relevant market.

Pipe Tobacco

Overall, traditional pipe tobacco sales volumes continued their long-term decline between 2012 and 2014, especially in core European and the United States markets. Traditional pipe tobacco sales volumes in core European markets, including Germany and the United Kingdom, are expected to continue to decline between 2014 and 2018. In the United States, prices and sales volumes for pipe tobacco have been impacted by the development of "dual-usage" pipe tobacco (*i.e.*, tobacco that can be consumed in a pipe, but also can be used by fine-cut tobacco consumers). This has resulted in a significant increase in the "dual-usage" pipe tobacco market volumes in the United States, from which STG's pipe tobacco sales volumes have benefitted despite STG having a very small share of the "dual-usage" pipe tobacco market.

Between 2012 and the nine months ended 30 September 2015, STG's sales volumes have declined generally in line with the market. However, in Europe, STG has been able to win market share in a market with declining volumes. For example, STG has launched new product variants in France and Spain under the Clan brand to cover specific consumer segments in these markets. STG also continuously develops new concepts in the premium part of the pipe tobacco market under the W.Ø. Larsen brand, which is sold across a wide number of markets. In the United States, STG is the largest producer of traditional pipe tobacco and has also benefited from certain drugstores with private label pipe tobacco products exiting the tobacco product market.

For STG, price increases during the periods under review have, partially or wholly depending on the market, offset the overall declining volume trend. STG has historically been able to increase the price of pipe tobacco in its markets due to high consumer loyalty in the pipe tobacco category.

Fine-cut Tobacco

In Europe, fine-cut tobacco sales volumes have been flat between 2012 and 2014. In the United States, sales volumes have decreased between 2012 and 2014, driven mainly by the emergence of the "dual-usage" pipe tobacco market, which instead has contributed to increasing pipe tobacco sales volumes.

Between 2012 and the nine months ended 30 September 2015, some of STG's fine-cut tobacco consumers have been shifting to the more value-based segment of the category. In certain of STG's key markets, such as Germany and Denmark, the sales volumes of expanded fine-cut tobacco, which has a lower price per cigarette than cigarettes rolled with traditional fine-cut tobacco, have grown. In response to this trend, STG launched Break branded expanded fine-cut tobacco across a number of European markets between 2012 and 2015. Net sales of Break (including machine-made cigars as well as fine-cut tobacco) have grown 37.3 percent in the first nine months of 2015 as compared to the first nine months of 2014. In Norway, another important market, STG's sales volumes have been declining less than the market as STG has won market share, which STG believes is mainly due to brand loyalty and its consumer profile. Outside of Europe, STG's sales volumes in Israel have grown, driven mainly by the lower excise tax rate on fine-cut tobacco as compared to cigarettes. In the United States, fine-cut tobacco market volumes for STG have been declining due to the emergence of "dual-usage" pipe tobacco, as discussed under "*—Pipe Tobacco*" above, which has decreased the market size. However, STG has been able to increase its market share in the smaller market, which STG believes is attributable to its strong brands.

STG has been able to apply annual price increases within the fine-cut tobacco category in the United States as well as in its significant European markets such as Germany, Denmark and Norway.

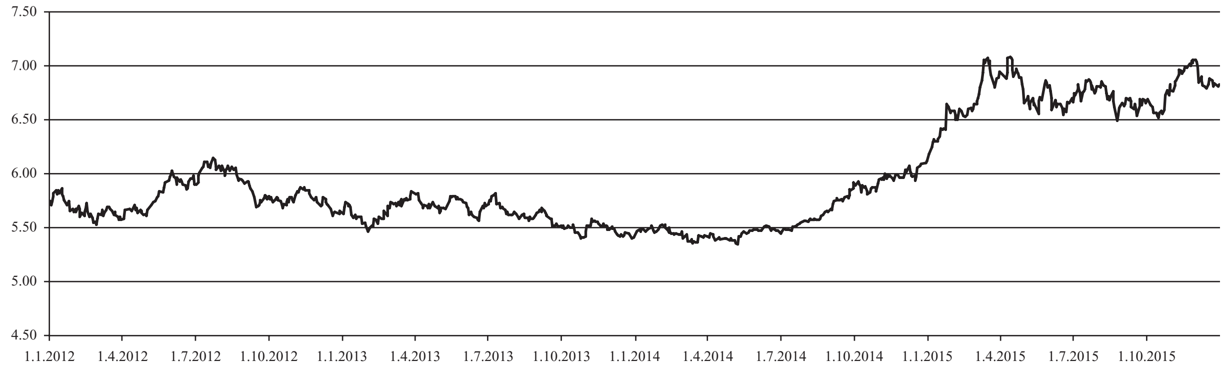
Currency Fluctuations

STG's reporting currency is the Danish krone, while the most significant currencies for its net sales have historically been the U.S. dollar, euro and Danish krone, which accounted for 43.1 percent, 33.6 percent and 6.0 percent, respectively, of STG's net sales for the nine months ended 30 September 2015. These currencies are also the most significant currencies for STG's cost of goods sold. STG also has external loans denominated in euros and U.S. dollars. In addition to these currencies, STG is exposed to the Australian dollar, British pound sterling, Canadian dollar, Indonesian rupiah, Norwegian krone, Polish zloty, Russian rouble, Swedish krona, Swiss franc, and the local currencies of the other countries in which STG operates.

STG's consolidated results of operations are subject to income statement translation risk arising from fluctuations in the value of the Danish krone against the local currencies of various countries in which the Company's subsidiaries operate. Furthermore, the book value of the Company's non-Danish subsidiaries and, therefore, STG's equity is affected by fluctuations in the value of the Danish krone against the local currencies. STG does not hedge against the translation effects of currency fluctuations, although STG has borrowings in currencies other than the Danish krone to partly mitigate the translation risk.

The handmade cigars segment's net sales (29.0 percent of STG's net sales for the first nine months of 2015) are primarily denominated in U.S. dollars and, therefore, fluctuations in the value of the U.S. dollar against the Danish krone have significantly affected and will continue to significantly affect STG's results of operations and financial condition. The following graph sets forth the development in the U.S. dollar buying rate, expressed in Danish kroner per one U.S. dollar, based on the Danish Central Bank's foreign exchange reference rate for the periods indicated:

Danish kroner per USD 1.00



Appreciation of the U.S. dollar against the Danish krone positively affects STG's results of operations, and *vice versa*. Furthermore, appreciation of, among others, the British pound sterling, Canadian dollar or Australian dollar against the Danish krone positively affects STG's results of operations, and *vice versa*. STG expects currency fluctuations to have a significant positive impact on its reported net sales for 2015 primarily due to the appreciation of the U.S. dollar against the Danish krone.

STG calculates the impact of currency fluctuations on its net sales, gross profit and EBITDA by calculating net sales, gross profit and EBITDA for the later period based on the exchange rates for the earlier period. The impact of currency fluctuations shows the percentage of the change in net sales, gross profit and EBITDA attributable to currency fluctuations between the relevant periods. See "*—Results of Operations*" below for information on currency fluctuation adjusted net sales and gross profit.

STG also faces transaction risk. STG enters into transactions denominated in currencies other than the local currencies in which the Group companies operate, exposing STG to transaction risk. As a result, currency fluctuations affect STG's profitability. While STG enters into hedging transactions, such as derivatives, to partially mitigate the transaction risk, such hedging transactions will not completely eliminate transaction risks and STG remains exposed to the effects of currency fluctuations. Due to the historically fixed currency band between the Danish krone and euro, STG considers both as its base currencies and, therefore, does not hedge its exposure to fluctuations in the value of the euro against the Danish krone.

Improving Efficiency

Production Footprint Optimisation

Since 2010, STG has focused on optimising its production footprint. In 2011, STG commenced the 6-2-4 Project, which was designed to more closely align production capacity with demand in the machine-made cigars segment by reducing the number of machine-made cigar production facilities from six to four and reducing conversion costs, transportation costs and import duties. The 6-2-4 Project was completed in 2014 and involved the closure of two machine-made cigar production facilities, located in Pasuruan (Indonesia) and Houthalen (Belgium), and the transfer of production to STG's machine-made cigar production facilities in Belgium, the Netherlands, Denmark and Pandaan in Indonesia. Through the 6-2-4 Project, STG achieved annual gross operating cost savings of approximately DKK 60 million, as compared to the 2011 level. STG invested in its remaining production facilities in the machine-made cigars segment to manage the consolidated production volumes.

STG has also opened a new production facility in Holstebro, Denmark, to insource the production of expanded tobacco, ensuring stability of supply and lowering expanded tobacco costs. The Holstebro production facility is expected to result in a total annual raw materials savings of approximately DKK 6 million beginning in 2016. STG's production footprint optimisation has helped to reduce its operating costs across segments within the supply chain.

Prior to the combination in 2010, STG successfully completed the 5-2-3 project, a cost reduction project that involved the construction of one of the largest machine-made cigar production facility in Europe in terms of production capacity in Lummen, Belgium. By transferring production to the Lummen production facility and closing two machine-made cigar production facilities in Belgium and one in Denmark, STG was able to achieve significant operating cost savings.

STG believes that it has sufficient production capacity to execute its current strategy, including with regard to consolidating volumes of potential acquisitions, without the need for substantial additional investment.

Efficiency Measures and Working Capital Initiatives

In order to reduce complexity, optimise efficiency and prepare for the implementation of the TPD, STG has analysed its brand portfolio, production footprint and supply chain in its machine-made cigars, fine-cut tobacco and pipe tobacco segments to identify opportunities to save costs and reduce working capital. STG has divided the identified initiatives into the following categories:

- *Simplifying the product portfolio:* STG is in the process of reducing the total number of product configurations by approximately 45 percent in the machine-made cigars segment and approximately 27 percent in aggregate in the pipe tobacco and fine-cut tobacco segments. In 2014, the discontinued product configurations accounted for 4.3 percent of the machine-made cigars segment's net sales and 1.5 percent of the aggregate net sales of the pipe tobacco and fine-cut tobacco segments. STG believes that consumers of the discontinued products will switch to other STG products broadly in line with its market shares in the respective markets.

  This initiative is expected to reduce the complexity of STG's supply chain and facilitate compliance with, and reduce the cost of, the packaging design requirements of the TPD. As part of the simplification process, STG announced in September 2015 a reduction of workforce in the machine-made cigars segment supply chain by 113 full-time employees, due to line closures associated with the reduced number of product configurations. In connection with the reduction of workforce in the machine-made cigars segment supply chain, STG recorded nonrecurring costs of DKK 42 million in its financial statements for the nine months ended 30 September 2015.

- *Further optimising production footprint:* STG continuously evaluates and seeks to further optimise its global production footprint in response to market developments. For example, STG is evaluating whether to further integrate its production facilities, which would further reduce costs and thereby improve its cost of goods sold.

- *Reducing material costs:* STG has identified and is in the process of implementing various initiatives designed to reduce procurement costs, including further combining procurement to achieve volume discounts on, for example, transportation, and reviewing the type of packaging materials used (*e.g.*, cardboard instead of tin) and the content and blend of tobacco in products.

- *Improving production efficiency:* STG engaged an external consultant to assist in identifying areas for improving production efficiency. Based on this review, STG believes it has a number of areas that could be improved and is in the process of developing plans to achieve various goals that it has identified.

- *Improving integrated planning of the supply chain:* improving supply chain planning and forecasting by establishing central procurement for specific areas (*e.g.*, tobacco and packaging materials) combined with increased focus on improving inventory transparency throughout the entire value chain with the aim of further reducing inventories.

STG estimates that these measures will result in annual gross operating cost savings of approximately DKK 140 million and a working capital reduction of approximately DKK 500 million (measured on a like for like basis excluding currency fluctuations) by the end of 2018, in each case as compared to the respective 2014 levels. STG estimates that the annual gross operating cost savings will primarily come from the machine-made cigar segment and will primarily affect its cost of goods sold. STG estimates that it achieved 10 percent of the estimated cost savings of approximately DKK 140 million in 2015 and that the remaining estimated cost savings will be achieved equally over 2016, 2017 and 2018. In addition, STG estimates that it achieved 20 percent of the estimated working capital reduction of approximately DKK 500 million in 2015. In connection with these efficiency measures and working capital initiatives, STG incurred nonrecurring restructuring costs with an impact on EBITDA of DKK 42 million for the first nine months of 2015 and estimates that it will incur further nonrecurring costs totalling approximately DKK 60 million to DKK 90 million in 2017 and 2018. Together, the efficiency measures and working capital initiatives are expected by STG to have a positive impact on its gross profit margin and cash generation.

The estimates relating to efficiency measures and working capital initiatives as well as related costs to implement such measures and initiatives are based on a number of assumptions made in reliance on the information available to STG and STG's judgements based on such information. The assumptions used in estimating these benefits are inherently uncertain and are subject to a wide variety of significant business, economic, and competitive risks and uncertainties that could cause actual results to differ materially from those contained in the estimates. These assumptions include, among others:

- Future production volumes are consistent with STG's strategic plan and in line with expected market developments.
- That STG is able to complete the announced workforce reduction in the machine-made cigar segment in a manner, and on a timeline, consistent with past restructurings within STG.
- That STG is able to conclude network optimisation projects in a manner, and on a timeline, consistent with past practice in the industry.
- That the estimated costs to achieve the planned cost savings, which are based on historical experience, will not change materially during the implementation phases of the identified initiatives.
- No significant deviation from STG's estimates regarding the nonrecurring costs associated with its network optimisation projects.
- Timely conversion to new packaging format planned as part of the TPD implementation, with no obsolescence materially in excess of estimates based on past practice in the industry.
- Timely realisation of procurement improvement projects identified by STG in cooperation with a third-party consulting firm, based on industry knowledge and past experience in realising savings in similar projects.
- Timely realisation of plant efficiency improvement projects identified by STG in cooperation with third-party consulting firms, based on industry knowledge and past experience in realising savings in similar projects.
- Timely implementation of improved planning processes identified by STG in cooperation with a third-party consulting firm, based on industry knowledge and past experience in realising savings in similar projects and the capability of the current ERP system used at STG to accommodate the required change.

Certain statements in this section, including in particular the statements relating to the expected benefits of STG's efficiency measures and working capital initiatives and related nonrecurring costs and capital expenditure set forth above, constitute forward-looking statements that are based on estimates and assumptions made by the Company that are inherently uncertain. While the Company considers such estimates and assumptions to be reasonable, they are subject to significant business, economic and competitive uncertainties and contingencies, all of which are difficult to predict and may partly be beyond STG's control. As a result, there can be no assurances that STG will be able to achieve such efficiencies or working capital improvements. These forward-looking statements are also not guarantees of future financial or operational performance and the efficiencies expected to be generated, and the costs incurred to realise such targeted efficiencies could differ materially from those expressed or implied by these forward-looking statements as a result of many factors, including but not limited to those described under "Special Notice Regarding Forward-Looking Statements" and "Risk Factors". The targeted efficiencies are based on STG's cost basis in the year ended 31 December 2014 and reflect the cost structure and the specific product mix during the year ended 31 December 2014 and may not translate into corresponding EBITDA improvements for any future financial years. Investors are urged not to place undue reliance on any of the statements set forth above.

Impact of Acquisitions

STG was established in 2010 through the combination of the cigar, pipe tobacco, fine-cut tobacco and tobacco-related accessories businesses of the former Skandinavisk Tobakskompagni A/S and the cigar, pipe tobacco and tobacco-related accessories businesses of Swedish Match (excluding Swedish Match's U.S. mass-market cigar business and certain other assets). Through this combination, STG has gained extensive experience in integrating businesses, including through the 6-2-4 Project. STG has also completed a number of acquisitions since 2010, including the acquisitions of Lane in the United States in 2011, Pipes and Cigars in the United States in 2013, and Verellen in Belgium and the Toraño brand in the United States in 2014, and has integrated these acquisitions into its business. The acquisitions of Lane and Verellen were both made to strengthen STG's position in the respective markets. See "*Business—History*".

Following significant acquisitions, STG provides financial information in the year of acquisition and the following year to show the impact of such acquisitions on its net sales and gross profit. During the periods under review, the only such significant acquisition was the acquisition of Verellen in September 2014. The acquisition of Verellen was complimentary to STG's established presence in Belgium and France, where Verellen also had strong market shares. This enabled STG to benefit from synergies in the sales and distribution network, as well as other areas. For the year ended 31 December 2013, Verellen had sales of EUR 26 million and EBITDA of EUR 4 million.

STG calculates the impact of significant acquisitions on its net sales and gross profit by segregating net sales and gross profit deriving from the acquired company for the months in the later period that are not also included in the earlier period. The impact of acquisitions shows the percentage of the change on net sales and gross profit attributable to acquisitions between the relevant periods. See "*—Results of Operations*" below for information on acquisition adjusted net sales and gross profit.

Following an acquisition, STG aims to increase the value of acquired businesses by extracting synergies in procurement and sales/distribution network and by leveraging STG's scale, brand portfolio and infrastructure to drive growth. Through the integration of acquisitions into STG's operations, STG seeks to improve the total STG business utilising competitive advantages inherent in both STG and the acquired businesses. As part of the integration process, STG explores all integration possibilities for both sales forces and integration/closure of production sites to achieve the optimal post-acquisition footprint. Integration procedures, such as reducing headcount or closure of production sites, can involve significant nonrecurring costs in order to achieve subsequent reductions in total cost base.

Seasonality

STG's net sales have historically fluctuated from one quarter to the next due to various factors, including weather conditions, holidays and the timing of customer purchases. For example, STG tends to experience higher net sales during the summer months when the weather is warmer and lower net sales during the colder winter months. STG's net sales tend to be lowest during the first quarter of the year, and net sales during the fourth quarter tend to be lower than the second and third quarters. Especially in the handmade cigars segment, STG also tends to experience increased sales around certain holidays, including Christmas, Father's Day and Thanksgiving. Gross profit and EBITDA generally follow the development of net sales; however, EBITDA is usually slightly lower for the fourth quarter mainly due to increased sales and marketing activity and, therefore, expenses, and year-end trade bonuses.

A significant portion of STG's sales are to wholesalers, distributors and retailers that maintain inventories of STG's products. Certain customers purchase their anticipated requirements for six months or more. Accordingly, the timing of purchases by customers and customers' inventory levels affect STG's results of operations. For example, STG's distributor in France reduced its target inventory levels in 2013 and, therefore, made a one-time reduction in purchases from STG in 2013 in accordance with new aligned contracts. This adversely affected the machine-made cigars segment's net sales in 2013. Customer buying patterns are often affected by changes in excise tax rates. Excise tax rates increase frequently and STG's customers often purchase larger stocks before excise tax rates increase. This, in turn, affects STG's sales volumes and results of operations.

Costs

Cost of Goods Sold

STG's cost of goods sold include the costs of tobacco leaf, non-tobacco materials (such as packaging), direct labour, and indirect production costs mainly related to maintenance, operation, administration and management of its production facilities.

Tobacco leaf is the most important raw material for STG and accounts for approximately one third of STG's cost of goods sold. The cost of tobacco leaf is affected by a variety of factors, such as supply, demand, climate conditions, harvest yields, currency fluctuations (tobacco leaf is traded mostly in U.S. dollars), the pace of inflation, agricultural input prices and energy costs. STG's costs for tobacco leaf are influenced by the volume purchased as well as the type and quality of tobacco that STG purchases, which can vary from year to year, based on various factors, including STG's production volumes and the types of products produced. For example, the trend towards value category products in recent years has contributed to lowering STG's cost of goods sold.

The costs of non-tobacco materials, such as packaging, accounts for approximately one quarter of STG's cost of goods sold. During the periods under review, STG's costs for non-tobacco materials have been affected by production volumes, inflation, product mix and currency fluctuations. Certain packaging, such as tins and ornate wooden boxes for handmade cigars, has higher costs than other packaging, such as shoulder boxes and folding cartons.

Direct labour costs account for approximately one fifth of STG's cost of goods sold. STG's production footprint concentrates labour-intensive production processes, such as wrapper and binder production for machine-made cigars and handmade cigar production, in low-cost regions in Latin America and in Indonesia. In developed countries, STG has generally experienced direct labour cost and indirect production cost increases in line with inflation during the periods under review.

Staff Costs

During the periods under review, STG's staff costs have generally increased in line with inflation. STG has also incurred nonrecurring staff costs related to personnel reductions in connection with its restructuring initiatives, including the 6-2-4 Project. For example, STG incurred nonrecurring costs in connection with the closing of the production facility in Houthalen, Belgium, in 2013 and personnel reductions in markets impacted by the acquisition of Verellen in 2014 and at Lane. While personnel reductions have resulted in significant nonrecurring costs for STG, they contribute to reducing STG's staff costs over time. STG has also experienced an increase in staff costs at Cigars International due to the growth of the Cigars International business and corresponding increase in the number of personnel as well as in Germany due to increased activity.

Other External Costs

STG's other external costs consist mainly of expenses for sales, marketing, distribution and premises as well as office expenses and fees paid to external advisers. Product innovation and brand portfolio management costs are also reported under other external costs.

STG's approach to product innovation and brand portfolio management is one of its core strengths and is a key strategic focus area. Founded in a deep understanding of consumer needs and trends, STG innovation aspires to continuously offer consumers the best smoking experience. STG's departments responsible for product innovation have launched several successful initiatives in recent years, including new brands, product variants and concepts, relaunches and line extensions. See "*—Volume and Price Development*" above. During the periods under review, STG's product innovation and brand portfolio management costs have been stable.

Impact of Regulation and Taxation of Tobacco Products

The tobacco industry is heavily regulated and subject to a variety of excise and other taxes, which have had, and are expected to continue to have, a significant impact on STG's results of operations. The following discussion includes information on the governmental, economic, fiscal, monetary or political policies or factors that have materially affected or that the Company believes could materially affect its operations.

Regulation

Driven by the FCTC, the FDA and the EU, STG expects that the trend toward increased regulation will continue. These types of tobacco-control regulations can impact STG's ability to compete and ability to differentiate products and may adversely impact STG's overall sales volumes and profitability, as well as increase operational complexity and STG's costs. For additional information on such regulation, see "*Regulation*" and "*Risk Factors—Risks Relating to STG's Industry—STG faces increasing tobacco products related regulation, which could have a material adverse effect on its business, financial condition and results of operations*".

STG believes that its scale allows it to efficiently cope with the increasing resource requirements related to regulatory changes in the global tobacco industry, for example in Europe with the implementation of the TPD. By leveraging know-how and scale compared to smaller competitors, STG is able to potentially grow its market share when smaller competitors struggle to meet regulatory requirements. During the periods under review, new and increased regulation has primarily affected STG's costs, but has not had a significant impact on its sales volumes. For example, Australia has required all tobacco products to have standardised or "plain" packaging since 2012. The new regulation required STG to redesign its packaging. By preparing for the new regulation, STG was able to supply its products to the Australian market without interruption, unlike one of its competitors in the pipe tobacco market. A temporary absence of its competitor from the market combined with the strong consumer recognition of its brands contributed to the increase in STG's pipe tobacco sales volumes in Australia after the new regulation was implemented, resulting in STG gaining the leading market position in pipe tobacco. STG's pipe tobacco sales volumes declined when the competitor returned to the market, but STG maintained its leading market position.

The TPD is expected to significantly affect STG's products and, therefore, STG has devoted and continues to spend significant resources in the preparation for the changes that are expected to follow from the implementation of the TPD. STG is redesigning all packaging for its products sold in the EU to comply with the new labelling requirements including, for example, the new ban on any references to taste and smell. STG is also revising packaging formats and types where the TPD makes it technically or economically unfeasible to utilise the current packaging formats. In order to accommodate the new packaging formats, STG will introduce new machinery and also rebuild existing old machinery. As part of its ongoing initiatives to further reduce complexity in its supply chain, optimise efficiency and prepare for the implementation of the TPD, STG is in the process of reducing the total number of product configurations in the machine-made cigars, pipe tobacco and fine-cut tobacco segments by almost 40 percent by discontinuing approximately 45 percent of its machine-made cigar product configurations and approximately 27 percent of its pipe tobacco and fine-cut tobacco product configurations. Reducing the number of product configurations will reduce the number of packaging designs that will need to be made TPD compliant and, therefore, facilitate compliance with the TPD. STG recorded nonrecurring costs of DKK 38.8 million related to the implementation of measures in preparation for the TPD on its consolidated income statement for the nine months ended 30 September 2015. STG estimates that these nonrecurring costs already recorded represent a significant amount of the total of such costs. Further, STG estimates that the total TPD-related investments in fixed assets will amount to approximately DKK 200 million to DKK 230 million, which will be recorded primarily in 2015 and 2016. STG may have to incur additional costs in certain markets should the TPD be implemented in a manner that sets requirements that exceed the minimum requirements of the TPD.

Taxation of Tobacco Products

The levels of excise tax, VAT and other taxes are major factors in determination of the retail price of tobacco products as they are included in the retail price of STG's products in most of the countries in which STG operates. In general, tobacco related taxes have increased in recent years and STG expects this trend to continue. Although these taxes are not included in STG's revenues, changes in taxes affect STG's price-setting as STG chooses whether and to what extent it reflects such changes in the sales prices of its tobacco products. Such price changes may vary from brand to brand even within a single market. STG generally aims to pass on increases in excise taxes to consumers, and STG may revise prices above or below the amount needed to reflect tax changes for certain brands, which thus results in higher or lower revenue. Reflecting part or all of a tax increase through an increase in the sales price may reduce consumption or cause demand to shift towards lower priced products or different categories. Increasing sales prices more than necessary to reflect a tax increase would directly increase STG's profitability while absorbing a tax increase without a corresponding sales price increase would directly reduce STG's profitability, in each case assuming unchanged sales volumes.

See "*Regulation—Taxes on Tobacco Products*" and "*Risk Factors—Risks Relating to STG's Industry—Changes in excise tax rates on tobacco products, in particular alignment of excise tax rates across tobacco product categories, could have a material adverse effect on demand for STG's products*".

Depreciation and Amortisation

STG's assets include substantial intangible assets, primarily goodwill and trademarks. The majority of STG's goodwill and trademarks are attributable to the establishment of STG in 2010 and the acquisition of Lane in 2011. In connection with these transactions, intangible assets were identified and measured at fair value at the date of the transaction. As at 30 September 2015, goodwill and trademarks totalled DKK 4,434.6 million (or 31.2 percent of STG's total assets) and DKK 3,339.6 million (or 23.5 percent of STG's total assets), respectively. STG assesses annually whether there has been an impairment in the value of its goodwill and trademarks, or when certain events indicate a special risk for impairment. Should any event cause STG to conclude that impairment exists, STG would be required to record a non-cash impairment on its income statement and to write down the value of the affected intangible assets. For additional information on STG's accounting policies related to goodwill and trademarks, see note 3.1 to the Audited Consolidated Financial Statements.

STG's depreciation and amortisation charges amounted to DKK 228.0 million for the nine months ended 30 September 2015, DKK 269.5 million for the year ended 31 December 2014, DKK 399.9 million for the year ended 31 December 2013 and DKK 369.9 million for the year ended 31 December 2012. In 2014, STG's management reassessed the useful lives of certain intangible and tangible assets, including trademarks, capitalised IT costs and production equipment. The reassessment was based on STG's acknowledgement that its strategic trademarks are well known historic trademarks with high recognition and potential to continue generating profits for the Group beyond 25 years. The revised estimated useful lives are also in alignment with industry practice.

The following table sets forth the changes in amortisation and depreciation periods and the corresponding effect on depreciation and amortisation charges for the year ended 31 December 2014:

	Previous estimate of useful lives	Revised estimate of useful lives	Effect on depreciation and amortisation for the year ended 31 December 2014
	(years)	(years)	(DKK in millions)
Trademarks	10–25	10–25 / indefinite	92
IT software	3–5	5	15
Plant and machinery	3–20	12–20	20
Total effect on depreciation and amortisation			127

For 2014, the change in the estimates decreased depreciation and amortisation by DKK 127 million and increased net profit for the year by DKK 94 million. The change in estimates is expected to have a run-rate effect going forward.

Recent Developments

On 18 November 2015, STG announced that Craig Reynolds had been appointed Executive Vice President for handmade cigars globally and that Regis Broersma had been appointed President of General Cigar.

Since 30 September 2015, STG's business has continued to perform in line with the consolidated prospective financial information for 2015. In general, STG's net sales for 2015 are estimated to be broadly in line with the trends seen in the first nine months of 2015. Adjusted EBITDA margin for 2015 is estimated to be in line with 2014, but to contract slightly as compared to the first nine months of 2015. See "*—Principal Factors Affecting STG's Results of Operations—Seasonality*" above. See also "*Consolidated Prospective Financial Information*".

Description of Income Statement Line Items

Net Sales

STG's net sales consist of revenue from the sale of goods, contract manufacturing and licensing to third parties in certain markets. Revenue is recognised exclusive of VAT and excise taxes, except for sales derived from STG's retail business, which includes certain excise taxes and import duties, and net of discounts relating to sales.

Cost of Goods Sold

STG's cost of goods sold comprises costs of tobacco leaf, non-tobacco materials (*e.g.*, packaging), direct labour costs and indirect production costs, such as maintenance as well as operation, administration and management of factories. STG's cost of goods sold also includes the cost of third-party tobacco products and accessories sold by STG.

Other External Costs

STG's other external costs consist mainly of expenses for sales, marketing, distribution and premises as well as office expenses and fees paid to external advisers.

Staff Costs

STG's staff costs consist mainly of wages and salaries other than direct and indirect labour costs.

Other Income

STG's 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.

Depreciation

STG's depreciation consists of depreciation and impairment of buildings, plant and machinery, equipment, tools and fixtures and leasehold improvements.

Amortisation

STG's amortisation consists mainly of amortisation and impairment of trademarks, IT software and other intangible assets.

Financial Income and Financial Costs

STG's financial income and financial costs consist mainly of interest, realised and unrealised exchange gains/losses, hedging costs, interest part of pension costs and other financial income and costs.

Income Taxes

STG's income taxes consist of current tax for the period and deferred tax for the period.

Results of Operations

The following table sets forth a summary of STG's results of operations for the periods indicated:

	For the nine months ended 30 September		For the year ended 31 December		
	2015	**2014**	**2014**	**2013**	**2012**
	(unaudited)		(audited)		
	(DKK in millions)				
CONSOLIDATED INCOME STATEMENT DATA					
Net sales	4,965.4	4,495.8	6,126.0	5,925.3	5,978.0
Cost of goods sold	(2,548.4)	(2,349.4)	(3,178.7)	(3,010.8)	(2,986.5)
Gross profit	2,417.0	2,146.4	2,947.3	2,914.5	2,991.5
Other external costs	(799.7)	(744.7)	(1,049.9)	(1,108.4)	(1,066.5)
Staff costs	(679.8)	(535.1)	(748.9)	(631.8)	(623.8)
Other income	1.3	0.7	28.7	0.3	0.1
Earnings before interest, tax, depreciation and amortisation (EBITDA)	938.8	867.3	1,177.2	1,174.6	1,301.3
Depreciation	(90.5)	(74.4)	(102.0)	(128.8)	(125.0)
Earnings before interest, tax and amortisation (EBITA)	848.3	792.9	1,075.2	1,045.8	1,176.3
Amortisation	(137.5)	(122.8)	(167.5)	(271.1)	(244.9)
Earnings before interest and tax (EBIT)	710.8	670.1	907.7	774.7	931.4
Share of profit of associated companies, net of tax	7.0	3.6	6.2	5.4	11.9
Financial income	15.5	17.0	29.1	5.7	5.4
Financial costs	(75.5)	(70.8)	(97.4)	(110.1)	(106.1)
Profit before tax	657.8	619.9	845.6	675.7	842.6
Income taxes	(164.4)	(158.3)	(205.8)	(102.9)	(224.4)
Net profit for the period	493.4	461.6	639.8	572.8	618.2

The following table sets forth a reconciliation of adjusted net sales to net sales for the periods indicated:

	For the nine months ended 30 September		For the year ended 31 December		
	2015	2014	2014	2013	2012
	(unaudited)		(audited)		
	(DKK in millions)				
Net sales	4,965.4	4,495.8	6,126.0	5,925.3	5,978.0
Nonrecurring items					
Provisions for products returned due to regulatory changes	6.9[(1)]	–	–	–	–
Total nonrecurring items	6.9	–	–	–	–
Adjusted net sales	4,972.3	4,495.8	6,126.0	5,925.3	5,978.0

(1) Provisions for products returned due to regulatory changes for the nine months ended 30 September 2015 related to products returned as a result of the implementation of a ban on certain flavourings in Canada.

The following table sets forth a reconciliation of adjusted gross profit to gross profit for the periods indicated:

	For the nine months ended 30 September		For the year ended 31 December		
	2015	2014	2014	2013	2012
	(unaudited)		(audited)		
	(DKK in millions)				
Gross profit	2,417.0	2,146.4	2,947.3	2,914.5	2,991.5
Nonrecurring items					
Reversal of provision following the combination with Swedish Match	–	–	–	–	(21.8)[(1)]
Provisions for obsolete stock due to regulatory changes	43.7[(2)]	–	–	–	–
Total nonrecurring items	43.7	–	–	–	(21.8)
Adjusted gross profit	2,460.7	2,146.4	2,947.3	2,914.5	2,969.7

(1) Reversal of provision for the year ended 31 December 2012 related to the reversal of a portion of the provisions for tobacco inventory that were recorded in connection with the establishment of STG in 2010.

(2) Provisions for obsolete stock due to regulatory changes for the nine months ended 30 September 2015 related mainly to products and packaging STG expects to become obsolete following the implementation of the TPD and to a lesser extent provisions made for products returned as a result of the implementation of a ban on certain flavourings in Canada.

The following table sets forth a reconciliation of adjusted EBITDA to EBITDA for the periods indicated:

	For the nine months ended 30 September		For the year ended 31 December		
	2015	2014	2014	2013	2012
	(DKK in millions)				
EBITDA	938.8	867.3	1,177.2	1,174.6	1,301.3
Nonrecurring items					
Restructuring expenses	56.8[(1)]	12.7[(2)]	65.9[(3)]	23.5[(4)]	–
Transaction expenses	9.2[(5)]	–	20.0[(5)]	–	–
Provisions for obsolete stock due to regulatory changes	45.8[(6)]	–	–	–	–
Reversal of provisions following the combination with Swedish Match	–	–	–	–	(30.1)[(7)]
Gains from sale of buildings	–	–	(16.5)[(8)]	–	(3.0)[(9)]
Total nonrecurring items	111.8	12.7	69.4	23.5	(33.1)
Adjusted EBITDA	1,050.6	880.0	1,246.6	1,198.1	1,268.2

(1) Restructuring expenses for the nine months ended 30 September 2015 related mainly to the reduction in workforce in the machine-made cigars segment that STG announced in September 2015 as part of its ongoing efficiency measures aimed at optimising its supply chain (DKK 42 million), together with certain other reductions in workforce and other restructurings.

(2) Restructuring expenses for the nine months ended 30 September 2014 related mainly to reductions in STG's supply chain workforce in Europe in connection with the 6-2-4 Project.

(3) Restructuring expenses for the year ended 31 December 2014 related mainly to reductions in STG's sales workforces in France and Belgium following the acquisition of Verellen N.V. as well as reductions in STG's supply chain workforce in Europe in connection with the 6-2-4 Project, in Indonesia and in the United States.

(4) Restructuring expenses for the year ended 31 December 2013 related mainly to a reduction in workforce in group functions, as well as a reduction in STG's supply chain workforce in the United States.

(5) Transaction expenses related to expenses incurred in connection with the Offering and related preparations, incurred in connection with various strategic alternatives considered by the Company and the Selling Shareholders and related management transaction incentives.

(6) Provisions for obsolete stock due to regulatory changes for the nine months ended 30 September 2015 related mainly to products and packaging STG expects to become obsolete following the implementation of the TPD and to a lesser extent provisions made for products returned as a result of the implementation of a ban on certain flavourings in Canada.

(7) Reversal of provisions for the year ended 31 December 2012 related to the reversal of a portion of the provisions for tobacco inventory that were recorded in connection with the establishment of STG in 2010 (DKK 21.8 million) and reversals of a portion of the provisions related to distribution contracts with third-party distributors in connection with the combination with Swedish Match (DKK 8.3 million).

(8) Gains from sale of buildings for the year ended 31 December 2014 related to the divestment of the production facility in Houthalen, Belgium, in connection with the completed 6-2-4 Project.

(9) Gains from sale of buildings for the year ended 31 December 2012 related to a sale of a building in France following the combination with Swedish Match.

Volume/Market Mix Impact and Price/Product Mix Impact

In order to monitor developments in its underlying business, STG follows the organic development in its net sales and gross profit. STG defines organic development as development excluding the effect of currency fluctuations and significant acquisitions. STG further breaks down the organic development into volume impact and price/mix impact in order to analyse the reasons behind the organic development. The sum of the volume impact and price/mix impact for a period equals the organic development for the period.

The following table sets forth information on the organic development in STG's net sales by segment for the periods indicated:

	Organic development in net sales[(1)]								
	For the nine months ended 30 September 2015 as compared to 2014			For the year ended 31 December					
				2014 as compared to 2013			2013 as compared to 2012		
	Change	Volume impact	Price/mix impact	Change	Volume impact	Price/mix impact	Change	Volume impact	Price/mix impact
		(percent)			(percent)			(percent)	
Handmade cigars	8.2	5.9	2.3	9.6	7.3	2.3	2.3	(3.0)	5.3
Machine-made cigars	(2.9)	(6.3)	3.4	2.2	(0.6)	2.8	(2.6)	(4.2)	1.6
Pipe tobacco	(2.7)	(9.5)	6.8	0.5	(3.1)	3.6	5.4	1.5	3.9
Fine-cut tobacco	2.1	(2.3)	4.4	8.8	1.1	7.7	7.3	0.7	6.6
Other	(8.8)	n/a[(2)]	n/a[(2)]	(6.6)	n/a[(2)]	n/a[(2)]	1.2	n/a[(2)]	n/a[(2)]
Total	(0.6)	n/a[(2)]	n/a[(2)]	2.9	n/a[(2)]	n/a[(2)]	0.7	n/a[(2)]	n/a[(2)]

(1) Adjusted to exclude the effect of currency fluctuations and the acquisition of Verellen in September 2014.

(2) Volume impact and price/mix impact cannot be calculated separately for the other segment or total net sales.

Volume Impact

Volume/market mix impact (defined by STG as "volume impact") for net sales is calculated as the change in sales volumes between two periods multiplied by the average sales price (calculated by dividing net sales by sales volumes) from the earlier period in a specific geographic market. For gross profit, volume impact is calculated as the change in sales volumes between two periods multiplied by the average gross profit (calculated by dividing gross profit by sales volumes). STG calculates volume impact by segment and geographic market. Therefore, volume impact reflects the effect of changes in sales volumes and geographic sales mix on net sales and gross profit.

STG believes that volume impact is a better indicator of the developments in its results of operations than changes in absolute sales volumes as volume impact reflects the economic impact of changes in sales volumes across geographic markets on net sales and gross profit. STG's mature markets generally have higher average sales prices than STG's developing markets. Accordingly, changes in STG's market sales mix affects its results of operations as a change in sales volumes in one of STG's mature markets would have a more significant effect than the same change in sales volumes in one of STG's emerging markets. Furthermore, the range of products within each of STG's segments varies significantly in terms of sales prices and sizes/formats. This is especially relevant for the machine-made cigar segment, where STG's larger cigars can have more than ten times the tobacco content of its value priced cigars, and sales prices vary accordingly. As cigar sales volumes are measured in number of cigars rather than tobacco content, developments in absolute sales volumes generally do not reflect the changes in STG's results of operations. For example, the absolute sales volumes of the machine made cigars segment were largely stable in 2013 as compared to 2012. However, due to lower sales volumes in France, which has above average sales prices, and increased sales volumes of value priced cigars in certain other markets, the net sales volume impact was negative 4.2 percent for the same period. Accordingly, STG does not consider developments in its absolute sales volumes to be representative of developments in its underlying business and, therefore, STG does not report absolute sales volume information.

Price/Mix Impact

Price/product mix impact (defined by STG as "price/mix impact") for net sales is calculated as the difference in average sales prices between two periods multiplied by the sales volumes of the later period. For gross profit, price/mix impact is calculated as the difference in average gross profits between two periods multiplied by the sales volumes of the later period. STG calculates price/mix impact by segment and geographic market. As the product mix in individual geographic markets is generally stable, price/mix impact generally represents changes in STG's product pricing. STG follows price/mix impact to show the effect of changes in its product pricing on its results of operations.

The Nine Months Ended 30 September 2015 as Compared to the Nine Months Ended 30 September 2014

The following table sets forth STG's net sales by geographic region for the periods indicated:

	For the nine months ended 30 September	
	2015	**2014**
	(unaudited) **(DKK in millions)**	
Americas[1]	2,219.6	1,734.3
Europe[2]	2,227.5	2,237.3
Rest of world	518.3	524.3
Total net sales	4,965.4	4,495.8

(1) Includes net sales in the United States of DKK 2,017.5 million for the nine months ended 30 September 2015 and DKK 1,530.9 million for the nine months ended 30 September 2014.

(2) Includes net sales in France of DKK 529.2 million for the nine months ended 30 September 2015 and DKK 485.6 million for the nine months ended 30 September 2014.

The following table sets forth information on STG's net sales by segment for the periods indicated:

	For the nine months ended 30 September								
		2015 as compared to 2014							2015 as compared to 2014
	2014			Total			Non-	2015	
	Net sales	Volume impact	Price/mix impact	organic change	Acquisitions	Currency fluctuations	recurring items	Net sales	Change in net sales
	(DKK in millions)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions)	(percent)
Handmade cigars	1,106.6	5.9	2.3	8.2	–	21.8	–	1,438.7	30.0
Machine-made cigars	1,885.2	(6.2)	3.4	(2.8)	6.0	2.9	(0.4)	1,991.5	5.6
Pipe tobacco	429.6	(9.5)	6.8	(2.7)	–	9.6	–	459.4	6.9
Fine-cut tobacco	407.3	(2.3)	4.4	2.1	–	5.7	–	439.0	7.8
Other	667.1	(8.8)[1]		(8.8)	0.6	3.6	–	636.8	(4.5)
Total	4,495.8	(0.6)[1]		(0.6)	2.6	8.6	(0.2)	4,965.4	10.5

(1) Volume impact and price/mix impact have not been calculated for the other segment (and, as a result, for total net sales) as net sales within the other segment are derived from various activities and separating volume and price would not be meaningful.

The following table sets forth information on STG's gross profit by segment for the periods indicated:

	For the nine months ended 30 September								
		2015 as compared to 2014							2015 as compared to 2014
	2014			Total			Non-	2015	
	Gross profit	Volume impact	Price/mix impact	organic change	Acquisitions	Currency fluctuations	recurring items	Gross profit	Change in gross profit
	(DKK in millions)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions)	(percent)
Handmade cigars	482.4	5.5	4.1	9.6	–	20.3	–	626.6	29.9
Machine-made cigars	949.0	(6.6)	9.2	2.6	5.8	3.6	(4.6)	1,017.8	7.3
Pipe tobacco	257.2	(7.4)	7.9	0.5	–	11.0	–	287.0	11.6
Fine-cut tobacco	220.9	(4.1)	19.1	15.0	–	5.1	–	265.3	20.1
Other	236.9	(10.6)[1]		(10.6)	0.1	3.5	–	220.3	(7.0)
Total	2,146.4	3.6[1]		3.6	2.6	8.4	(2.0)	2,417.0	12.6

(1) Volume impact and price/mix impact have not been calculated for the other segment (and, as a result, for total net sales) as net sales within the other segment are derived from various activities and separating volume and price would not be meaningful.

Group

Net Sales

STG's net sales for the nine months ended 30 September 2015 were DKK 4,965.4 million, an increase of DKK 469.6 million, or 10.5 percent, as compared to DKK 4,495.8 million for the nine months ended 30 September 2014.

Net sales in constant currencies increased 1.9 percent. The positive currency impact was primarily due to the appreciation of the U.S. dollar against the Danish krone.

The increase was driven by acquisition of Verellen (effective 1 September 2014), strong volume development in the handmade cigars segment and positive price/mix impacts across all main product segments. This more than compensated for decreased sales volumes in the machine-made cigars and pipe tobacco segments, largely following the overall declining market trend.

Cost of Goods Sold

STG's cost of goods sold for the nine months ended 30 September 2015 was DKK 2,548.4 million, an increase of DKK 199.0 million, or 8.5 percent, as compared to DKK 2,349.4 million for the nine months ended 30 September 2014.

Cost of goods sold in constant currencies decreased 0.2 percent. The negative currency impact was primarily due to appreciation of the U.S. dollar against the Danish krone.

Cost of goods sold in constant currencies and excluding the impact of the acquisition of Verellen and nonrecurring items decreased 4.4 percent. Nonrecurring items for the nine months ended 30 September 2015 amounted to 36.8 million and mainly related to provisions for obsolete stock related to products and packaging STG expects to become obsolete following the implementation of the TPD.

The decrease was driven by increased efficiency in the supply chain as well as decreased sales volumes in the machine-made cigars and pipe tobacco segments as well as the termination of a third-party distribution agreement in the United Kingdom. The decrease was partly offset by growth in sales volumes in the handmade cigars segment as well as general cost price increases in line with inflation.

Gross Profit

STG's gross profit for the nine months ended 30 September 2015 was DKK 2,417.0 million, an increase of DKK 270.6 million, or 12.6 percent, as compared to DKK 2,146.4 million for the nine months ended 30 September 2014.

Gross profit in constant currencies increased 4.2 percent. The positive currency impact was primarily due to the appreciation of the U.S. dollar against the Danish krone.

Gross profit in constant currencies and excluding the impact of the acquisition of Verellen and nonrecurring items increased 3.6 percent.

STG's gross profit margin for the nine months ended 30 September 2015 was 48.7 percent, an increase of 1.0 percentage points as compared to 47.7 percent for the nine months ended 30 September 2014. The increase was primarily due to margin improvements in the pipe tobacco and fine-cut tobacco segments for the nine months ended 30 September 2015 as well as efficiency gains in the supply chain arising mainly from better capacity utilisation in 2015 offset by nonrecurring provisions for obsolete stock of DKK 43.7 million related to products and packaging STG expects to become obsolete following the implementation of the TPD and to a lesser extent provisions made for products returned as a result of the implementation of a ban on certain flavourings in Canada. STG's adjusted gross profit margin for the nine months ended 30 September 2015 was 49.5 percent.

Handmade Cigars

The following table sets forth information on the handmade cigars segment's net sales and gross profit for the periods indicated:

	For the nine months ended 30 September								
	2014	2015 as compared to 2014			2015 as compared to 2014			2015	2015 as compared to 2014
	Total	Volume impact	Price/mix impact	Total organic change	Acquisitions, net	Currency fluctuations	Non-recurring items	Total	Change
	(DKK in millions / percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions / percent)	(percent)
Net sales	1,106.6	5.9	2.3	8.2	–	21.8	–	1,438.7	30.0
Gross profit	482.4	5.5	4.1	9.6	–	20.3	–	626.6	29.9
Gross profit margin, percent	43.6							43.6	
Adjusted gross profit margin, percent	43.6							43.6	

Net Sales

The handmade cigars segment's net sales for the nine months ended 30 September 2015 were DKK 1,438.7 million, an increase of DKK 332.1 million, or 30.0 percent, as compared to DKK 1,106.6 million for the nine months ended 30 September 2014.

Net sales in constant currencies increased 8.2 percent. The positive currency impact was mainly due to appreciation of the U.S. dollar against the Danish krone.

Volume impact on net sales was positive 5.9 percent. The volume impact was primarily driven by continued strong growth in the United States through the Cigars International's online and catalogue sales platforms. Sales through other channels by General Cigar remained stable between the periods. The price/mix impact was positive 2.3 percent and driven by annual price increases in the United States across sales and distribution channels.

Gross Profit

The handmade cigars segment's gross profit for the nine months ended 30 September 2015 was DKK 626.6 million, an increase of DKK 144.2 million, or 29.9 percent, as compared to DKK 482.4 million for the nine months ended 30 September 2014.

Gross profit in constant currencies increased 9.6 percent. The positive currency impact was due to appreciation of the U.S. dollar against the Danish krone.

Volume impact on gross profit was positive 5.5 percent following the trend of net sales. The price/mix impact was positive 4.1 percent and mainly driven by price increases in both Cigars International and General Cigar exceeding cost price increases.

The handmade cigars segment's gross profit margin for the nine months ended 30 September 2015 was 43.6 percent, as compared to 43.6 percent for the nine months ended 30 September 2014. The stable gross profit margin development was due to growth in the proportion of sales through Cigars International, which, being a retailer, generally has a lower gross profit margin than STG's remaining wholesale business, General Cigar, offset by price increases at Cigars International and General Cigar. In constant currencies, the gross profit margin increased following positive price developments.

Machine-made Cigars

The following table sets forth information on the machine-made cigars segment's net sales and gross profit for the periods indicated:

	For the nine months ended 30 September								
	2014	2015 as compared to 2014			2015 as compared to 2014			2015	2015 as compared to 2014
	Total	Volume impact	Price/mix impact	Total organic change	Acquisitions, net	Currency fluctuations	Non-recurring items	Total	Change
	(DKK in millions / percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions / percent)	(percent)
Net sales	1,885.2	(6.3)	3.4	(2.9)	6.0	2.9	(0.4)	1,991.5	5.6
Gross profit	949.0	(6.6)	9.2	2.6	5.7	3.6	(4.6)	1,017.8	7.3
Gross profit margin, percent	50.3							51.1	
Adjusted gross profit margin, percent	50.3							53.1	

Net Sales

The machine-made cigars segment's net sales for the nine months ended 30 September 2015 were DKK 1,991.5 million, an increase of DKK 106.3 million, or 5.6 percent, as compared to DKK 1,885.2 million for the nine months ended 30 September 2014.

Net sales in constant currencies increased 2.8 percent, with positive impact from the acquisition of Verellen and annual price increases more than offsetting declining sales volumes following the market development. The positive currency impact was mainly due to appreciation of the U.S. dollar, British pound and Canadian dollar against the Danish krone.

Net sales in constant currencies and excluding the impact from the acquisition of Verellen and nonrecurring items decreased 2.9 percent.

Volume impact on net sales was negative 6.3 percent. The volume impact was driven by decreases in sales volumes in a number of STG's developed markets, mainly the Netherlands, Canada, Belgium, Finland and the United Kingdom, in line with market developments. Furthermore, an adverse change in excise tax structure in Denmark had a negative impact on sales volumes. The price/mix impact was positive 3.4 percent and driven by annual price increases across most markets with the most significant impact from France, the Netherlands, the United States and Norway.

Gross Profit

The machine-made cigars segment's gross profit for the nine months ended 30 September 2015 was DKK 1,017.8 million, an increase of DKK 68.8 million, or 7.3 percent, as compared to DKK 949.0 million for the nine months ended 30 September 2014.

Gross profit in constant currencies increased 3.7 percent. The positive currency impact was mainly due to appreciation of the U.S. dollar, British pound and Canadian dollar against the Danish krone.

Gross profit in constant currencies and excluding the impact of the acquisition of Verellen and nonrecurring items increased 2.6 percent. The machine-made cigars segment's gross profit for the nine months ended 30 September 2015 included nonrecurring provisions for obsolete stock of DKK 43.7 million related to products and packaging, which STG expects to become obsolete following the implementation of the TPD and to a lesser extent provisions made for products returned as a result of the implementation of a ban on certain flavourings in Canada.

Volume impact on gross profit was negative 6.6 percent following the trend of net sales. The price/mix impact was positive 9.2 percent and mainly driven by improved gross profit margins primarily in the United States and Norway due to price increases.

The machine-made cigars segment's gross profit margin for the nine months ended 30 September 2015 was 51.1 percent, an increase of 0.8 percentage points as compared to 50.3 percent for the nine months ended 30 September 2014. The increase was primarily due to lower production costs driven by continuous efforts to optimise supply chain efficiency. The machine-made cigars segment's adjusted gross profit margin for the nine months ended 30 September 2015 was 53.1 percent.

Pipe Tobacco

The following table sets forth information on the pipe tobacco segment's net sales and gross profit for the periods indicated:

	For the nine months ended 30 September								
	2014	2015 as compared to 2014			2015 as compared to 2014			2015	2015 as compared to 2014
	Total	Volume impact	Price/mix impact	Total organic change	Acquisitions, net	Currency fluctuations	Non-recurring items	Total	Change
	(DKK in millions / percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions / percent)	(percent)
Net sales	429.6	(9.5)	6.8	(2.7)	–	9.6	–	459.4	6.9
Gross profit	257.2	(7.4)	7.9	0.5	–	11.0	–	287.0	11.6
Gross profit margin, percent	59.9							62.5	
Adjusted gross profit margin, percent	59.9							62.5	

Net Sales

The pipe tobacco segment's net sales for the nine months ended 30 September 2015 were DKK 459.4 million, an increase of DKK 29.8 million, or 6.9 percent, as compared to DKK 429.6 million for the nine months ended 30 September 2014.

Net sales in constant currencies decreased 2.7 percent. The positive currency impact was mainly due to appreciation of the U.S. dollar against the Danish krone.

Volume impact on net sales was negative 9.5 percent. The volume impact was mainly driven by declining total pipe tobacco markets in some of STG's markets, with the most significant impact from Nigeria and Iraq due to political instability and inventory reduction by STG's customers. The price/mix impact was positive 6.8 percent and driven by annual price increases across most of STG's markets, as well as a positive impact from product mix in the United States due to a lower proportion of "dual-usage" pipe tobacco, which is sold at lower prices than traditional pipe tobacco.

Gross Profit

The pipe tobacco segment's gross profit for the nine months ended 30 September 2015 was DKK 287.0 million, an increase of DKK 29.8 million, or 11.6 percent, as compared to DKK 257.2 million for the nine months ended 30 September 2014.

Gross profit in constant currencies increased 0.5 percent with favourable price/mix impact more than compensating for declining sales volumes. The positive currency impact was mainly due to appreciation of the U.S. dollar against the Danish krone.

Volume impact on gross profit was negative 7.4 percent following the trend of net sales. The price/mix impact was positive 7.9 percent and mainly driven by price increases across most of STG's markets, as well as the change in product mix in the United States.

The pipe tobacco segment's gross profit margin for the nine months ended 30 September 2015 was 62.5 percent, an increase of 2.6 percentage points as compared to 59.9 percent for the nine months ended 30 September 2014. The increase was primarily due to lower sales volumes in Nigeria and Iraq, which have below average margins, and the positive development in the product mix in the United States as well as price increases across all markets.

Fine-cut Tobacco

The following table sets forth information on the fine-cut tobacco segment's net sales and gross profit for the periods indicated:

	For the nine months ended 30 September								
	2014	2015 as compared to 2014			2015 as compared to 2014			2015	2015 as compared to 2014
	Total	Volume impact	Price/mix impact	Total organic change	Acquisitions, net	Currency fluctuations	Non-recurring items	Total	Change
	(DKK in millions / percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions / percent)	(percent)
Net sales	407.3	(2.3)	4.4	2.1	–	5.7	–	439.0	7.8
Gross profit	220.9	(4.1)	19.1	15.0	–	5.1	–	265.3	20.1
Gross profit margin, percent	54.2							60.4	
Adjusted gross profit margin, percent	54.2							60.4	

Net Sales

The fine-cut tobacco segment's net sales for the nine months ended 30 September 2015 were DKK 439.0 million, an increase of DKK 31.7 million, or 7.8 percent, as compared to DKK 407.3 million for the nine months ended 30 September 2014.

Net sales in constant currencies increased 2.1 percent. The positive currency impact was mainly due to appreciation of the U.S. dollar against the Danish krone.

Volume impact on net sales was negative 2.3 percent. The negative volume impact was mainly driven by decreased volumes due to termination of a third-party distribution agreement in the United Kingdom, which was partly offset by increased sales volumes in Germany from Break branded products. Price/mix impact was positive 4.4 percent. The positive price/mix impact was driven by annual price increases in a number of markets, with the most significant impact from the United States and Norway.

Gross Profit

The fine-cut tobacco segment's gross profit for the nine months ended 30 September 2015 was DKK 265.3 million, an increase of DKK 44.4 million, or 20.1 percent, as compared to DKK 220.9 million for the nine months ended 30 September 2014.

Gross profit in constant currencies increased 15.0 percent. The positive currency impact was mainly due to appreciation of the U.S. dollar against the Danish krone.

Volume impact on gross profit was negative 4.1 percent and mainly driven by the loss of a third-party distribution agreement in the United Kingdom, as well as volume declines in the high margin global travel retail business. The price/mix impact was positive 19.1 percent mainly due to significant price increases in Norway, as well as improved gross profit margin on Break in Germany.

The fine-cut tobacco segment's gross profit margin for the nine months ended 30 September 2015 was 60.4 percent, an increase of 6.2 percentage points as compared to 54.2 percent for the nine months ended 30 September 2014. The increase was primarily due to the termination of the third party distribution agreement in the United Kingdom as these products were sold at a gross profit margin significantly below the segment's average. Furthermore, price increases in a number of markets and insourcing of the production of expanded tobacco supported the increase in gross profit margin.

Other

The following table sets forth information on the other segment's net sales and gross profit for the periods indicated:

	For the nine months ended 30 September							
		2015 as compared to 2014		2015 as compared to 2014				
	2014	Volume and price/mix impact	Total organic change	Acquisitions, net	Currency fluctuations	Non-recurring items	2015	2015 as compared to 2014
	Total						Total	Change
	(DKK in millions / percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions / percent)	(percent)
Net sales	667.1	(8.8)	(8.8)	0.6	3.6	–	636.8	(4.5)
Gross profit	236.9	(10.6)	(10.6)	0.1	3.5	–	220.3	(7.0)
Gross profit margin, percent	35.5						34.6	
Adjusted gross profit margin, percent	35.5						34.6	

Net Sales

The other segment's net sales for the nine months ended 30 September 2015 were DKK 636.8 million, a decrease of DKK 30.3 million, or 4.5 percent, as compared to DKK 667.1 million for the nine months ended 30 September 2014.

Net sales in constant currencies decreased 8.2 percent. The positive currency impact was mainly due to appreciation of the U.S. dollar against the Danish krone.

The decrease was primarily due to a decline in contract manufacturing volumes for Captain Black products for Russia. This development was partly offset by growth in sales of smoking accessories mainly in the United States.

As of July 2015, STG assumed the distribution of Captain Black products in Russia from a third party and as such 2015 has been a transition year. Due to transition and some large inventories in the market purchased in 2014, Captain Black sales volumes to Russia for the nine months ended 30 September 2015 were significantly lower than for the nine months ended 30 September 2014. In the future, sales of Captain Black to Russia will be reported in the machine-made cigars segment.

Gross Profit

The other segment's gross profit for the nine months ended 30 September 2015 was DKK 220.3 million, a decrease of DKK 16.6 million, or 7.0 percent, as compared to DKK 236.9 million for the nine months ended 30 September 2014.

Gross profit in constant currencies decreased 10.5 percent. The positive currency impact was mainly due to appreciation of the U.S. dollar against the Danish krone.

The other segment's gross profit margin for the nine months ended 30 September 2015 was 34.6 percent, a decrease of 0.9 percentage points as compared to 35.5 percent for the nine months ended 30 September 2014. The decrease was primarily due to the decline in contract manufacturing volumes for Captain Black products for Russia.

Other External Costs

STG's other external costs for the nine months ended 30 September 2015 was DKK 799.7 million, an increase of DKK 55.0 million, or 7.4 percent, as compared to DKK 744.7 million for the nine months ended 30 September 2014.

Other external costs in constant currencies decreased 1.2 percent. The negative currency impact was mainly due to appreciation of the U.S. dollar against the Danish krone

The decrease was mainly due to lower marketing expenses compared to the nine months ended 30 September 2014. The decrease was partly offset by general inflation.

Staff Costs

STG's staff costs for the nine months ended 30 September 2015 were DKK 679.8 million, an increase of DKK 144.7 million, or 27.0 percent, as compared to DKK 535.1 million for the nine months ended 30 September 2014.

Staff costs in constant currencies increased 20.0 percent. The negative currency impact was mainly due to appreciation of the U.S. dollar against the Danish krone.

The increase was primarily due to nonrecurring expenses of approximately DKK 56.8 million mainly arising from the reduction in workforce in the machine-made cigars segment that STG announced in September 2015 as part of its ongoing efficiency measures aimed at optimising its supply chain (DKK 42 million) and integration of sales forces as part of the Verellen acquisition, increased bonus payments driven by better EBITDA performance and general inflation.

Other Income

STG's other income for the nine months ended 30 September 2015 was DKK 1.3 million, an increase of DKK 0.6 million, as compared to DKK 0.7 million for the nine months ended 30 September 2014.

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)

STG's EBITDA for the nine months ended 30 September 2015 was DKK 938.8 million, an increase of DKK 71.5 million, or 8.2 percent, as compared to DKK 867.3 million for the nine months ended 30 September 2014.

EBITDA in constant currencies decreased 0.8 percent. The positive currency impact was mainly due to appreciation of the U.S. dollar against the Danish krone.

During the nine months ended 30 September 2015, STG took concrete steps and implemented several actions to increase productivity and build a stronger company for the future. Key elements included a detailed plan to rationalise its product portfolio and the number of product configurations, together with the announcement of a sizeable reduction of the workforce in the supply chain. Portfolio rationalisation is also an important component of the preparations for the TPD (to be implemented in May 2016). These steps resulted in total nonrecurring costs of DKK 111.8 million for the nine months ended 30 September 2015.

Adjusted EBITDA in constant currencies increased 10.5 percent, driven by strong growth in handmade cigars, positive price effects across all main product segments and supply chain efficiencies.

Depreciation and Amortisation

STG's depreciation and amortisation for the nine months ended 30 September 2015 was DKK 228.0 million, an increase of DKK 30.8 million, or 15.6 percent, as compared to DKK 197.2 million for the nine months ended 30 September 2014. The increase was primarily due to currency impact driven by the appreciation of the U.S. dollar against the Danish krone, nonrecurring impairment of assets caused by TPD and the impact on depreciation from the production facility in Wuustwezel that was acquired as part of the acquisition of Verellen in September 2014 as well as the new expanded tobacco production facility in Holstebro, Denmark, which commenced production at the end of 2014.

Earnings before Interest and Tax (EBIT)

STG's EBIT for the nine months ended 30 September 2015 was DKK 710.8 million, an increase of DKK 40.7 million, or 6.1 percent, as compared to DKK 670.1 million for the nine months ended 30 September 2014.

Net Financial Items

STG's net financial costs for the nine months ended 30 September 2015 were DKK 60.0 million, an increase of DKK 6.2 million, or 11.5 percent, as compared to DKK 53.8 million for the nine months ended 30 September 2014. The increase was primarily due to an increase in other interest expenses.

Income Taxes

STG's income taxes for the nine months ended 30 September 2015 were DKK 164.4 million, an increase of DKK 6.1 million, or 3.9 percent, as compared to DKK 158.3 million for the nine months ended 30 September 2014. The effective tax rate for the nine months ended 30 September 2015 was 25.0 percent, as compared to 25.5 percent for the nine months ended 30 September 2014. The effective tax rate for the nine months ended 30 September 2015 was positively impacted by prior year adjustments and reductions in the Danish and U.K. corporate tax rates. This was partly offset by a negative impact from increased activity/tax base in the United States and the appreciation of the U.S. dollar against the Danish krone.

The Year Ended 31 December 2014 as Compared to the Year Ended 31 December 2013

The following table sets forth STG's net sales by geographic region for the years indicated:

	For the year ended 31 December	
	2014	2013
	(audited) (DKK in millions)	
Americas[1]	2,373.5	2,282.9
Europe[2]	3,064.7	2,945.7
Rest of world	687.8	696.7
Total net sales	6,126.0	5,925.3

(1) Includes net sales in the United States of DKK 2,091.7 million for the year ended 31 December 2014 and DKK 1,977.4 million for the year ended 31 December 2013.

(2) Includes net sales in France of DKK 683.0 million for the year ended 31 December 2014 and DKK 623.1 million for the year ended 31 December 2013.

The following table sets forth information on STG's net sales by segment for the years indicated:

	For the year ended 31 December								
	2013	2014 as compared to 2013						2014	2014 as compared to 2013
	Net sales	Volume impact	Price/mix impact	Organic change	Acquisitions	Currency fluctuations	Non-recurring items	Net sales	Change in net sales
	(DKK in millions)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions)	(percent)
Handmade cigars	1,368.1	7.3	2.3	9.6	–	1.1	–	1,513.6	10.6
Machine-made cigars	2,512.9	(0.6)	2.8	2.2	2.6	(1.5)	–	2,595.2	3.3
Pipe tobacco	566.9	(3.1)	3.6	0.5	–	(0.1)	–	569.2	0.4
Fine-cut tobacco	521.8	1.1	7.7	8.8	–	(1.1)	–	561.8	7.7
Other	955.6	(6.6)[1]		(6.6)	0.4	(1.1)	–	886.2	(7.2)
Total	5,925.3	2.9[1]		2.9	1.2	(0.7)	–	6,126.0	3.4

(1) Volume impact and price/mix impact cannot be calculated separately for the other segment or total net sales.

The following table sets forth information on STG's gross profit by segment for the years indicated:

	For the year ended 31 December								
	2013	2014 as compared to 2013						2014	2014 as compared to 2013
	Gross profit	Volume impact	Price/mix impact	Organic change	Acquisitions	Currency fluctuations	Non-recurring items	Gross profit	Change in gross profit
	(DKK in millions)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions)	(percent)
Handmade cigars	603.0	7.4	0.4	7.8	–	1.0	–	656.0	8.8
Machine-made cigars	1,362.4	(0.1)	(0.9)	(1.1)	1.9	(2.5)	–	1,340.8	(1.6)
Pipe tobacco	333.2	(2.8)	4.9	2.1	–	0.0	–	340.2	2.1
Fine-cut tobacco	273.7	1.8	10.6	12.4	–	(2.8)	–	299.9	9.6
Other	342.2	(12.9)[1]		(12.9)	0.7	2.9	–	310.4	(9.3)
Total	2,914.5	1.0[1]		1.0	1.0	(0.9)	–	2,947.3	1.1

(1) Volume impact and price/mix impact cannot be calculated separately for the other segment or total net sales.

Group

Net Sales

STG's net sales for the year ended 31 December 2014 were DKK 6,126.0 million, an increase of DKK 200.7 million, or 3.4 percent, as compared to DKK 5,925.3 million for the year ended 31 December 2013.

Net sales in constant currencies increased 4.1 percent. The negative currency impact was mainly due to depreciation of the Australian dollar, Canadian dollar and Norwegian krone against the Danish krone, partly offset by appreciation of the U.S. dollar against the Danish krone.

Net sales in constant currencies and excluding impact from the acquisition of Verellen increased 2.9 percent. The increase was primarily driven by growth in sales volumes in handmade cigars in the United States, as well as positive price/mix development in STG's main segments: handmade cigars, machine-made cigars, pipe tobacco and fine-cut tobacco. The positive price/mix impact from the handmade cigars segment was driven by the United States, while it was driven primarily by France and the United States for the machine-made cigars segment. Within the pipe tobacco segment, the positive price/mix impact came from a number of markets, but most significantly Australia, Denmark and the United States. In the fine-cut tobacco segment, the positive price/mix impact was driven by the United States and Norway. The increase was partly offset by negative volume impacts from the machine-made cigars and pipe tobacco segments in line with the general market trend.

Cost of Goods Sold

STG's cost of goods sold for the year ended 31 December 2014 was DKK 3,178.7 million, an increase of DKK 167.9 million, or 5.6 percent, as compared to DKK 3,010.8 million for the year ended 31 December 2013.

Cost of goods sold in constant currencies increased 6.1 percent. The positive currency impact was mainly due to depreciation of Australian dollar and Indonesian rupiah against the Danish krone, partly offset by appreciation of the U.S. dollar against the Danish krone.

Cost of goods sold in constant currencies and excluding the impact of the acquisition of Verellen increased 4.7 percent.

The price/mix impact was the main driver for the increase in cost of goods sold. This was mainly driven by normal annual cost price increases in raw tobacco and non-tobacco materials in addition to normal salary inflation. Furthermore, growth in sales volumes of handmade cigars affected the increase in cost of goods sold, as production costs handmade cigars are general higher than in other product segments.

Gross Profit

STG's gross profit for the year ended 31 December 2014 was DKK 2,947.3 million, an increase of DKK 32.8 million, or 1.1 percent, as compared to DKK 2,914.5 million for the year ended 31 December 2013.

Gross profit in constant currencies increased 2.0 percent. The negative currency impact was mainly due to depreciation of the Australian dollar, Canadian dollar and Norwegian krone against the Danish krone, partly offset by appreciation of U.S. dollar against the Danish krone and depreciation of Indonesian rupiah against the Danish krone.

Gross profit in constant currencies and excluding impact from the acquisition of Verellen increased 1.0 percent.

STG's gross profit margin for the year ended 31 December 2014 was 48.1 percent, a decrease of 1.1 percentage points as compared to 49.2 percent for the year ended 31 December 2013. The decrease was primarily due to growth in the proportion of sales of handmade cigars through STG's online and catalogue retail business in the United States, which generally have lower gross profit margins, as well as growth in sales volumes of value products in the machine-made cigars segment.

Handmade Cigars

The following table sets forth information on the handmade cigars segment's net sales and gross profit for the periods indicated:

	For the year ended 31 December								
		2014 as compared to 2013			2014 as compared to 2013				2014 as compared to 2013
	2013 Total	Volume impact	Price/mix impact	Total organic change	Acquisitions, net	Currency fluctuations	Non-recurring items	2014 Total	Change
	(DKK in millions / percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions / percent)	(percent)
Net sales	1,368.1	7.3	2.3	9.6	–	1.1	–	1,513.6	10.6
Gross profit	603.0	7.4	0.4	7.8	–	1.0	–	656.0	8.8
Gross profit margin, percent	44.1							43.3	
Adjusted gross profit margin, percent	44.1							43.3	

Net Sales

The handmade cigars segment's net sales for the year ended 31 December 2014 were DKK 1,513.6 million, an increase of DKK 145.5 million, or 10.6 percent, as compared to DKK 1,368.1 million for the year ended 31 December 2013.

Net sales in constant currencies increased 9.6 percent. The positive currency impact was mainly due to appreciation of U.S. dollar against the Danish krone.

The increase was driven by sales volume growth in the United States and positive trends in price/mix. Volume impact on net sales was positive 7.3 percent mainly driven by Cigars International. The price/mix impact was positive 2.3 percent primarily reflecting normal price increases.

Gross Profit

The handmade cigars segment's gross profit for the year ended 31 December 2014 was DKK 656.0 million, an increase of DKK 53.0 million, or 8.8 percent, as compared to DKK 603.0 million for the year ended 31 December 2013.

Gross profit in constant currencies increased 7.8 percent. The positive currency impact was mainly due to appreciation of the U.S. dollar against the Danish krone.

Volume impact on gross profit was positive 7.4 percent following the trend in net sales. The price/mix impact was positive 0.4 percent.

The handmade cigars segment's gross profit margin for the year ended 31 December 2014 was 43.3 percent, a decrease of 0.8 percentage points as compared to 44.1 percent for the year ended 31 December 2013. The decrease in the gross profit margin was primarily due to growth in the proportion of sales through STG's online and catalogue retail business in the United States, which generally have lower gross profit margins than the other handmade cigars sales channels.

Machine-made Cigars

The following table sets forth information on the machine-made cigars segment's net sales and gross profit for the periods indicated:

	For the year ended 31 December								
	2013	2014 as compared to 2013			2014 as compared to 2013			2014	2014 as compared to 2013
	Total	Volume impact	Price/mix impact	Total organic change	Acquisitions, net	Currency fluctuations	Non-recurring items	Total	Change
	(DKK in millions / percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions / percent)	(percent)
Net sales	2,512.9	(0.6)	2.8	2.2	2.6	(1.5)	–	2,595.2	3.3
Gross profit	1,362.4	(0.1)	(0.9)	(1.0)	1.9	(2.5)	–	1,340.8	(1.6)
Gross profit margin, percent	54.2							51.7	
Adjusted gross profit margin, percent	54.2							51.7	

Net Sales

The machine-made cigars segment's net sales for the year ended 31 December 2014 were DKK 2,595.2 million, an increase of DKK 82.3 million, or 3.3 percent, as compared to DKK 2,512.9 million for the year ended 31 December 2013.

Net sales in constant currencies increased 4.8 percent. The negative currency impact was mainly due to depreciation of the Canadian dollar and Australian dollar against the Danish krone.

Net sales in constant currencies and excluding the acquisition of Verellen (effective 1 September 2014) increased 2.2 percent driven by positive price effects.

Volume impact on net sales was negative 0.6 percent. The volume impact was mainly driven by modest sales volume decreases in the United States and Australia, partly offset by growth in sales volumes in France. The price/mix impact was positive 2.8 percent. The positive price/mix impact derived from price increases in most markets with the most significant impacts in the United States and France.

Gross Profit

The machine-made cigars segment's gross profit for the year ended 31 December 2014 was DKK 1,340.8 million, a decrease of DKK 21.6 million, or 1.6 percent, as compared to DKK 1,362.4 million for the year ended 31 December 2013.

Gross profit in constant currencies increased 0.9 percent. The negative currency impact was mainly due to depreciation of Canadian dollar and Australian dollar against the Danish krone.

Gross profit in constant currencies and excluding the Verellen acquisition decreased 1.0 percent.

Volume impact on gross profit was negative 0.1 percent following the trend in net sales. The price/mix impact was negative 0.9 percent and mainly driven by the United States with an increasing proportion of sales from value products (Talon) and nonrecurring write-downs of inventory related to the unsuccessful launch of a machine-made cigar product in the United States.

The machine-made cigars segment's gross profit margin for the year ended 31 December 2014 was 51.7 percent, a decrease of 2.5 percentage points as compared to 54.2 percent for the year ended 31 December 2013. The decrease in the gross profit margin was primarily due to changes in the product mix as sales of value products, which generally have lower gross profit margins than other products in the machine-made cigars segment, grew proportionately faster and represented a larger share of total net sales, and nonrecurring write-downs of inventory related to the unsuccessful launch of a machine-made cigar product in the United States.

Pipe Tobacco

The following table sets forth information on the pipe tobacco segment's net sales and gross profit for the periods indicated:

	For the year ended 31 December								
	2013	2014 as compared to 2013			2014 as compared to 2013			2014	2014 as compared to 2013
	Total	Volume impact	Price/mix impact	Total organic change	Acquisitions, net	Currency fluctuations	Non-recurring items	Total	Change
	(DKK in millions / percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions / percent)	(percent)
Net sales	566.9	(3.1)	3.6	0.5	–	(0.1)	–	569.2	0.4
Gross profit	333.2	(2.8)	4.9	2.1	–	0.0	–	340.2	2.1
Gross profit margin, percent	58.8							59.8	
Adjusted gross profit margin, percent	58.8							59.8	

Net Sales

The pipe tobacco segment's net sales for the year ended 31 December 2014 were DKK 569.2 million, an increase of DKK 2.3 million, or 0.4 percent, as compared to DKK 566.9 million for the year ended 31 December 2013.

Net sales in constant currencies increased 0.5 percent with price increases more than compensating for the negative volume impact. The negative currency impact was mainly due to depreciation of the Australian dollar and Swedish krone against the Danish krone, partly offset by appreciation of the U.S. dollar against the Danish krone.

Volume impact on net sales was negative 3.1 percent. The volume impact was driven by decreased sales volumes in some of STG's developed markets, such as Denmark and Germany, partly offset by volume growth in Iraq and other developing markets. Price/mix impact was positive 3.6 percent. The positive price/mix was driven by price increases across almost all geographies, with highest impact being in Denmark and the United States.

Gross Profit

The pipe tobacco segment's gross profit for the year ended 31 December 2014 was DKK 340.2 million, an increase of DKK 7 million, or 2.1 percent, as compared to DKK 333.2 million for the year ended 31 December 2013.

Gross profit in constant currencies increased 2.1 percent. Gross profit was only impacted by minor currency deviations largely offsetting each other.

Volume impact on gross profit was negative 2.8 percent following the trend in net sales. The price/mix impact was positive 4.9 percent and mainly driven by price increases across almost all geographies and partly offset by an unfavourable product mix development in the United States.

The pipe tobacco segment's gross profit margin for the year ended 31 December 2014 was 59.8 percent, an increase of 1.0 percentage points as compared to 58.8 percent for the year ended 31 December 2013. The increase in gross profit margin was primarily due to improvements in the supply chain resulting in lower cost of goods sold, as well as lower volumes in Nigeria, which is a market with below average margins. The increase was partly offset by an unfavourable product mix development in the United States with a trend towards value priced products.

Fine-cut Tobacco

The following table sets forth information on the fine-cut tobacco segment's net sales and gross profit for the periods indicated:

	For the year ended 31 December								
	2013	2014 as compared to 2013			2014 as compared to 2013			2014	2014 as compared to 2013
	Total	Volume impact	Price/mix impact	Total organic change	Acquisitions, net	Currency fluctuations	Non-recurring items	Total	Change
	(DKK in millions / percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions / percent)	(percent)
Net sales	521.8	1.1	7.7	8.8	–	(1.1)	–	561.8	7.7
Gross profit	273.7	1.8	10.6	12.4	–	(2.8)	–	299.9	9.6
Gross profit margin, percent	52.5							53.4	
Adjusted gross profit margin, percent	52.5							53.4	

Net Sales

The fine-cut tobacco segment's net sales for the year ended 31 December 2014 were DKK 561.8 million, an increase of DKK 40.0 million, or 7.7 percent, as compared to DKK 521.8 million for the year ended 31 December 2013.

Net sales in constant currencies increased 8.8 percent. The negative currency impact was mainly due to depreciation of the Norwegian krone and Swedish krone against the Danish krone, partly offset by appreciation of the U.S. dollar against the Danish krone.

The volume impact on net sales was positive 1.1 percent. The volume impact was mainly driven by growth in sales volumes in Germany, Denmark and Norway, partly offset by decreases in sales volumes in the United States and Slovenia. Price/mix impact was positive 7.7 percent. The positive development in price/mix derived from price increases above inflation across most geographies, with the highest impact in the United States, Norway and the United Kingdom, partly offset by negative price/mix impact in Germany due to growth in sales volumes of products in the value segment.

Gross Profit

The fine-cut tobacco segment's gross profit for the year ended 31 December 2014 was DKK 299.9 million, an increase of DKK 26.2 million, or 9.6 percent, as compared to DKK 273.7 million for the year ended 31 December 2013.

Gross profit in constant currencies increased 12.4 percent. The negative currency impact was mainly due to depreciation of the Norwegian krone and Swedish krone against the Danish krone.

Volume impact on gross profit was positive 1.8 percent following the trend in net sales. The price/mix impact was positive 10.6 percent and mainly driven by price increases in the United States and Norway exceeding cost price increases and partly offset by product development in Germany.

The fine-cut tobacco segment's gross profit margin for the year ended 31 December 2014 was 53.4 percent, an increase of 0.9 percentage points as compared to 52.5 percent for the year ended 31 December 2013. The increase in the gross profit margin was primarily due to increased sales volumes in Norway with a gross profit margin above the segment's average, and lower volumes in the United States with a gross profit margin below the segment's average. The positive impact was partly offset by a lower gross profit margin in Germany caused by expansion into the value segment through the Break brand.

Other

The following table sets forth information on the other segment's net sales and gross profit for the periods indicated:

	For the year ended 31 December							
		2014 as compared to 2013		2014	2014 as compared to 2013			2014 as compared to 2013
	2013 Total	Volume and price/mix impact	Total organic change	Acquisitions, net	Currency fluctuations	Non-recurring items	2014 Total	Change
	(DKK in millions / percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions / percent)	(percent)
Net sales	955.6	(6.6)	(6.6)	0.5	(1.1)	–	886.2	(7.3)
Gross profit	342.2	(12.9)	(12.9)	0.7	2.9	–	310.4	(9.3)
Gross profit margin, percent	35.8						35.0	
Adjusted gross profit margin, percent	35.8						35.0	

Net Sales

The other segment's net sales for the year ended 31 December 2014 were DKK 886.2 million, a decrease of DKK 69.4 million, or 7.3 percent, as compared to DKK 955.6 million for the year ended 31 December 2013.

Net sales in constant currencies decreased 6.1 percent. The negative currency impact was mainly due to depreciation of the Australian dollar against the Danish krone.

The decrease was primarily due to the termination of a contract manufacturing agreement and decreases in the sales volumes of lighters and matches.

Gross Profit

The other segment's gross profit for the year ended 31 December 2014 was DKK 310.4 million, a decrease of DKK 31.8 million, or 9.3 percent, as compared to DKK 342.2 million for the year ended 31 December 2013.

Gross profit in constant currencies decreased 12.2 percent. The positive currency impact was mainly due to depreciation of the Indonesian rupiah against the Danish krone.

The other segment's gross profit margin for the year ended 31 December 2014 was 35.0 percent, a decrease of 0.8 percentage points as compared to 35.8 percent for the year ended 31 December 2013. The decrease in the gross profit margin was primarily due to decreased sales of matches and contract manufacturing of cigars, which had higher gross profit margins than the other segment's average.

Other External Costs

STG's other external costs for the year ended 31 December 2014 were DKK 1,049.9 million, a decrease of DKK 58.5 million, or 5.3 percent, as compared to DKK 1,108.4 million for the year ended 31 December 2013. There was no impact from currency fluctuations. The decrease was primarily due to various cost reduction projects. The decrease was partly offset by general inflation.

Staff Costs

STG's staff costs for the year ended 31 December 2014 were DKK 748.9 million, an increase of DKK 117.1 million, or 18.5 percent, as compared to DKK 631.8 million for the year ended 31 December 2013.

Staff costs in constant currencies increased 19.1 percent. The positive currency impact was mainly due to depreciation of the Canadian dollar and the Australian dollar against the Danish krone.

The increase was primarily due to restructuring expenses related to the integration of Verellen sales forces in Belgium and France as well as restructuring in Indonesia, general inflation in salaries and additional headcount from the acquisition of Verellen on 1 September 2014. This was partly offset by a change in pension schemes for a number of employees switching from defined benefit plans to defined contribution plans resulting in an income in the profit and loss accounts.

Other Income

STG's other income for the year ended 31 December 2014 was DKK 28.7 million, an increase of DKK 28.4 million as compared to DKK 0.3 million for the year ended 31 December 2013. The increase was primarily due to a nonrecurring gain of DKK 27.9 million from the divestment of a factory building in Houthalen, Belgium, as part of the completed 6-2-4 Project. For additional information on the 6-2-4 Project, see "*—Principal Factors Affecting STG's Results of Operations—Improving Efficiency—Production Footprint Optimisation*" above.

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)

STG's EBITDA for the year ended 31 December 2014 was DKK 1,177.2 million, an increase of DKK 2.6 million, or 0.2 percent, as compared to DKK 1,174.6 million for the year ended 31 December 2013.

EBITDA in constant currencies increased 2.2 percent. The negative currency impact was mainly due to depreciation of the Norwegian krone and Swedish krone against the Danish krone.

Adjusted EBITDA in constant currencies increased 5.9 percent driven by positive price effects across main product segments and volume growth in handmade cigars. Nonrecurring items in 2014 related to restructuring expenses mainly arising from reductions in STG's sales workforces in France and Belgium following the acquisition of Verellen as well as reductions in STG's supply chain workforce in Europe in connection with the 6-2-4 Project, in Indonesia and in the United States; and transaction expenses related to expenses incurred in connection with various strategic alternatives considered by the Company and the Selling Shareholders and related management transaction incentives. Nonrecurring items in 2013 related to restructuring expenses, mainly arising from the reduction of workforce in group functions, as well as a reduction in STG's supply chain workforce in the United States.

Depreciation and Amortisation

STG's depreciation and amortisation for the year ended 31 December 2014 was DKK 269.5 million, a decrease of DKK 130.4 million, or 32.6 percent, as compared to DKK 399.9 million for the year ended 31 December 2013. The decrease was primarily due to a reassessment of the useful lives of certain intangible and tangible assets including trademarks, capitalised IT costs and production equipment. The effect of the reassessment for the year ended 31 December 2014 was a nonrecurring decrease in depreciation and amortisation charges of DKK 127 million and a nonrecurring increase in result after tax and equity of DKK 94 million. The reassessment was made to be in alignment with industry practice.

Earnings before Interest and Tax (EBIT)

STG's EBIT for the year ended 31 December 2014 was DKK 907.7 million, an increase of DKK 133.0 million, or 17.2 percent, as compared to DKK 774.7 million for the year ended 31 December 2013.

Net Financial Items

STG's net financial costs for the year ended 31 December 2014 were DKK 68.3 million, a decrease of DKK 36.1 million, or 34.6 percent, as compared to DKK 104.4 million for the year ended 31 December 2013. The decrease was primarily due to positive developments in net exchange gains, which amounted to DKK 22.5 million for the year ended 31 December 2014, as compared to net exchange losses of DKK 11.0 million for the year ended 31 December 2013, due to appreciation of the U.S. dollar against the Danish krone.

Income Taxes

STG's income taxes for the year ended 31 December 2014 were DKK 205.8 million, an increase of DKK 102.9 million as compared to DKK 102.9 million for the year ended 31 December 2013. STG's effective tax rate for the year ended 31 December 2014 was 24.3 percent, as compared to 15.2 percent for the year ended 31 December 2013. STG's effective tax rate for the year ended 31 December 2013 was positively affected by tax rate changes in Denmark and Sweden, which has a significant nonrecurring positive effect on tax for the year, as well as prior year adjustments and various restructurings. STG's effective tax rate for the year ended 31 December 2014 was negatively impacted by provisions for tax risks partly offset by the lower Danish tax rate.

The Year Ended 31 December 2013 as Compared to the Year Ended 31 December 2012

The following table sets forth STG's net sales by geographic region for the years indicated:

	For the year ended 31 December	
	2013	**2012**
	(audited) **(DKK in millions)**	
Americas[1]	2,282.9	2,278.9
Europe[2]	2,945.7	3,101.8
Rest of world	696.7	597.3
Total net sales	5,925.3	5,978.0

(1) Includes net sales in the United States of DKK 1,977.4 million for the year ended 31 December 2013 and DKK 1,991.2 million for the year ended 31 December 2012.

(2) Includes net sales in France of DKK 623.1 million for the year ended 31 December 2013 and DKK 741.8 million for the year ended 31 December 2012.

The following table sets forth information on STG's net sales by segment for the years indicated:

	For the year ended 31 December								
	2012	2013 as compared to 2012						2013	2013 as compared to 2012
	Net sales	Volume impact	Price/mix impact	Total organic change	Acquisitions	Currency fluctuations	Non-recurring items	Net sales	Change in net sales
	(DKK in millions)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions)	(percent)
Handmade cigars	1,378.4	(3.0)	5.3	2.3	–	(3.0)	–	1,368.1	(0.7)
Machine-made cigars	2,592.5	(4.2)	1.6	(2.6)	–	(0.5)	–	2,512.9	(3.1)
Pipe tobacco	549.1	1.5	3.9	5.4	–	(2.2)	–	566.9	3.2
Fine-cut tobacco	491.1	0.7	6.6	7.3	–	(1.1)	–	521.8	6.3
Other	966.9	1.2[1]		1.2	–	(2.4)	–	955.6	(1.2)
Total	5,978.0	0.7[1]		0.7	–	(1.6)	–	5,925.3	(0.9)

(1) Volume impact and price/mix impact cannot be calculated separately for the other segment or total net sales.

The following table sets forth information on STG's gross profit by segment for the years indicated:

	For the year ended 31 December								
	2012	2013 as compared to 2012						2013	2013 as compared to 2012
	Gross profit	Volume impact	Price/mix impact	Total organic change	Acquisitions	Currency fluctuations	Non-recurring items	Gross profit	Change in gross profit
	(DKK in millions)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions)	(percent)
Handmade cigars	636.7	(3.1)	4.0	0.9	–	(2.8)	(3.4)	603.0	(5.3)
Machine-made cigars	1,425.8	(6.0)	2.0	(4.1)	–	(0.4)	–	1,362.4	(4.4)
Pipe tobacco	334.3	(2.7)	4.5	1.8	–	(2.1)	–	333.2	(0.3)
Fine-cut tobacco	261.9	(3.3)	8.2	4.9	–	(0.4)	–	273.7	4.5
Other	332.8	3.5[1]		3.5	–	(0.7)	–	342.2	2.8
Total	2,991.5	(0.7)[1]		(0.7)	–	(1.1)	(0.7)	2,914.5	(2.6)

(1) Volume impact and price/mix impact cannot be calculated separately for the other segment or total net sales.

Group

Net Sales

STG's net sales for the year ended 31 December 2013 were DKK 5,925.3 million, a decrease of DKK 52.7 million, or 0.9 percent, as compared to DKK 5,978.0 million for the year ended 31 December 2012.

Net sales in constant currencies increased 0.7 percent. The negative currency impact was mainly due to depreciation of the U.S. dollar, Australian dollar and Canadian dollar against the Danish krone.

The increase in net sales in constant currencies was primarily driven by positive price/mix development in all of STG's main product segments, handmade cigars, machine-made cigars, pipe tobacco and fine-cut tobacco. The positive price/mix impact from the handmade cigars segment was driven by the United States, while in the machine-made cigars segment it came primarily from Australia and France. Within the pipe tobacco segment, the positive price/mix impact came from a number of markets, but most significantly the United States and Australia. In the fine-cut tobacco segment, it was driven by the United States and Norway.

The increase was partly offset by negative volume impacts from handmade cigars in the United States and machine-made cigars in France and the United Kingdom. Both pipe tobacco and fine-cut tobacco had positive volume impacts.

Cost of Goods Sold

STG's cost of goods sold for the year ended 31 December 2013 was DKK 3,010.8 million, an increase of DKK 24.3 million, or 0.8 percent, as compared to DKK 2,986.5 million for the year ended 31 December 2012.

Cost of goods sold in constant currencies and excluding nonrecurring items increased 2.1 percent. Nonrecurring items in 2012 related to positive impact from the reversal of provisions following the combination with Swedish Match. The positive currency impact was mainly due to depreciation of the U.S. dollar, Australian dollar and Indonesian rupiah against the Danish krone.

The increase in cost of goods sold was mainly driven by normal annual cost price increases in raw tobacco and non-tobacco materials in addition to normal salary inflation. Furthermore, the cost of goods sold was impacted by an unfavourable development in product mix and partly offset by volume declines in some product segments.

Gross Profit

STG's gross profit for the year ended 31 December 2013 was DKK 2,914.5 million, a decrease of DKK 77.0 million, or 2.6 percent, as compared to DKK 2,991.5 million for the year ended 31 December 2012.

Gross profit in constant currencies and excluding nonrecurring items decreased 0.7 percent. The negative currency impact was mainly due to depreciation of the U.S. dollar, Australian dollar and Canadian dollar against the Danish krone.

STG's gross profit margin for the year ended 31 December 2013 was 49.2 percent, a decrease of 0.8 percentage points as compared to 50.0 percent for the year ended 31 December 2012. The decrease in gross profit margin was primarily due to growth in the proportion of sales through Cigars International, which generally has lower gross profit margins than the other handmade cigars sales channels, in addition to decreased sales volumes in high margin markets in machine-made cigars, primarily France.

Handmade Cigars

The following table sets forth information on the handmade cigars segment's net sales and gross profit for the periods indicated:

	For the year ended 31 December								
		2013 as compared to 2012			2013 as compared to 2012				
	2012 Total	Volume impact	Price/ mix impact	Total organic change	Acquisitions, net	Currency fluctuations	Non-recurring items	2013 Total	2013 as compared to 2012 Change
	(DKK in millions / percent)	(percent)	(percent)	(percent)	(percent)	(percent)		(DKK in millions / percent)	(percent)
Net sales	1,378.4	(3.0)	5.3	2.3	–	(3.0)	–	1,368.1	(0.7)
Gross profit	636.7	(3.1)	4.0	0.9	–	(2.8)	(3.4)	603.0	(5.3)
Gross profit margin, percent	46.2							44.1	
Adjusted gross profit margin, percent	44.6							44.1	

Net Sales

The handmade cigars segment's net sales for the year ended 31 December 2013 were DKK 1,368.1 million, a decrease of DKK 10.3 million, or 0.7 percent, as compared to DKK 1,378.4 million for the year ended 31 December 2012.

Net sales in constant currencies increased 2.3 percent. The negative currency impact was mainly due to depreciation of the U.S. dollar against the Danish krone.

Volume impact on net sales was negative 3.0 percent. The volume impact was mainly driven by lower volumes in the United States primarily due to stock reductions by a few of General Cigar's large customers. The price/mix impact was positive 5.3 percent. The positive price/mix impact resulted from annual price increases across STG's sales channels in the United States.

Gross Profit

The handmade cigars segment's gross profit for the year ended 31 December 2013 was DKK 603.0 million, a decrease of DKK 33.7 million, or 5.3 percent, as compared to DKK 636.7 million for the year ended 31 December 2012.

Gross profit in constant currencies and excluding nonrecurring items increased 0.9 percent. Nonrecurring items in 2012 related to positive impact from the reversal of provisions following the combination with Swedish Match. The negative currency impact was mainly due to depreciation of the U.S. dollar against the Danish krone.

Volume impact on gross profit was negative 3.1 percent following the trend in net sales. The price/mix impact was positive 4.0 percent.

The handmade cigars segment's gross profit margin for the year ended 31 December 2013 was 44.1 percent, a decrease of 2.1 percentage points as compared to 46.2 percent for the year ended 31 December 2012. The decrease in the gross profit margin was primarily due to growth in the proportion of sales through Cigars International, which generally has lower gross profit margins than the other handmade cigars sales channels, and nonrecurring reversal of provisions following the combination with Swedish Match.

Machine-made Cigars

The following table sets forth information on the machine-made cigars segment's net sales and gross profit for the periods indicated:

	For the year ended 31 December								
		2013 as compared to 2012			2013 as compared to 2012				2013 as compared to 2012
	2012 Total	Volume impact	Price/ mix impact	Total organic change	Acquisitions, net	Currency fluctuations	Non-recurring items	2013 Total	Change
	(DKK in millions / percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions / percent)	(percent)
Net sales	2,592.5	(4.2)	1.6	(2.6)	–	(0.5)	–	2,512.9	(3.1)
Gross profit	1,425.8	(6.0)	2.0	(4.0)	–	(0.4)	–	1,362.4	(4.4)
Gross profit margin, percent	55.0							54.2	
Adjusted gross profit margin, percent	55.0							54.2	

Net Sales

The machine-made cigars segment's net sales for the year ended 31 December 2013 were DKK 2,512.9 million, a decrease of DKK 79.6 million, or 3.1 percent, as compared to DKK 2,592.5 million for the year ended 31 December 2012.

Net sales in constant currencies decreased 2.6 percent. The negative currency impact was mainly due to depreciation of Australian dollar and Canadian dollar against the Danish krone.

Volume impact on net sales was negative 4.2 percent. The volume impact was mainly driven by decreased sales volumes in certain mature markets, of which France was the most significant. The volume development in France was influenced by extraordinary high sales to STG's distributor in the fourth quarter of 2012 resulting in a weaker first quarter of 2013, a planned stock reduction by STG's distributor in the fourth quarter of 2013, and a general decline in the total machine-made cigar market in France. The price/mix impact was positive 1.6 percent and mainly driven by price increases in several markets, such as France, and a positive impact in Australia from taking over distribution from a local partner.

Gross Profit

The machine-made cigars segment's gross profit for the year ended 31 December 2013 was DKK 1,362.4 million, a decrease of DKK 63.4 million, or 4.4 percent, as compared to DKK 1,425.8 million for the year ended 31 December 2012.

Gross profit in constant currencies decreased 4.0 percent. The negative currency impact was mainly due to depreciation of the Australian dollar and Canadian dollar against the Danish krone.

Volume impact on gross profit was negative 6.0 percent and mainly driven by the volume decline in France and the United Kingdom, which are markets with above average gross profit margins and selling prices. The price/mix impact was positive 2.0 percent and mainly driven by taking over the distribution from a local partner in Australia and partly offset by a shift in product mix towards value products in certain markets.

The gross profit decrease was mainly driven by lower sales volumes in France and the United Kingdom, which are markets with above average gross profit margins and selling prices.

The machine-made cigars segment's gross profit margin for the year ended 31 December 2013 was 54.2 percent, a decrease of 0.8 percentage points as compared to 55.0 percent for the year ended 31 December 2012. The decrease in the gross profit margin was primarily driven by the already mentioned decreases in sales volumes in France and the United Kingdom, which are markets with above average gross profit margins. Furthermore, the product mix in the Netherlands and Canada was adversely affected by introduction of new products in the value segment. The gross profit margin was also negatively impacted by increased sales volumes in the United States and Iraq, which are markets with gross profit margins below the segment's average.

Pipe Tobacco

The following table sets forth information on the pipe tobacco segment's net sales and gross profit for the periods indicated:

	For the year ended 31 December								
	2012	2013 as compared to 2012						2013	2013 as compared to 2012
	Total	Volume impact	Price/ mix impact	Total organic change	Acquisitions, net	Currency fluctuations	Non-recurring items	Total	Change
	(DKK in millions / percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions / percent)	(percent)
Net sales	549.1	1.5	3.9	5.4	–	(2.2)	–	566.9	3.2
Gross profit	334.3	(2.7)	4.5	1.8	–	(2.1)	–	333.2	(0.3)
Gross profit margin, percent	60.9							58.8	
Adjusted gross profit margin, percent	60.9							58.8	

Net Sales

The pipe tobacco segment's net sales for the year ended 31 December 2013 were DKK 566.9 million, an increase of DKK 17.8 million, or 3.2 percent, as compared to DKK 549.1 million for the year ended 31 December 2012.

Net sales in constant currencies increased 5.4 percent. The negative currency impact was mainly due to depreciation of the Australian dollar and U.S. dollar against the Danish krone.

Volume impact on net sales was positive 1.5 percent. The positive volume impact on net sales was driven by Nigeria, Australia and the United States, partly offset by minor volume declines across a number of other markets, mainly Iraq due to political and financial instability. Price/mix impact was positive 3.9 percent. The positive price/mix impact was mainly driven by a moderate price increase on a high volume in the United States.

Gross Profit

The pipe tobacco segment's gross profit for the year ended 31 December 2013 was DKK 333.2 million, a decrease of DKK 1.1 million, or 0.3 percent, as compared to DKK 334.3 million for the year ended 31 December 2012.

Gross profit in constant currencies increased 1.8 percent. The negative currency impact was mainly due to depreciation of the U.S. dollar against the Danish krone.

Volume impact on gross profit was negative 2.7 percent and mainly driven by volume declines in Iraq, Canada and Sweden. The price/mix impact was positive 4.5 percent mainly due to price increases in Canada and Sweden.

The pipe tobacco segment's gross profit margin for the year ended 31 December 2013 was 58.8 percent, a decrease of 2.1 percentage points as compared to 60.9 percent for the year ended 31 December 2012. The decrease in the gross profit margin was primarily due to increased sales volumes in Nigeria and a limited number of other markets that had gross profit margins below the segment's average, and decreased sales volumes in Canada, Germany, the United Kingdom and Sweden, which are markets with above average gross profit margins.

Fine-cut Tobacco

The following table sets forth information on the fine-cut tobacco segment's net sales and gross profit for the periods indicated:

	For the year ended 31 December								
	2012	2013 as compared to 2012			2013 as compared to 2012			2013	2013 as compared to 2012
	Total	Volume impact	Price/ mix impact	Total organic change	Acquisitions, net	Currency fluctuations	Non-recurring items	Total	Change
	(DKK in millions / percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions / percent)	(percent)
Net sales	491.1	0.7	6.6	7.3	–	(1.1)	–	521.8	6.3
Gross profit	261.9	(3.3)	8.2	4.9	–	(0.4)	–	273.7	4.5
Gross profit margin, percent	53.3							52.5	
Adjusted gross profit margin, percent	53.3							52.5	

Net Sales

The fine-cut tobacco segment's net sales for the year ended 31 December 2013 were DKK 521.8 million, an increase of DKK 30.7 million, or 6.3 percent, as compared to DKK 491.1 million for the year ended 31 December 2012.

Net sales in constant currencies increased 7.3 percent. The negative currency impact was mainly due to depreciation of Norwegian krone and U.S. dollar against the Danish krone.

Volume impact on net sales was positive 0.7 percent. The positive volume impact was primarily driven by sales volume growth in Denmark, Israel and Slovenia, partly offset by drops in sales volume in Germany, the United States and Norway. Price/mix impact was positive 6.6 percent. The positive development in price/mix was most significant in the United States and Norway, partly offset by negative price/mix in Denmark.

Gross Profit

The fine-cut tobacco segment's gross profit for the year ended 31 December 2013 was DKK 273.7 million, an increase of DKK 11.8 million, or 4.5 percent, as compared to DKK 261.9 million for the year ended 31 December 2012.

Gross profit in constant currencies increased 4.9 percent. The negative currency impact was mainly due to depreciation of the Norwegian krone and U.S. dollar against Danish krone.

Volume impact on gross profit was negative 3.3 percent driven by volume declines in Germany, the United States and Norway. The price/mix impact was positive 8.2 percent and mainly driven by favourable price/mix development in primarily Norway and global travel retail (such as duty free sales in airports).

The fine-cut tobacco segment's gross profit margin for the year ended 31 December 2013 was 52.5 percent, a decrease of 0.8 percentage points as compared to 53.3 percent for the year ended 31 December 2012. The decrease in the gross profit margin was primarily due to increased sales volumes in emerging markets, such as Israel and Slovenia, which generally had gross profit margins below the segment's average, decreased sales volumes in Norway and Germany, which had gross profit margins above the segment's average, and higher discounts given to customers in the United States to promote sales. The decrease was partly offset by increased average prices in global travel retail and Norway, which had gross profit margins above the segment's average.

Other

The following table sets forth information on the other segment's net sales and gross profit for the periods indicated:

	For the year ended 31 December							
	2012	2013 as compared to 2012		2013 as compared to 2012			2013	2013 as compared to 2012
	Total	Volume and price/mix impact	Total organic change	Acquisitions, net	Currency fluctuations	Non-recurring items	Total	Change
	(DKK in millions / percent)	(percent)	(percent)	(percent)	(percent)	(percent)	(DKK in millions / percent)	(percent)
Net sales	966.9	1.2	1.2	–	(2.4)	–	955.6	(1.2)
Gross profit	332.8	3.5	3.5	–	(0.7)	–	342.2	2.8
Gross profit margin, percent	34.4						35.8	
Adjusted gross profit margin, percent	34.4						35.8	

Net Sales

The other segment's net sales for the year ended 31 December 2013 were DKK 955.6 million, a decrease of DKK 11.3 million, or 1.2 percent, as compared to DKK 966.9 million for the year ended 31 December 2012.

Net sales in constant currencies increased 1.2 percent. The negative currency impact was mainly due to depreciation of the Australian dollar and U.S. dollar against the Danish krone.

The increase in net sales was mainly driven by increased sales volumes of smoking accessories in the United States.

Gross Profit

The other segment's gross profit for the year ended 31 December 2013 was DKK 342.2 million, an increase of DKK 9.4 million, or 2.8 percent, as compared to DKK 332.8 million for the year ended 31 December 2012.

Gross profit in constant currencies increased 3.5 percent. The negative currency impact was mainly due to depreciation of the Indonesian Rupiah against the Danish krone.

The other segment's gross profit margin for the year ended 31 December 2013 was 35.8 percent, an increase of 1.4 percentage points as compared to 34.4 percent for the year ended 31 December 2012. The increase was primarily due to increased sales volumes of smoking accessories in the United States, which had gross profit margins above the segment average.

Other External Costs

STG's other external costs for the year ended 31 December 2013 were DKK 1,108.4 million, an increase of DKK 41.9 million, or 3.9 percent, as compared to DKK 1,066.5 million for the year ended 31 December 2012.

Other external costs in constant currencies increased 6.1 percent. The positive currency impact was mainly due to depreciation of the U.S. dollar, Australian dollar and Canadian dollar against the Danish krone.

The increase was primarily due to general inflation and an increase in external services and temporary employees due to increases in activity of Cigars International and the establishment of fine-cut tobacco distribution in Germany.

Staff Costs

STG's staff costs for the year ended 31 December 2013 were DKK 631.8 million, an increase of DKK 8.0 million, or 1.3 percent, as compared to DKK 623.8 million for the year ended 31 December 2012.

Staff costs in constant currencies increased 3.2 percent. The positive currency impact was mainly due to depreciation of the U.S. dollar, Australian dollar and Canadian dollar against the Danish krone.

The increase was primarily due to restructuring expenses, general inflation and the increase in the number of employees. This was partly offset by lower bonus accruals caused by the lower EBITDA.

Other Income

STG's other income for the year ended 31 December 2013 was DKK 0.3 million, an increase of DKK 0.2 million as compared to DKK 0.1 million for the year ended 31 December 2012.

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)

STG's EBITDA for the year ended 31 December 2013 was DKK 1,174.6 million, a decrease of DKK 126.7 million, or 9.7 percent, as compared to DKK 1,301.3 million for the year ended 31 December 2012.

EBITDA in constant currencies decreased 9.8 percent.

Adjusted EBITDA in constant currencies decreased 5.6 percent. Nonrecurring items in 2013 related to restructuring expenses, mainly arising from the reduction of workforce in group functions, as well as a reduction in STG's supply chain workforce in the United States. Nonrecurring items in 2012 related to the reversal of provisions for tobacco inventory that were recorded in connection with the establishment of STG in 2010, reversals of excess provisions established to settle distribution contracts with third-party distributors in connection with the combination with Swedish Match and a sale of a building in France following the combination with Swedish Match.

Depreciation and Amortisation

STG's depreciation and amortisation for the year ended 31 December 2013 was DKK 399.9 million, an increase of DKK 30.0 million, or 8.1 percent, as compared to DKK 369.9 million for the year ended 31 December 2012. The increase was primarily due to the full-year impact of the buy-back of distribution rights in Australia for Café Crème, Henri Wintermans, Old Port and Schimmelpenninck Cubero, which had a four-month impact during 2012, and the acquisitions of IT software and various trademarks during the year. The effect of the buy-back of distribution rights was approximately DKK 7 million and the effect of the acquisitions of IT software and trademarks was DKK 20 million.

Earnings before Interest and Tax (EBIT)

STG's EBIT for the year ended 31 December 2013 was DKK 774.7 million, a decrease of DKK 156.7 million, or 16.8 percent, as compared to DKK 931.4 million for the year ended 31 December 2012.

Net Financial Items

STG's net financial costs for the year ended 31 December 2013 were DKK 104.4 million, an increase of DKK 3.7 million, or 3.7 percent, as compared to DKK 100.7 million for the year ended 31 December 2012. The increase was primarily due to an increase in net exchange losses, which amounted to DKK 11.0 million for the year ended 31 December 2013 as compared to DKK 1.9 million for the year ended 31 December 2012 due to the depreciation of the U.S. dollar against the Danish krone. The increase was partly offset by decreases in interest paid and other financing costs, due to the decrease in STG's outstanding borrowings following a USD 41 million payment in May 2013 and a lower level of discounting costs as provisions were reduced significantly due to payments in 2013.

Income Taxes

STG's income taxes for the year ended 31 December 2013 were DKK 102.9 million, a decrease of DKK 121.5 million, or 54.1 percent, as compared to DKK 224.4 million for the year ended 31 December 2012. STG's effective tax rate for the year ended 31 December 2013 was 15.2 percent, as compared to 26.6 percent for the year ended 31 December 2012. STG's effective tax rate for the year ended 31 December 2012 was negatively impacted by prior year adjustments and provisions for tax risks, while the effective tax rate for the year ended 31 December 2013 was significantly affected by tax rate changes in

Denmark and Sweden, which has a significant nonrecurring positive effect on income taxes for the year, as well as prior year adjustments and various restructurings.

Liquidity and Capital Resources

STG relies primarily on cash flow from operating activities and external loans to finance its operations. STG's primary cash needs relate to funding its working capital, primarily inventories, debt servicing obligations and, to a lesser extent, capital expenditure, including acquisitions. STG defines working capital as current assets less current liabilities. As at 30 September 2015, STG's capital resources consisted of cash and cash equivalents of DKK 291.2 million (short-term capital resources) and amounts undrawn under committed financing facilities of DKK 522.2 million (long-term capital resources).

Inventories

STG's inventories consist of raw materials and consumables (primarily tobacco), work in progress and finished goods, goods for resale and excise stamps. Through its working capital initiatives, STG estimates that it will achieve a working capital reduction of approximately DKK 500 million by the end of 2018, as compared to the level as at 31 December 2014 calculated on a like-for-like basis excluding currency effects. For additional information on STG's working capital initiatives, see "*—Principal Factors Affecting STG's Results of Operations—Improving Efficiency—Efficiency Measures and Working Capital Initiatives*" above.

The following table sets forth information on STG's inventories as at the dates indicated:

	As at 30 September	As at 31 December		
	2015	2014	2013	2012
	(unaudited)		(audited)	
	(DKK in millions)			
Raw materials and consumables	1,580.2	1,595.3	1,467.0	1,417.6
Work in progress	506.7	496.1	475.7	449.7
Finished goods, goods for resale and excise stamps	1,006.3	1,007.8	984.2	913.4
Total inventories, net of provisions for obsolete stock	3,093.2	3,099.2	2,926.9	2,780.7
Provisions for obsolete stock	175.8	144.8	125.0	111.1

STG's calculation of provisions for obsolete stock is based mainly on the amount of inventory not expected to be utilised within the following 12 months, except for raw tobacco, for which no standard provision is calculated. The provisions for raw tobacco are based on individual assessment. Provisions for all types of inventory can be increased or decreased based on individual assessment. If the provisions for obsolete stock cannot be calculated based on expected future utilisation, they are calculated based on ageing.

STG's inventories, net of provisions for obsolete stock, amounted to DKK 3,093.2 million as at 30 September 2015, a decrease of DKK 6.0 million, or 0.2 percent, as compared to DKK 3,099.2 million as at 31 December 2014. The decrease was primarily due to focus on stock reductions in the United States and Latin America, which was partly offset by currency translation effect, mainly arising from the appreciation of the U.S. dollar against the Danish krone and resulting in higher inventories in the reporting currency (impact of DKK 112 million).

STG's inventories, net of provisions for obsolete stock, amounted to DKK 3,099.2 million as at 31 December 2014, an increase of DKK 172.3 million, or 5.9 percent, as compared to DKK 2,926.9 million as at 31 December 2013. The increase was primarily due to the acquisition of Verellen in 2014. Furthermore, the appreciation of the U.S. dollar against the Danish krone resulted in higher inventories in reported currency.

STG's inventories, net of provisions for obsolete stock, amounted to DKK 2,926.9 million as at 31 December 2013, an increase of DKK 146.2 million, or 5.3 percent, as compared to DKK 2,780.7 million as at 31 December 2012. The increase was primarily related to finished goods.

Cash Flows

The following table sets forth a summary of STG's cash flow data for the periods indicated:

	For the nine months ended 30 September		For the year ended 31 December		
	2015	2014	2014	2013	2012
	(unaudited)			(audited)	
			(DKK in millions)		
CONSOLIDATED CASH FLOW STATEMENT DATA					
Cash flow from operating activities	896.7	737.9	1,056.0	744.8	716.4
Cash flow from investing activities	(165.8)	(458.9)	(471.2)	(317.7)	(388.2)
Cash flow from financing activities	(1,028.9)	(263.5)	(468.2)	(647.0)	(595.7)
Net cash flow for the period	(298.0)	15.5	116.7	(219.9)	(267.5)
Cash and cash equivalents, net at 1 January	581.0	464.3	464.3	684.2	951.7
Net cash flow for the period	(298.0)	15.5	116.7	(219.9)	(267.5)
Cash and cash equivalents, net at the end of the period	283.0	479.8	581.0	464.3	684.2

Cash Flow from Operating Activities

STG's cash flow from operating activities for the nine months ended 30 September 2015 was DKK 896.7 million, an increase of DKK 158.8 million, or 21.5 percent, as compared to DKK 737.9 million for the nine months ended 30 September 2014. The increase was primarily due to increased EBITDA and a higher release of working capital compared to the nine months ended 30 September 2014.

STG's cash flow from operating activities for the year ended 31 December 2014 was DKK 1,056.0 million, an increase of DKK 311.2 million, or 41.8 percent, as compared to DKK 744.8 million for the year ended 31 December 2013. The increase was primarily due to the release of a significant amount of working capital, compared to the working capital increase for the year ended 31 December 2013. The working capital improvement was driven by reduced inventory levels in the U.S. online business and an increased focus on collecting payments from trade debtors and improving credit terms.

STG's cash flow from operating activities for the year ended 31 December 2013 was DKK 744.8 million, an increase of DKK 28.4 million, or 4.0 percent, as compared to DKK 716.4 million for the year ended 31 December 2012. The increase was primarily due to a positive impact from working capital driven by trade receivables, which returned to normalised levels in 2013 as compared to 2012, as well as a positive impact from the timing of payments in 2013. Working capital levels in 2012 were higher than usual primarily due to a build-up of inventory in advance of the relocation of certain production facilities as part of the 6-2-4 Project.

Cash Flow Used in Investing Activities

STG's cash flow used in investing activities for the nine months ended 30 September 2015 was DKK 165.8 million, a decrease of DKK 293.1 million, or 63.9 percent, as compared to DKK 458.9 million for the nine months ended 30 September 2014. The decrease was primarily due to no acquisitions being completed by STG during the nine months ended 30 September, whereas STG acquired Verellen and the Toraño brand during the comparative nine month period ended 30 September 2014.

STG's cash flow used in investing activities for the year ended 31 December 2014 was DKK 471.2 million, an increase of DKK 153.5 million, or 48.3 percent, as compared to DKK 317.7 million for the year ended 31 December 2013. The increase was primarily due to the acquisitions of Verellen and the Toraño brand in September 2014. The increase was partially offset by a decrease in acquisition of property, plant and equipment due to the comparatively high level of capital expenditure in 2013 related to the 6-2-4 Project, machinery to support expansion of machine-made cigar production and the construction of a new handling warehouse in Denmark (Assens). Proceeds from the sale of former production buildings in Europe in 2014 also reduced capital expenditure.

STG's cash flow used in investing activities for the year ended 31 December 2013 was DKK 317.7 million, a decrease of DKK 70.5 million, or 18.2 percent, as compared to DKK 388.2 million for the year ended 31 December 2012. The relative decrease was primarily due to higher acquisitions of intangible assets for the year ended 31 December 2012 due to the buy-back of distribution rights for the Café Crème, Henri Wintermans, Old Port and Schimmelpenninck Cubero brands in Australia. The decrease was partially offset by an increase in the acquisition of property, plant and equipment due to a high level of capital expenditure in 2013 related to the 6-2-4 Project, machinery to support the expansion of machine-made cigar production and the construction of a new handling warehouse in Denmark (Assens).

Cash Flow Used in Financing Activities

STG's cash flow used in financing activities for the nine months ended 30 September 2015 was DKK 1,028.9 million, an increase of DKK 765.4 million as compared to DKK 263.5 million for the nine months ended 30 September 2014. The increase was primarily due to the net impact from new loan facilities and payment of interim dividend in 2015 of DKK 900 million. The Company did not pay an interim dividend in 2014.

STG's cash flow used in financing activities for the year ended 31 December 2014 was DKK 468.2 million, a decrease of DKK 178.8 million, or 27.6 percent, as compared to DKK 647.0 million for the year ended 31 December 2013. The decrease was primarily due to cash inflow of DKK 353.5 million for the year ended 31 December 2014 from new external funding. The decrease was partially offset by an increase in repayment of a revolving credit facility. The new external funding was established as a revolving credit facility. STG could repay/reduce the draw during the year. In the Consolidated Financial Statements, the repayment/reduced draw is presented as an instalment on bank loans.

STG's cash flow used in financing activities for the year ended 31 December 2013 was DKK 647.0 million, an increase of DKK 51.3 million, or 8.6 percent, as compared to DKK 595.7 million for the year ended 31 December 2012. The increase was primarily due to the increase in the dividend paid in 2013 (based on the dividend paid in 2012 compared to 2013) primarily due to the increased net result in 2012 as compared to 2011. The increase was partially offset by a decrease in repayments of bank loans due to a lower U.S. dollar to Danish krone exchange rate on the payment dates.

Capital Expenditure

STG's capital expenditure consists of acquisitions of intangible assets, property, plant and equipment, as well as fixed asset investments. Acquisitions include acquisitions completed during the relevant period. The following table sets forth STG's capital expenditure for the periods indicated:

	For the nine months ended 30 September		For the year ended 31 December		
	2015	2014	2014	2013	2012
	(unaudited)		(audited)		
	(DKK in millions)				
Maintenance capital expenditure(1)	85.7	71.4	112.0	128.2	87.7
Special projects capital expenditure(2)	85.8	80.7	103.2	174.0	304.4
Total capital expenditure	171.5	152.2	215.2	302.2	392.1
Acquisitions	–	309.9	310.2	19.9	–

(1) Maintenance capital expenditure is a non-IFRS measure. Maintenance capital expenditure is defined as capital expenditure related to replacing, repairing, updating or otherwise maintaining STG's existing property, plant and equipment as well as updating and maintaining existing IT software.

(2) Special projects capital expenditure is a non-IFRS measure. Special projects capital expenditure is defined as capital expenditure related to significant or structural investments that fall outside the frame of STG's normal ongoing business, including, for example, construction, acquisitions, closures or restructuring of factories and warehouses, investments in changed distribution setup, new retail stores and significant new IT systems, as well as investments due to expansion into new product categories or new markets or to comply with regulatory changes.

STG's capital expenditure for the nine months ended 30 September 2015 related primarily to alterations made to existing machinery at the European production facilities to comply with the TPD, refurbishment of machinery in the United States and investments related to the new CRM system. STG's capital expenditure for the year ended 31 December 2014 related primarily to the expansion and improvement of existing production facilities and the completion of the production facility for expanded tobacco in Holstebro, Denmark. STG's capital expenditure for the year ended 31 December 2013 related primarily to the 6-2-4 Project, new warehouses in Belgium and Denmark, the construction of STG's production facility for expanded tobacco in Holstebro, Denmark, and investments in IT systems. STG's capital expenditure for the year ended 31 December 2012 related primarily to the buy-back of distribution rights for certain cigar brands in Australia, continued investments in the new global IT systems and Cigars International's new retail store in Hamburg, Pennsylvania, the United States.

In the medium term, STG estimates that its capital expenditure will be approximately DKK 150 million per year primarily relating to maintenance of production facilities. In addition, STG estimates that its investments in fixed assets related to preparations for the TPD will amount to a total of approximately DKK 200 million to DKK 230 million, which will be recorded primarily in 2015 and 2016.

STG estimates that its capital expenditure for the year ended 31 December 2015 was approximately DKK 250 million, primarily related to preparations for the TPD and maintenance of production facilities in line with past practice in addition to the items discussed above for the nine months ended 30 September 2015. STG estimates that its capital expenditure for the year ending 31 December 2016 will be in line with or slightly higher than for the year ended 2015, and will primarily relate to preparations for the TPD and maintenance of production facilities in line with past practice. STG expects to fund its capital expenditure with cash flow from its operating activities.

STG's acquisitions for the year ended 31 December 2014 related to the acquisitions of Verellen and the Toraño brand in September 2014. STG's acquisitions for the year ended 31 December 2013 related to the acquisition of the Pipes and Cigars online retail business.

The estimates of STG's capital expenditure above constitute forward-looking statements and have been prepared on the basis of various assumptions. These assumptions include estimates relating to expenditure on materials, equipment, labour and services based on current experience that in many cases have yet to be contracted and/or may be subject to cost escalation or other factors outside of STG's control. In addition, the assumptions regarding STG's costs in relation to the TPD assume that the TPD will be implemented in the EU member states as currently anticipated by STG. These forward-looking statements are not guarantees of STG's future capital expenditure and STG's capital expenditure could differ materially from the estimates as a result of many factors, including but not limited to those described under "Special Notice Regarding Forward-looking Statements" and "Risk Factors". Investors are urged not to place undue reliance on any of the statements set forth above.

Financial Indebtedness

The following table sets forth information on STG's external loans as at the dates indicated:

	Maturity date	Fixed/floating	Carrying amount as at 30 September 2015
			(DKK in millions)
Currency			
EUR	30 September 2020	Floating	1,678.5
EUR	30 September 2020	Floating	634.1
USD	30 September 2020	Floating	998.8
Total			3,311.4

STG's policy is to maintain interest rate risk at a known level and, accordingly, STG enters into interest rate swaps to convert most of its floating rate borrowings to a fixed rate. As at 30 September 2015, STG had interest rate swaps covering all of its floating rate borrowings.

Facilities Agreement

The Company entered into a facilities agreement (the "**Facilities Agreement**") on 3 September 2015 with Nordea Bank Danmark A/S and Danske Bank A/S as lenders. The Facilities Agreement provides a committed credit facility with the final maturity date on 30 September 2020 (the "**Final Maturity Date**"). Pursuant to the terms of the Facilities Agreement, the Company has the right to request a 12-month extension of the Final Maturity Date prior to each of the first and the second anniversary of the Facilities Agreement, such extensions being subject to the approval of the lenders.

The Facilities Agreement includes term loan facilities in the amounts of EUR 225 million and USD 150 million (the "**Term Loan Facilities**") and a revolving facility in the amount of EUR 155 million (the "**Revolving Facility**"). The Revolving Facility is available for general corporate purposes, including distributions of dividends. The Term Loan Facilities have been drawn in full as at the date of this Offering Circular and the Revolving Facility is available for drawings in the form of revolving loans in euro and U.S. dollars. The Term Loan Facilities are wholly repayable on the Final Maturity Date and new drawings on the Revolving Facility may be made until three months prior to the Final Maturity Date. The Term Loan

Facilities and the Revolving Facility bear interest at a variable rate and include a margin adjustment based on the Group's leverage.

Under the Facilities Agreement, the Company has made a number of customary representations and warranties on the date of execution of the Facilities Agreement, certain of which are deemed to be repeated in certain circumstances thereafter. In addition, the Facilities Agreement contains certain covenants in respect of the future maintenance and conduct of the Group's business (subject to agreed exceptions and limitations), including, among others, various restrictive covenants such as restrictions on mergers, change of business and paying dividends, negative pledge and requirements as to financial information.

The Group may not make any new acquisitions or investments in companies, businesses, shares or similar assets, or make any dividend payments or redemptions of share capital if such action would result in the Group's net debt (as defined in the Facilities Agreement) exceeding four times the Group's EBITDA. Furthermore, the consolidated financial indebtedness of the Company's subsidiaries may not exceed 25 percent of the total financial indebtedness of the Group.

The facilities under the Facilities Agreement may become wholly or partly pre-payable on the occurrence of certain customary events, including a change of control or breach of international financial sanctions. A "change of control" is defined under the Facilities Agreement as the situation in which any person gains control of the Company (except for the existing shareholders). The "existing shareholders" are defined as The Augustinus Foundation, The Obel Family Foundation, Swedish Match Cigars Holding and any company directly or indirectly controlled by any such party and "control" being defined as controlling influence (Dk. *bestemmende indflydelse*) as defined in section 31(2) and (3) of the Danish Securities Trading Act.

The Facilities Agreement contains customary events of default subject to specified exceptions, materiality, grace periods, baskets, thresholds, qualifications and remedy periods, including, among others, non-payment of principal or interest, breach of financial or other covenants, material breach of representations and warranties, cross-default above a certain agreed threshold amount, certain insolvency and bankruptcy events and judgements against the Group in excess of a certain agreed threshold and a customary material adverse change clause.

Indebtedness under the Facilities Agreement may be voluntarily wholly or partly prepaid, subject to notice, minimum amounts and early repayment fees.

Working Capital Statement

As at the date of this Offering Circular, the Company believes that its working capital is adequate to meet its financing requirements for at least twelve months following the date of this Offering Circular.

Contractual Obligations, Commitments and Contingent Liabilities

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

The following table sets forth information on STG's minimum future lease payments under operating lease contracts and rent commitments as at 30 September 2015:

	As at 30 September 2015	Due		
		within 1 year	in 1–5 years	after 5 years
	(DKK in millions)			
Future minimum lease payment under operating lease contracts and rent commitments	280.8	111.8	139.7	29.3

STG's guarantee obligations amounted to DKK 542.5 million as at 30 September 2015, DKK 518.8 million as at 31 December 2014, DKK 497.5 million as at 31 December 2013 and DKK 493.9 million as at 31 December 2012. The guarantee obligations were primarily given to local tax authorities in relation to excise and tax stamps. The terms of the guarantees, including pricing, are negotiated between STG and the issuer and are not directly dependent on a benchmark rate (*e.g.*, LIBOR). STG has facility agreements with the issuing institutions and guarantees are issued from Denmark, the Netherlands or the country of the beneficiary, where required.

As at the date of this Offering Circular, the Company and its Danish subsidiaries are jointly taxed with all Danish companies controlled by Chr. Augustinus Fabrikker A/S (the "**Existing Danish Tax Group**"). According to the Danish joint taxation rules, the Company and its Danish subsidiaries are jointly and severally liable for payment of taxes (including withholding tax on interest, royalties and dividends and surcharges and interest charges) of other companies within the Existing Danish Tax Group (*i.e.*, companies under common control) should any of the companies within the Existing Danish Tax Group default on its tax obligations. The liability is direct for wholly-owned subsidiaries and secondary for other companies in the Existing Danish Tax Group. The tax liability typically covers three preceding income years open for tax audits, but is extended to five preceding income years with respect to taxes relating to transfer pricing adjustments and five years for withholding taxes.

The Company and its Danish subsidiaries will automatically leave the Existing Danish Tax Group upon the completion of the Offering. As a result of such exit from the Existing Danish Tax Group upon completion of the Offering, the Company and its Danish subsidiaries will cease to be liable for payment of taxes of the companies in the Existing Danish Tax Group.

Pension Obligations

STG provides pension plans to its employees in the countries in which it is market practice to do so. STG operates a number of defined contribution plans throughout the world. In a few countries, STG operates defined benefit plans, including funded defined benefit pension plans in Belgium and France and unfunded defined benefit pension plans in Germany, Indonesia, the Dominican Republic, the United States, Denmark, Honduras, Italy and Nicaragua. Under a defined benefit pension plan, the amount of pension benefit that will be received by an employee is defined with respect to period of service and final salary.

As at 30 September 2015, STG's net pension obligations amounted to DKK 227.7 million and the present value of STG's funded and unfunded defined benefit pension obligations amounted to DKK 77.8 million and DKK 149.9 million, respectively. As at 30 September 2015, STG's defined benefit pension plans covered 4,664 employees. STG does not plan to provide any new defined benefit pension plans.

The following table sets forth STG's defined benefit pension obligations recognised in the balance sheet as at the dates indicated:

	As at 30 September 2015	As at 31 December		
		2014	2013	2012
	(unaudited)	(audited)		
	(DKK in millions)			
Present value of funded obligations	187.9	202.7	585.4	593.9
Fair value of plan assets	(110.1)	(109.5)	(522.5)	(518.6)
(Deficit)/surplus	77.8	93.2	62.9	75.3
Present value of unfunded obligations	149.9	139.8	127.9	128.6
Unrecognised assets due to recoverability limit	0.0	0.0	18.7	13.1
Net liability in the balance sheet	227.7	233.0	209.5	217.0

In 2014, STG transferred its defined benefit plans in the Netherlands to defined contribution plans. This resulted in decreases in the present value of funded obligations and fair value of plan assets as at 31 December 2014 as compared to 31 December 2013.

Off-balance-sheet Arrangements

Except for the guarantee obligations discussed under "*—Contractual Obligations, Commitments and Contingent Liabilities*" above, STG had no off-balance-sheet arrangements, as defined under IFRS, as at 30 September 2015.

Critical Accounting Policies

For a discussion of STG's significant accounting estimates and judgements, see note 1 to the Unaudited Consolidated Interim Financial Statements and note 1.1 to the Audited Consolidated Financial Statements.

Quantitative and Qualitative Disclosure about Market Risk

For a discussion of STG's foreign exchange risk, interest rate risk, operational credit risk, liquidity and risk management, see note 4.2 to the Audited Consolidated Financial Statements. See also "—*Principal Factors Affecting STG's Results of Operations—Currency Fluctuations*" above.

CONSOLIDATED PROSPECTIVE FINANCIAL INFORMATION

Statement by the Board of Directors and Executive Management

The consolidated prospective financial information for 2015 and 2016 has been prepared solely for the purpose of this Offering Circular. In preparing the consolidated prospective financial information for 2015 and 2016, the Company has applied its accounting policies, which are in accordance with IFRS and set out in note 1.1 to the Audited Consolidated Financial Statements included in the F-pages to this Offering Circular. The consolidated prospective financial information for 2015 and 2016 is based on a number of assumptions, many of which are outside of the Company's control or influence. The principal assumptions upon which we have based the consolidated prospective financial information are described under "*—Methodology and Assumptions*" below.

The consolidated prospective financial information for 2015 and 2016 represents the best estimates of the Board of Directors and Executive Management as at the date of this Offering Circular. The Company's actual results of operations for 2015 may differ from the consolidated prospective financial information for 2015, and the Company's actual results of operations for 2016 are likely to differ from the consolidated prospective financial information for 2016 since anticipated events may not occur as expected. Particularly in relation to 2016, the variation may be material. Prospective investors should read the consolidated prospective financial information for 2015 and 2016 in this section in conjunction with "*Risk Factors*" and "*Special Notice Regarding Forward-looking Statements*".

Søborg, 28 January 2016

Scandinavian Tobacco Group A/S

Board of Directors

Jørgen Tandrup *Chairman*	Conny Karlsson *Deputy Chairman*	Lars Dahlgren
Marlene Forsell	Fredrik Lagercrantz	Anders C. Obel
Tommy Pedersen	Henning Kruse Petersen	Kurt Asmussen *Employee Representative*
Hermod Hvid *Employee Representative*	Hanne Malling *Employee Representative*	Charlotte Nielsen *Employee Representative*

Executive Management

Niels Frederiksen *Chief Executive Officer*	Sisse Fjelsted Rasmussen *Chief Financial Officer*	Vincent Crepy *Executive Vice President*
Christian Hother Sørensen *Executive Vice President*	Rob Zwarts *Executive Vice President*	

Independent Auditors' Report on Consolidated Prospective Financial Information

To shareholders and potential investors

We have been engaged to issue a report as to whether the consolidated prospective financial information for 2015 and 2016 of Scandinavian Tobacco Group A/S has been properly compiled on the basis stated and whether the basis of accounting used for the consolidated prospective financial information is consistent with the accounting policies of Scandinavian Tobacco Group A/S.

The consolidated prospective financial information for 2015 and 2016 is stated on pages 175–179 of this Offering Circular. The basis is stated in the section "*Methodology and Assumptions*" below.

We will express reasonable assurance in our conclusion.

The expression "the basis of accounting used for the consolidated prospective financial information is consistent with the accounting policies of Scandinavian Tobacco Group A/S" means that the consolidated prospective financial information has been prepared according to the accounting policies stated in the Audited Consolidated Financial Statements of Scandinavian Tobacco Group A/S as included in the F-pages F-13–F-59.

The purpose of the consolidated prospective financial information is to reflect the expected financial effect of the Company's management's action plans for 2015 and 2016.

Actual results are likely to be different from the results stated in the consolidated prospective financial information since anticipated events frequently do not occur as expected. Such variation may be material particularly with respect to 2016.

The consolidated prospective financial information has been prepared for the purpose of this Offering Circular, which has been prepared in accordance with Commission Regulation (EC) No 809/2004 as subsequently amended (the "**Prospectus Regulation**") and may therefore not be appropriate for another purpose.

Our report is issued in accordance with the Prospectus Regulation and has been prepared in accordance with generally accepted Danish practice for reports under the Prospectus Regulation and only for the use of the shareholders and potential investors in connection with the contemplated admission for trading and official listing on Nasdaq Copenhagen of Shares in Scandinavian Tobacco Group A/S and the public offering of some of these Shares.

This report is not included or incorporated by reference in the U.S. Offering Circular.

Management's Responsibility

The Company's management is responsible for the proper compilation of the consolidated prospective financial information on the basis stated and for the basis of accounting used for the consolidated prospective financial information being consistent with the accounting policies of Scandinavian Tobacco Group A/S.

Furthermore, the Company's management is responsible for selecting the assumptions underlying the consolidated prospective financial information.

Auditors' Responsibility

Our responsibility is, in accordance with the Prospectus Regulation, to express a conclusion as to whether the consolidated prospective financial information has been properly compiled on the basis stated and whether the basis of accounting used for the consolidated prospective financial information is consistent with the accounting policies of Scandinavian Tobacco Group A/S.

We have performed our work in accordance with ISAE 3000 (revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information and additional requirements under Danish audit regulation.

PricewaterhouseCoopers is subject to the International Standard on Quality Control, ISQC 1, and thus applies a comprehensive quality control system, including documented policies and procedures concerning compliance with ethical requirements, professional standards and current statutory requirements and other regulation.

We have complied with the independence requirements and other ethical requirements included in FSR – Danish Auditors' guidelines for auditors' ethical behaviour (Code of Ethics for Auditors) based on the basic principles of integrity, objectivity, professional competence as well as due diligence, confidentiality and professional behaviour.

As part of our work, we have checked whether the consolidated prospective financial information has been properly compiled on the basis of the assumptions stated and according to the accounting policies stated in the Audited Consolidated Financial Statements of Scandinavian Tobacco Group A/S as included in the F-pages F-13–F-59, including checking of the numerical consistency of the consolidated prospective financial information.

Our work did not comprise an assessment of whether the assumptions applied are documented, well-founded and complete or whether the consolidated prospective financial information can be realised, and therefore we express no conclusion thereon.

Conclusion

Our conclusion is based on the understanding of the expression "the basis of accounting used for the consolidated prospective financial information is consistent with the accounting policies of Scandinavian Tobacco Group A/S" as defined in the introduction to this report.

In our opinion, the consolidated prospective financial information for 2015 and 2016 has been properly compiled on the basis stated and the basis of accounting used for the consolidated prospective financial information is consistent with the accounting policies of Scandinavian Tobacco Group A/S.

Copenhagen, 28 January 2016

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Torben Jensen *State Authorised Public Accountant*	Thomas Wraae Holm *State Authorised Public Accountant*

Introduction

The Company has prepared the consolidated prospective financial information for 2015 and 2016 included in this Offering Circular in accordance with applicable laws and regulations. Such information is the responsibility of the Company.

The consolidated prospective financial information was not prepared with a view toward compliance with published guidelines of the U.S. Securities and Exchange Commission and the American Institute of Certified Public Accountants ("**AICPA**"), for preparation and presentation of prospective financial information. Accordingly, this information does not include disclosure of all information required by AICPA's guidelines on prospective financial information. The consolidated prospective financial information is necessarily based upon a number of assumptions and estimates that, while prepared with numerical specificity and considered reasonable by the Company, are inherently subject to significant business, operational, economic and competitive uncertainties and contingencies, many of which are beyond the Company's control, and upon assumptions with respect to future business decisions that are subject to change.

The Company's expectations as to future developments may deviate substantially from actual developments. The Company's actual results of operations for 2015 may differ from the consolidated prospective financial information for 2015, and the Company's actual results of operations for 2016 are likely to differ from the consolidated prospective financial information for 2016 since anticipated events may not occur as expected. Particularly in relation to 2016, the variation may be material. Accordingly, prospective investors should treat this information with caution and should not place undue reliance on it.

Methodology and Assumptions

The Company's consolidated prospective financial information for 2015 reflects the Company's actual performance through 30 November 2015, which is based on the financial information through 30 September 2015 and management reports through 30 November 2015, and estimates and assumptions concerning the Company's performance through 31 December 2015. The Company's consolidated prospective financial information for 2016 reflects estimates and assumptions concerning the Company's performance through 31 December 2016. The consolidated prospective financial information has been prepared on the basis of the Company's accounting policies, which are in accordance with IFRS and are set out in note 1.1 to the Audited Consolidated Financial Statements included in the F-pages to this Offering Circular. See "*Presentation of Financial and Certain Other Information*". The consolidated prospective financial information for 2015 and 2016 has been prepared in accordance with the Company's normal budgeting and forecasting procedures.

The consolidated prospective financial information for 2015 and 2016 has been prepared on the basis of a large number of assumptions and estimates, which are subject to numerous and significant uncertainties. Certain of the assumptions, estimates, uncertainties and contingencies relating to the consolidated prospective financial information are outside of the Company's control, including those related to changes in market, legal, fiscal, political or economic conditions, currency fluctuations and actions by competitors, customers and consumers.

The key principal assumptions and estimates made by the Company in preparing the consolidated prospective financial information are presented below; however, the list is not exhaustive and it is possible that one or more of the assumptions or estimates will fail to materialise or prove to be incorrect. The Company's actual results of operations could also deviate materially from the consolidated prospective financial information as a result of other factors, including, but not limited to, those described under "*Risk Factors*" and "*Special Notice Regarding Forward-looking Statements*". For additional information regarding factors that the Company believes could have a substantial effect on its results of operations, see "*Operating and Financial Review—Principal Factors Affecting STG's Results of Operations*".

Year Ended 31 December 2015

For the purpose of preparing the consolidated prospective financial information for 2015, the Company has applied the following principal assumptions:

Reported Net Sales

- In general, STG estimates that the trends seen in the first 11 months of 2015 will broadly continue for the full year 2015. For the total business, this means that the price/mix impact is expected to remain positive driven mainly by price increases (partially within the Company's control). The volume impact is expected to be positive in the handmade cigars segment driven mainly by growth in the U.S. online and catalogue channels (partially within the Company's control). In the machine-made cigars, pipe tobacco and fine-cut tobacco segments, the volume impacts are expected to remain negative due to sales volume declines in certain markets, such as France, Canada and the United Kingdom, and the termination of a third-party distribution contract for fine-cut tobacco (outside of the Company's control).

- In the other segment, STG expects a decline in net sales for 2015, which follows the development experienced during the first 11 months of 2015, primarily driven by the transition to a new distribution model for machine-made cigars in Russia. (Partially within the Company's control.)

Adjusted EBITDA Margin

- Overall, STG expects its adjusted EBITDA margin for 2015 to be in line with 2014, but to contract slightly as compared to the first nine months of 2015 for the following reasons:
    - A slight decline in gross profit margins is expected due to continued growth in areas with gross profit margins slightly below the Group average primarily driven by increased sales of handmade cigars in the U.S. online and catalogue channels and certain other products in the value segment, primarily in machine-made cigars and fine-cut tobacco (partially within the Company's control). In addition, STG expects declines in the overall market volumes in certain machine-made cigar markets, such as France, Canada and the United Kingdom (outside of the Company's control), which is expected to negatively affect STG's adjusted gross profit margin and, therefore, adjusted EBITDA margin.
    - STG expects a modest increase in sales and marketing expenses towards the end of 2015 due to the payment of year-end bonuses and other trade incentives. (Partially within the Company's control.)
    - Other operating expenses are expected to largely follow the same trend as seen in the first nine months of 2015. (Partially within the Company's control.)

Additional Assumptions

- For each of reported net sales and adjusted EBITDA margin, the Company has assumed that there will be no material differences between the preliminary financial information in its management reports for October and November 2015 and its expectations for December 2015 and its reported financial information for 2015. (Partially within the Company's control.)

Year Ending 31 December 2016

For the purpose of preparing the consolidated prospective financial information for 2016, the Company has applied the following principal assumptions:

Adjusted Net Sales

- The Company has assumed the following with regard to developments in the overall market volumes in the markets in which STG operates:
    - Developments in the overall market volumes in the markets in which STG operates will in general follow similar trends as experienced in recent years. (Outside of the Company's control.)
    - For handmade cigars, stable overall market volumes in the United States. (Outside of the Company's control.)
    - For machine-made cigars, continued declines in the overall market volumes in certain markets following the trends experienced in recent years. (Outside of the Company's control.)
    - For pipe tobacco, continued declines in the overall market volumes of traditional pipe tobacco in certain markets. (Outside of the Company's control.)
    - For fine-cut tobacco, stable to slightly declining overall market volumes. (Outside of the Company's control.)
- The Company has assumed the following with regard to price/mix impacts:
    - Overall positive price/mix impacts due to price increases being implemented according to its current plans. (Partially within the Company's control.)

- For handmade cigars, positive price/mix impacts driven by price increases in the United States. (Partially within the Company's control.)
- For machine-made cigars, positive price/mix impact driven by price increases across all major markets. (Partially within the Company's control.)
- For pipe tobacco, positive price/mix impact driven by price increases across most markets but slightly offset by launches of "dual-usage" pipe tobacco products in the United States, which generally have lower sales prices than traditional pipe tobacco products. (Partially within the Company's control.)
- For fine-cut tobacco, positive price/mix impact driven by price increases across most markets. (Partially within the Company's control.)

- The Company has assumed the following with regard to volume impacts:
  - For handmade cigars, positive volume impact due to growth in the U.S. online and catalogue channels and modest growth in the U.S. branded business. (Partially within the Company's control.)
  - For machine-made cigars, stable to declining volume impact driven mainly by positive development in Russia following the transition to new distribution model in 2015 (partially within the Company's control), which is offset by declining sales volumes in certain other markets following developments in overall market volumes (outside of the Company's control). STG assumes that the rebound in Russia will be specific for 2016 and is a return to normalised levels of trade experienced prior to 2015 (outside of the Company's control).
  - For pipe tobacco, stable to slightly positive volume impact driven by growth in the United States due to launches of "dual-usage" pipe tobacco products and in Nigeria coming from a soft 2015 (partially within the Company's control). This is partially offset by declining sales volumes in certain other markets following developments in overall market volumes (outside of the Company's control).
  - For fine-cut tobacco, stable volume impact driven mainly by continued positive development in Germany in the value segment (partially within the Company's control), but offset by declining sales volumes in certain other markets following developments in overall market volumes (outside of the Company's control).
- The Company has assumed that the other segment will be largely in line with 2015. (Partially within the Company's control.)
- The Company has assumed that exchange rates in 2016 will be largely in line with the exchange rates seen in the later part of 2015 (outside of the Company's control). Although fluctuations in exchange rates do not impact STG's organic growth rate, changes in exchange rates, especially in the value of the U.S. dollar against the Danish krone, can significantly affect STG's reported net sales.
- The Company assumes that the implementation of the TPD will not affect overall market volumes (outside of the Company's control) and that STG will retain its market shares during the implementation period (partially within the Company's control).
- The Company assumes that sales and marketing activities will increase with special focus on supporting identified growth areas. (Within the Company's control.)

Adjusted EBITDA

- In general, the Company assumes that gross profit will largely develop in line with growth in net sales, with operating expenses increasing slightly less than gross profit due to a continued focus on cost control. (Partially within the Company's control.)
- The Company assumes a largely stable gross profit margin mainly affected by the following:
  - Growth in markets/segments with gross profit margins below STG's overall gross profit margin (partially within the Company's control). This includes continued growth in the U.S. online and catalogue channels (partially within the Company's control), growth of products in certain value segments, such as "dual-usage" pipe tobacco in the United States (partially within the Company's control), and continued growth in the fine-cut value segment in Germany (partially within the

Company's control), as well as the expected rebound for machine-made cigars in the value segment in Russia (outside of the Company's control).

  - Increases in input costs for raw tobacco in machine-made cigars above expected sales price increases. (Partially within the Company's control.)
  - Positive development from efficiency measures in the supply chain, which are expected to materialise as currently anticipated and are estimated to result in gross operating cost savings of approximately DKK 140 million, as compared to the 2014 level, by the end of 2018. (Partially within the Company's control.)

- The Company assumes that sales and marketing expenses will increase slightly to support identified growth areas. (Within the Company's control.)
- The Company assumes that other operating expenses will increase largely in line with inflation. (Partially within the Company's control.)

Additional Assumptions

For each of adjusted net sales and adjusted EBITDA, the Company has assumed the following:

- Ongoing litigation and administrative proceedings in which STG is currently involved will not result in outcomes that have, and STG will not become party to any litigation or administrative proceedings that could have, a material adverse impact on STG. (Outside of the Company's control.)
- There will be no further restrictions on promoting, marketing, packaging, labelling and usage of tobacco products in the markets in which STG operates that differ from STG's current expectations. (Outside of the Company's control.)
- The national legislation implementing the TPD will not differ from STG's current expectations. (Outside of the Company's control.)
- The Company has not included any potential future impact of the Deeming Regulations in its consolidated prospective financial information as the scope and timing of such effects are currently uncertain. (Outside of the Company's control.)
- STG will not complete any acquisitions or divestments in the periods covered by the consolidated prospective financial information. (Within the Company's control.)
- There will be no changes in excise tax rates, import duties, corporate tax rates or other tax rates that differ from STG's current expectations. (Outside of the Company's control.)

Nonrecurring Items

Except with respect to reported net sales for 2015, the consolidated prospective financial information is based on financial measures that are adjusted to exclude nonrecurring items and, therefore, are not calculated in accordance with IFRS. Accordingly, the consolidated prospective financial information does not reflect nonrecurring items, except with respect to reported net sales for 2015. For definitions of these non-IFRS financial measures, see "*Presentation of Financial and Certain Other Information—Non-IFRS Financial Measures*".

For 2015, STG estimates that it will incur nonrecurring items with an impact on EBITDA of approximately DKK 138 million consisting of the nonrecurring items of DKK 111.8 million incurred in the first nine months of 2015, as described in "*Selected Historical Consolidated Financial and Operating Information—Certain Non-IFRS Financial Measures*", and estimated nonrecurring items of approximately DKK 26 million incurred in the fourth quarter of 2015 consisting mainly of expenses related to preparations for the TPD, the management restructuring in the handmade cigars segment and accrual of Offering-related bonuses. For 2016, STG estimates that it will incur nonrecurring items with an impact on EBITDA of approximately DKK 19 million mainly related to expenses related to preparations for the TPD and Offering-related bonuses. For information on the nonrecurring items that STG estimates that it will incur in 2017 and 2018 related to restructuring in connection with its efficiency measures and working capital initiatives, see "*Operating and Financial Review—Principal Factors Affecting STG's Results of Operations—Improving Efficiency—Efficiency Measures and Working Capital Initiatives*".

Consolidated Prospective Financial Information

Based principally on the assumptions and methodology as set out above, for 2015, STG expects reported net sales growth in the high single digits and an adjusted EBITDA margin broadly in line with 2014.

STG expects organic growth rates (*i.e.*, growth excluding acquisitions and currency effects) for 2016 to be in the range of 1 to 3 percent for adjusted net sales and 3 to 5 percent for adjusted EBITDA.

STG's financial and operational performance is affected by various factors. For a discussion of the factors that could have an adverse effect on STG's operational and financial performance and that STG currently sees as material, see "*Risk Factors*" and "*Special Notice Regarding Forward-looking Statements*".

BOARD OF DIRECTORS, EXECUTIVE MANAGEMENT AND KEY EMPLOYEE

Overview

The Company has a two-tier governance structure consisting of the Board of Directors and the Executive Management. The two management bodies are separate and have no overlapping members. The Executive Management is supported by one key employee (the "**Key Employee**").

Except for Vincent Crepy, who joined the Company in September 2015, all members of the Executive Management and the Key Employee have broad experience across the tobacco industry and have all been with the Group for at least six years, with many having worked with it throughout various stages of its development.

The business address of the Board of Directors, Executive Management and the Key Employee is Sydmarken 42, DK-2860 Søborg, Denmark.

Board of Directors

The Board of Directors is responsible for the Company's overall and strategic management and it supervises the Company's activities, management and organisation. The Board of Directors appoints and dismisses the members of the Executive Management, who are responsible for the Company's day-to-day operations.

In accordance with article 12.1 of the Articles of Association, the Board of Directors consists of no fewer than six and no more than ten members elected at the General Meeting. In addition, the Board of Directors consists of a number of members elected by the Company and the Group's employees. The members of the Board of Directors elected by the General Meeting are elected for a term of one year. Members of the Board of Directors may be re-elected. Only persons who are younger than 70 years at the time of the election may be elected. Employees of Danish companies that have employed at least 35 employees for the preceding three years are entitled to elect directors corresponding to one half of the number of directors elected by the general meeting of shareholders. Board members elected by the employees are elected for terms of four years and they hold the same rights and obligations as any member of the Board of Directors elected by the shareholders.

The Board of Directors elects its chairman (the "**Chairman**") and vice-chairman (the "**Vice-chairman**"). The members of the Board of Directors elected by the General Meeting are elected for a term of one year and may be re-elected.

The Company's current Board of Directors (the "**Existing Board of Directors**") consists of eight members and four employee representatives, two of whom were elected by the Group's employees and two of whom were elected by the Company's employees.

In connection with the admission of the Shares to trading and official listing on Nasdaq Copenhagen, an extraordinary General Meeting is expected to be held on 10 February 2016 at no later than 7:00 a.m. (CET) after expiry of the Offer Period but before announcement of the result of the Offering and allocation of Offer Shares to investors and admission to trading and official listing of the Shares on Nasdaq Copenhagen. It is expected that at such extraordinary General Meeting, Dianne Neal Blixt, Søren Bjerre-Nielsen and Luc Missorten will be elected to the Board of Directors and that Anders Obel, Lars Dahlgren and Fredrik Lagercrantz will resign from the Board of Directors. The Selling Shareholders have confirmed that if held, as expected, they will vote in favour of the changes to the Board of Directors at the extraordinary General Meeting. If the Offer Period is closed before 9 February 2016, the day of the extraordinary General Meeting will be moved forward accordingly, as agreed by the Selling Shareholders. The Board of Directors will, after the election of Dianne Neal Blixt, Søren Bjerre-Nielsen and Luc Missorten and the resignation of Anders Obel, Lars Dahlgren and Fredrik Lagercrantz consist of eight members elected by the General Meeting and four employee representatives (the "**New Board of Directors**"). The result of the extraordinary General Meeting regarding election of the new members of the Board of Directors will be published through Nasdaq Copenhagen and be made available on the Company's website at www.st-group.com. Information on the Company's website does not form part of and is not incorporated by reference into this Offering Circular.

The Company believes that the members of the New Board of Directors possess the professional skills and experience required to serve as members of the Board of Directors and to supervise and manage a company with shares admitted to trading and official listing on Nasdaq Copenhagen.

The following table sets forth an overview of the members of the Existing Board of Directors, as well as the expected members of the New Board of Directors:

	Position	Considered independent[(1)]	Year of first appointment	Expiration of term
Existing Board of Directors				
Jørgen Tandrup	Chairman	Not independent	2010	2016
Conny Karlsson	Vice-chairman	Independent	2010	2016
Lars Dahlgren	Board member	Independent	2010	2016
Marlene Forsell	Board member	Independent	2014	2016
Fredrik Lagercrantz	Board member	Independent	2015	2016
Anders C. Obel	Board member	Independent	2010	2016
Tommy Pedersen	Board member	Independent	2010	2016
Henning Kruse Petersen	Board member	Independent	2010	2016
Kurt Asmussen	Group employee representative[(2)]	Not independent	2011	2019
Charlotte Nielsen	Group employee representative[(2)]	Not independent	2011	2019
Hermod Hvid	Company employee representative[(3)]	Not independent	2015	2019
Hanne Malling	Company employee representative[(3)]	Not independent	2010	2019
New Board of Directors				
Jørgen Tandrup	Chairman	Not independent	2010	2016
Conny Karlsson	Vice-chairman	Independent	2010	2016
Søren Bjerre-Nielsen	Board member	Independent	2016	2016
Marlene Forsell	Board member	Independent	2014	2016
Tommy Pedersen	Board member	Independent	2010	2016
Dianne Neal Blixt	Board member	Independent	2016	2016
Luc Missorten	Board member	Independent	2016	2016
Henning Kruse Petersen	Board member	Independent	2010	2016
Kurt Asmussen	Group employee representative[(2)]	Not independent	2011	2019
Charlotte Nielsen	Group employee representative[(2)]	Not independent	2011	2019
Hermod Hvid	Company employee representative[(3)]	Not independent	2015	2019
Hanne Malling	Company employee representative[(3)]	Not independent	2010	2019

(1) The Company has based its assessment of independence on the criteria set out in the Corporate Governance Recommendations (as defined below). The Company has also based this assessment on the assumptions that the Existing Shareholders' Agreement (defined below) will terminate with effect from the completion of the Offering and that each of the Selling Shareholders will sell the Firm Shares. Until such time, all members of the Existing Board of Directors will not be independent.

(2) The first alternate Group employee representative on the Board of Directors is Mogens Olsen and the second alternate Group employee representative is Anne Andersen.

(3) The first alternate Company employee representative on the Board of Directors is Lindy Larsen and the second alternate Company employee representative is Carsten Steffan Jahn.

Biographies

Existing Board of Directors

Jørgen Tandrup (born 1947, Danish nationality) has been the Chairman of the Board of Directors since October 2010 and a member of the Board of Directors since 2010. In the period from 1992 until 2006, Mr Tandrup was the chief executive officer of Skandinavisk Tobakskompagni A/S and, from 2006 until 2010, chairman of the board of directors of Skandinavisk Tobakskompagni A/S. He is currently also the chairman of the boards of directors of Caf Invest A/S, Kurhotel Skodsborg A/S, Skodsborg Sundhedscenter A/S, Chr. Augustinus Fabrikker Aktieselskab, Jeudan A/S, Fritz Hansen A/S, Skandinavisk Holding A/S, Skandinavisk Holding II and Tivoli A/S. Mr Tandrup also serves as a member of the boards of directors of Skodsborg Sundpark A/S, Rungsted Sundpark A/S and The Augustinus Foundation. In the past five years, Mr Tandrup has served as the chairman of the boards of directors of Syskon A/S (dissolved by merger in 2014) and Dupont Nutrition Biosciences ApS (formerly Danisco A/S). Mr Tandrup is also an executive officer of GFKJUS ApS. Mr Tandrup holds an ISMP Degree 1 from Harvard Business School and a Master of Science degree from Copenhagen Business School.

Conny Karlsson (born 1955, Swedish nationality) has been the Vice-chairman and a member of the Board of Directors since October 2010. Mr Karlsson is currently also the chairman of the boards of directors of Swedish Match, YA Invest AB, Zeres Capital AB, EuroFlorist Holding AB, Euroflorist Aktiebolag, Filius Luna Invest AB and Kungsåra Bildemontering AB. Mr Karlsson also currently serves as a member of the boards of directors of YA Holding AB, Åkestam Holst Group AB, ArcbyNoA AB, Bold Stockholm AB, Anfri AB, Fornwij AB, Studion Åkestam Holst AB, Karelia Timber Intressenter AB, Promenad Intressenter AB, Malte Månson Holding AB and Åkestam.Holst Intressenter AB. Mr Karlsson is currently also an alternate member of the board of directors of Bostadsrättsföreningen Hornblåsaren nr 31. In the past five years, Mr Karlsson has served as the chairman of the boards of directors of Cederroth Intressenter AB, CEDERROTH AB, ProstaLund AB, Cariel Spirits AB, Rörvik Timber AB and RossGruppen AB. In the past five years, Mr Karlsson has also served as a member of the boards of directors of EuroFlorist Intressenter AB, Procurator AB, TeliaSonera Aktiebolag, The North Alliance Sverige AB, Great Works AB and Mediplast AB. In the past five years, Mr Karlsson has also served as an alternate member of the boards of directors of Pharma & Health Relations AB, Life Science Executive Search Nordic AB, Lund Instruments Aktiebolag, PharmaRelations AB and ProstaLund Operations Aktiebolag (bankrupt in 2014). Mr Karlsson is also an operating partner in Capman Buyout. Mr Karlsson holds a Bachelor's degree in Business from Stockholm School of Economics.

Lars Dahlgren (born 1970, Swedish nationality) has been a member of the Board of Directors since October 2010. Mr Dahlgren is the Chief Executive Officer of Swedish Match. Mr Dahlgren is currently also the chairman of the boards of directors of SMD Logistics Örnäs AB, Swedish Match North Europe AB, SMD Logistics AB, SMD Logistics Holding AB and SMD Solna Fräsaren AB. He is currently also a member of the boards of directors of Arnold André GmbH & Co. KG and Orkla ASA. In the past five years, Mr Dahlgren has served as a member of the board of directors of SMPM International AB. Mr Dahlgren holds a Master of Science degree in Business and Economics from Stockholm School of Economics.

Marlene Forsell (born 1976, Swedish nationality) has been a member of the Board of Directors since June 2014. Ms Forsell joined Swedish Match in 2004 and, since September 2013, she has served as the Chief Financial Officer of Swedish Match. She is currently also the chairman of the boards of directors of Swedish Match US AB, Swedish Match Malaysia Holding AB, Swedish Match Brazil Holding AB and Svenskt Snus AB. Ms Forsell is currently also a member of the boards of directors of SMD Logistics Örnäs AB, Arnold André GmbH & Co. KG, Svenska Tändsticks Aktiebolaget, Svenska Tändsticksbolaget Försäljningsaktiebolag, SMD Logistics AB, Svenska Tobaks AB, Swedish Match Intellectual Property AB, SMD Logistics Holding AB, SMD Solna Fräsaren AB, Lysstickan AB and Swedish Match Cigars Holding AB. Ms Forsell is also the Chief Executive Officer of Svenska Tändsticksbolaget Försäljningsaktiebolag. In the past five years, Ms Forsell has been the Vice President of Group Reporting of Swedish Match and the Vice President of Business Control of Swedish Match North Europe AB. Ms Forsell holds a Master of Science degree in Business and Economics from Stockholm School of Economics.

Fredrik Lagercrantz (born 1977, Swedish nationality) has been a member of the Board of Directors since March 2015. Mr Lagercrantz is the Senior Vice President Business Control of Swedish Match. From 2009 to 2013, Mr Lagercrantz was Vice President of Swedish Match. Mr Lagercrantz is currently also a member of the boards of directors of EB Road Cargo AB, Road Cargo Sweden Holding AB, Tre Bönder AB, Bostadsrättsförening Köpmannen 1 and SM Fósforos Portugal SA. In the past five years, Mr Lagercrantz has served as a member of the board of directors of Road Cargo Sweden AB and as an alternate member of the board of directors of Lagercrantz Holding AB. In the past five years, Mr Lagercrantz has also served as the Vice President of Business Control of Swedish Match. Mr Lagercrantz holds a Master of Science degree in Business and Economics from Stockholm School of Economics.

Anders C. Obel (born 1960, Danish nationality) has been a member of the Board of Directors since October 2010. Mr Obel is currently also the chairman of the boards of directors of Semco Maritime A/S, C.W. Obel Ejendomme A/S, C.W. Obel Projekt A/S, Obel-LFI Ejendomme A/S and C.W. Obel Bolig A/S. Mr Obel currently serves as a member of the board of directors of Skandinavisk Holding A/S, Skandinavisk Holding II, Erhvervsinvest Management A/S, Fritz Hansen A/S, Woodmancott Fonden, Fonden Det Obelske Jubilæumskollegium, Nykredit Holding A/S, Nykredit Realkredit A/S, Foreningen Nykredit and Axzon A/S, Høvdingsgaard Fonden, Skjørringsfonden and Mullerupgaard- og Gl Estrupfonden, Mr Obel is also a partner in Haxholm V/Anders Christen Obel. Mr Obel currently serves as the chief executive officer of C.W. Obel A/S. In the past five years, Mr Obel has served as chairman of the boards of directors of C.W. Obel Finans A/S (dissolved after voluntary liquidation in 2007), SGD-Bera A/S (dissolved after voluntary liquidation in 2014), Ejendomsselskabet Stigsborgvej A/S (dissolved by merger in 2014) and Aktieselskabet Amaliegade 10 (dissolved by merger in 2014). Mr Obel has also served as deputy chairman of the member of the board of directors of Danfoss Semco A/S and as a member of the boards of directors of Thomas Harttung A/S and Slowmoney A/S. In the past five years, Mr Obel has served as an executive officer of NKB Invest 108 ApS (dissolved after voluntary liquidation in 2015). Mr Obel holds a Bachelor's degree in Business Administration from Copenhagen Business School.

Tommy Pedersen (born 1949, Danish nationality) has been a member of the Board of Directors since October 2010. Mr Pedersen is currently also the chairman of the boards of directors of Maj Invest Equity A/S, Fondsmælgerselskabet Maj Invest A/S, Skodborg Sundpark A/S, Rungsted Sundpark A/S and Maj Invest Holding A/S. Mr Pedersen is also deputy chairman of the boards of directors of Peter Bodum A/S, Bodum Land A/S Løvenholm Fonden, and Bodum Holding AG. Mr Pedersen is also currently a member of the boards of directors of Jeudan A/S, Nykredit Forsikring A/S, Pharmocosmos A/S, Pharmacosmos Holding A/S, Skandinavisk Holding II, Skandinavisk Holding A/S, Pharmacosmos Cro A/S, Skodsborg Sundhedscenter A/S, Kurhotel Skodsborg A/S, Tivoli A/S and SG Equipment Finans A/S. Mr Pedersen is also the Chief Executive Officer of The Augustinus Foundation, Chr. Augustinus Fabrikker Aktieselskab, CAF Invest A/S and TP Advisers ApS. In the past five years, Mr Pedersen has served as the chairman of the boards of directors of Royal Unibrew A/S and Gjensidiges Arbejdsskadeforsikring A/S (dissolved by merger in 2013). In the past five years, Mr Pedersen has also served as a deputy chairman of Bodum Form ApS (dissolved by voluntary liquidation in 2012). He has also served as a member of the boards of directors of Carl Zeiss A/S, Brock Michelsen Invest A/S, Brock Michelsen Ejendomsselskab ApS and Gregers Brock Holding ApS. Mr Pedersen holds a Bachelor's degree in Accounting and a Bachelor's degree in Organisation and Strategic Planning from Odense Universitetscenter.

Henning Kruse Petersen (born 1947, Danish nationality) has been a member of the Board of Directors since October 2010. He currently also serves as the chairman of the boards of directors of Erhvervsinvest Management A/S, A/S Storebæltsforbindelse, Sund og Bælt Holding A/S, Den Danske Forskningsfond, A/S Femern Landanlæg, A/S Øresundsforbindelsen, Femern Bælt A/S, Scandinavian Private Equity A/S, Midgard Denmark K/S, C.W. Obel A/S, Santa Fe Group A/S and Øresundsbro Konsortiet I/S. Mr Kruse Petersen is currently also the deputy chairman of the boards of directors of Fritz Hansen A/S, Skandinavisk Holding A/S and Skandinavisk Holding II. Furthermore, Mr Kruse Petersen currently also serves as a member of the boards of directors of Proactive A/S, Midgard Group Inc., Asgard Ltd., Dekka Holdings Ltd. and Det Østasiatiske Kompagnis Almennyttige Fond. In the past five years, Mr Kruse Petersen has served as the chairman of the boards of directors of FS Finans A/S, Socle Du Monde ApS (dissolved after voluntary liquidation in 2013), Scandinavian Private Equity Partners A/S (dissolved by merger in 2013) and Finansiel Stabilitet. Mr Kruse Petersen has also served as a member of the boards of directors of Fonden Collegium Juris and Second Holding ApS. Mr Kruse Petersen currently serves as the Chief Executive Officer of 2KJ A/S and Komplementarselskabet Midgard Denmark ApS. Mr Kruse Petersen holds a Master's degree in Law from Aarhus University.

Kurt Asmussen (born 1963, Danish nationality) has been a member of the Board of Directors since April 2011, as a Group-appointed employee representative. Mr Asmussen joined the Group in 1996 and has been a Technician since then. Mr Asmussen is currently also an alternate member of the board of directors of Skandinavisk Holding A/S. Mr Asmussen has previously served as a member of the board of directors of Skandinavisk Holding II. Mr Asmussen holds a machinist degree from Teknisk Skole, Odense.

Hermod Hvid (born 1964, Danish nationality) has been a member of the Board of Directors since March 2015, as a Company-appointed employee representative. Mr Hvid joined the Group in 1999 and since 2010 he has been an International Business Manager in the Company. Mr Hvid holds a Bachelor's degree in Business Economy from Niels Brock, Copenhagen.

Hanne Malling (born 1960, Danish nationality) has been a member of the Board of Directors since October 2010, as a Company-appointed employee representative. Ms Malling joined the Group in 2000 and has been a Trademark Manager since 2012. Ms Malling holds a Bilingual Commercial Correspondent degree from Aarhus School of Business.

Charlotte Nielsen (born 1963, Danish nationality) has been a member of the Board of Directors since April 2011, as a Group-appointed employee representative. Ms Nielsen joined the Group in 1981 and has been an operator since then. In the past five years, Ms Nielsen has served as a member of the board of directors of Skandinavisk Holding II. Ms Nielsen holds a GCSE.

Mogens Olsen (born 1967, Danish nationality) has been an alternate member of the Board of Directors since April 2011. Mr Olsen joined the Group in 2000 and has served as a tobacco production employee since then. Mr Olsen also currently serves as a member of the board of directors of Skandinavisk Holding A/S. In the past five years, Mr Olsen has served as an alternate member of the boards of directors of Skandinavisk Holding II and Skandinavisk Holding A/S. Mr Olsen holds a GCSE.

Anne Andersen (born 1968, Danish nationality) has been an alternate member of the Board of Directors since April 2011. Ms Andersen joined the Group in 1987 and has served as an operator / supervisor since then. Ms Andersen previously served as an alternate member of the board of directors of Skandinavisk Holding II. Ms Andersen has completed the base year of Higher Commercial Examination.

Lindy Larsen (born 1955, Danish nationality) has been an alternate member of the Board of Directors since March 2015 and prior to that was a member of the Board of Directors since October 2010, as a Company-appointed employee representative. Mr Larsen joined the Group in 1992 and has served as Finance Manager since then. Mr Larsen also currently serves as a member of the board of directors of STG Holme Real Estate ApS. In the past five years, Mr Larsen has served as a member of the boards of directors of Skandinavisk Holding II, Stanwell A/S (dissolved after voluntary liquidation in 2013), ST Sales A/S (dissolved by merger in 2011) and Skandinavisk Group A/S (dissolved after voluntary liquidation in 2013). Mr Larsen currently serves as an executive officer of STG Holme Real Estate ApS and Ejendomme af 1. januar 2012 ApS. In the past five years, Mr Larsen served as an executive officer of Stanwell A/S (dissolved after voluntary liquidation in 2013), ST Sales A/S (dissolved by merger in 2011) and Skandinavisk Group A/S (dissolved after voluntary liquidation in 2013). Mr Larsen holds a Master of Science degree in Business Administration and Auditing from Copenhagen Business School.

Steffan Jahn (born 1974, Danish nationality) has been an alternate member of the Board of Directors since March 2015. Mr Jahn joined the Group in 2012 and has served as Group Controller since then. In the past five years, Mr Jahn has served as Financial Controller in Alfa Laval Copenhagen A/S. Mr Jahn holds a Higher Commercial Examination degree from HHX, Køge.

New Board of Directors

See "*—Existing Board of Directors*" above in respect of Jørgen Tandrup, Conny Karlsson , Marlene Forsell, Tommy Pedersen, Henning Kruse Petersen, Kurt Asmussen, Hanne Malling, Hermod Hvid and Charlotte Nielsen as well as the alternate members Mogens Olsen, Anne Andersen, Lindy Larsen and Steffan Jahn.

Søren Bjerre-Nielsen (born 1952, Danish nationality) is expected to be elected a member of the Board of Directors at an extraordinary General Meeting held immediately prior to admission of the Shares to trading and official listing on Nasdaq Copenhagen. Mr Bjerre-Nielsen also currently serves as chairman of the board of directors of Danmarks Nationalbank, MT Højgaard A/S, Højgaard Holding A/S, VKR Holding A/S, Højgaard Industri A/S and Velux A/S. In the past five years, Mr Bjerre-Nielsen has served as chairman of the board of directors of Cometra ApS, ApS Syntetic, ApS PSE 38 Nr. 2282 (dissolved after voluntary liquidation in 2012), Ydernæs 1 ApS, ApS PSE 38 Nr. 2026 (dissolved after voluntary liquidation in 2012) and as a member of the board of directors of Velux A/S and VKR Holding A/S. Mr Bjerre-Nielsen has previously served as an executive officer of Danisco A/S (now Dupont Nutrition Biosciences ApS). Mr Bjerre-Nielsen has also been a partner of Bjerre-Nielsen Consult v/Søren Bjerre-Nielsen (dissolved in 2012). Mr Bjerre-Nielsen was partner at Deloitte State Authorised Public Accountants from 1981 until 1995. Mr Bjerre-Nielsen is a State Authorised Public Accountant and holds a Master's degree in Economics and Business Administration from Copenhagen Business School.

Dianne Neal Blixt (born 1959, United States nationality) is expected to be elected a member of the Board of Directors at an extraordinary General Meeting held immediately prior to admission of the Shares to trading and official listing on Nasdaq Copenhagen. From 2004 until her retirement in 2007, Ms Blixt was Executive Vice President and CFO of Reynolds American, Inc. From 2003 to 2004, Ms Blixt served as Executive Vice president and CFO of R. J. Reynolds Tobacco Holdings, Inc. Ms Blixt currently serves as a member of the board of directors of Ameriprise Financial Services, Inc. and as the chairperson for the board of trustees of Reynolda House Museum of American Art. Ms Blixt also currently serves as a member of the board of managers of NatureWorks Organics LLC. In the past five years, Ms Blixt has served as a member of the board of directors of Lorillard, Inc. of which company she also served as a member of the audit committee and as chairperson of the compensation committee. She has also served as a member of the board of directors of The Children's Home, Summit School and as a member of the business advisory board of University of North Carolina at Greensboro. Ms Blixt has also previously served as a member of the advisory group of Govenor McCrory Advisory Team on State Budget Appropriations.

Ms Blixt holds a Master's degree in Business Administration and Finance and a Bachelor's degree in Science and Accounting from University of North Carolina at Greensboro.

Luc Missorten (born 1955, Belgian nationality) is expected to be elected a member of the Board of Directors at an extraordinary general meeting held immediately prior to admission of the Shares to trading and official listing on Nasdaq Copenhagen. Mr Missorten currently serves as chairman of the board of directors of Ontex Group NV. He also currently serves as a member of the board of directors of Barco NV, Recitel NV/SA, GIMV NV and Corelio NV. In the past five years, Mr Missorten has been a member of the board of directors of LMS and Bank Degroof. Mr Missorten has previously served as the chief executive officer of Corelio NV. Before joining Corelio NV, he was chief financial officer at Inbev and UCB. Mr Missorten holds a Law Degree from the K.U.Leuven, a Master of Laws from the University of California, Berkeley and a Certificate of Advanced European Studies from the College of Europe, Bruges.

Board Practices and Committees

The Board of Directors has decided on the following board practices to take effect from the first day of trading in and official listing of the Shares on Nasdaq Copenhagen.

The Board of Directors must convene at least four times per year. Extraordinary board meetings must be convened by the Chairman when necessary or when requested by a member of the Board of Directors or by the Company's auditors. The members of the Executive Management have a right to be present and to speak at meetings of the Board of Directors, unless otherwise resolved by the Board of Directors. The Executive Management must provide the Board of Directors with financial and operational reporting packages and the Board of Directors must be informed about important matters that have occurred between the meetings of the Board of Directors. The Board of Directors must annually revise and update the overall strategy, business and action plan of the Company and approve the annual budget for the next financial year. The Board of Directors must annually perform a self-assessment to assess the competencies of the Board of Directors and its individual members and assess the Board of Directors' performance and achievements.

The Board of Directors has a quorum when more than half of the members of the Board of Directors are represented. Resolutions of the Board of Directors are passed by simple majority. In the event of equal votes, the Chairman or, in his absence, the Vice-chairman has a casting vote. See article 12.3 of the Articles of Association, which are attached hereto as Annex A. No member of the Board of Directors may participate in the transaction of business that involves any agreement between the Company and that member, or legal proceedings against that member, or the transaction of business that involves any agreement between the Company and a third party, or legal proceedings against a third party, if the member has a material interest in such business and that material interest could conflict with the interests of the Company. In addition to the statutory Danish rules on conflicts of interests applicable to the members of the Board of Directors, no director may participate in (and must not receive any information otherwise presented to the Board of Directors regarding) the Board of Directors' deliberations regarding specific transactions or similar matters presented to the Board of Directors for decision if such director also represents or is otherwise directly involved with a third party that is a competitor of the Company or its subsidiaries and if the disclosure of such information to the said director would under the specific circumstances present be inconsistent with the interests of the Company. The Chairman decides whether a director will be excluded from taking part in any business transacted by the Board of Directors on account hereof.

The Board of Directors must establish an Audit Committee (as defined below) and a Remuneration Committee (as defined below). Furthermore, a Nomination Committee (as defined below) will be established upon completion of the Offering. All of the committees, if established, report to the Board of Directors. As at the date of this Offering Circular, the Board of Directors has established an Audit Committee and the Board of Directors intends to establish a Remuneration Committee and a Nomination Committee.

Audit Committee

The Board of Directors has established an audit committee (the "**Audit Committee**") to review, assess and supervise the Company's financial reporting and audit process and internal control and risk management systems in respect of financial reporting. The Audit Committee also assesses the independence of the Company's external auditor, supervises the work of the external auditor and considers the need for internal audit. The Audit Committee must consist of at least three members appointed by the Board of Directors from among the members of the Board of Directors. The chairman of the Audit Committee may not be the

Chairman. The Audit Committee currently consists of Tommy Pedersen (chairman), Fredrik Lagercrantz, Anders C. Obel and Marlene Forsell. Following the expected election of the New Board of Directors, it is anticipated that the Audit Committee will consist of Søren Bjerre-Nielsen, Marlene Forsell and Dianne Neal Blixt, with Søren Bjerre-Nielsen to be appointed as the chairman.

A majority of the Audit Committee's members must meet the independence requirements set out in the Recommendations on Corporate Governance of the Danish Committee on Corporate Governance, last issued on 6 May 2013 and amended in November 2014 (the "**Corporate Governance Recommendations**"). Upon the appointment of the members of the Audit Committee from the New Board of Directors, it is expected that the Audit Committee will fulfil this requirement as all members are considered independent as defined in the Corporate Governance Recommendations. In addition, at least one member must qualify as an audit committee financial expert with relevant and up-to-date qualifications in accounting and/or auditing and, together, the members must possess such expertise and experience to provide updated insight into the financial, accounting and audit conditions of companies with shares listed for trading on a regulated market. The Audit Committee will fulfil this requirement as Søren Bjerre-Nielsen, through, for example, his previous position with Deloitte State Authorised Public Accountants, qualifies as an audit committee financial expert. Together, the members of the Audit Committee possess expertise and experience in the financial, accounting and audit conditions of companies with shares listed for trading on a regulated market and are able to provide updated insight in this regard.

The Company's Chief Financial Officer participates in meetings of the Audit Committee whereas the Chief Executive Officer and the Company's external auditor may participate in meetings of the Audit Committee if requested by the Audit Committee.

Remuneration Committee

In connection with the expected election of the New Board of Directors, the Board of Directors will establish a remuneration committee (the "**Remuneration Committee**"), which will, among other things, aim to improve the quality of the work of the Board of Directors by contributing to the preparation of the basis for the Board of Directors' decisions in connection with the drawing up, implementation and pursuit of the remuneration policy for members of the Board of Directors and the Executive Management. The Remuneration Committee must consist of a minimum of three members who are appointed by the Board of Directors. A majority of the members of the Remuneration Committee must meet the independence requirements set out in the Corporate Governance Recommendations. Following the expected election of the New Board of Directors, it is anticipated that the Remuneration Committee will consist of Jørgen Tandrup, Conny Karlsson and Henning Kruse Petersen, with Jørgen Tandrup to be appointed as the chairman. The Company expects to fulfil the independence requirements following the expected election of the New Board of Directors and the anticipated composition of the Remuneration Committee.

Nomination Committee

In connection with the expected election of the New Board of Directors, the Board of Directors will establish a nomination committee (the "**Nomination Committee**"), which will, among other things, aim to improve the quality of the work of the Board of Directors by contributing to the preparation of the basis for the Board of Directors' decisions in connection with the nomination and appointment of members of the Board of Directors and the Executive Management, ensure that the composition of the Board of Directors is satisfactory in terms of number of members and their qualification and conduct regular evaluations of the Board of Directors' and the Executive Management's performance. The Nomination Committee must consist of a minimum of three members who are appointed by the Board of Directors. A majority of the members of the Nomination Committee must meet the independence requirements set out in the Corporate Governance Recommendations. Following the expected election of the New Board of Directors, it is anticipated that the Nomination Committee will consist of Jørgen Tandrup, Conny Karlsson and Henning Kruse Petersen, with Jørgen Tandrup to be appointed as the chairman. The Company expects to fulfil the independence requirements following the expected election of the New Board of Directors and the anticipated composition of the Nomination Committee.

Compensation of the Board of Directors

Members of the Board of Directors receive fixed annual fees, which are presented for approval by the Company's shareholders at the annual General Meeting. Remuneration to the members of the Board of Directors may not include share or warrant related incentive programmes. In 2014, members of the Board of Directors received fixed annual fees in the aggregate amount of DKK 4,900,000.

At the annual General Meeting held on 24 April 2013, it was resolved to pay in the future a base annual fee of DKK 275,000 to the members of the Board of Directors. However, the Chairman receives three times the base annual fee and the Vice-chairman and Messrs Dahlgren and Kruse Petersen receive, in addition to the base annual fee, a fee corresponding to 75 percent of the base annual fee for members of the Board of Directors. Members of the Audit Committee receive, in addition to the base annual fee, a fixed annual fee of DKK 100,000. The chairman of the Audit Committee receives, in addition to the base annual fee, a fixed annual fee of DKK 150,000.

Following completion of the Offering, the Board of Directors intends to propose to the General Meeting that compensation for the Board of Directors for the financial year 2016 be adopted based on a base annual fee of DKK 400,000 to each member. Furthermore, under this proposal the Chairman would receive three times the base annual fee and the Vice-chairman would receive 1.75 times the base annual fee. The chairman of the Audit Committee would receive in addition to the base annual fee a fee corresponding to 75 percent of the base annual fee for members of the Board of Directors. Other members of the Audit Committee would receive, in addition to the base annual fee, a fee corresponding to 37.5 percent of the base annual fee for members of the Board of Directors. The members of each of the Remuneration Committee and Nomination Committee would receive, in addition to the base annual fee, a fee corresponding to 12.5 percent of the base annual fee for members of the Board of Directors. The chairman of each of the Remuneration Committee and Nomination Committee would receive, in addition to the base annual fee, a fee corresponding to 25 percent of the base annual fee for members of the Board of Directors.

In addition, the members of the Board of Directors not residing in Denmark are entitled to a travel allowance when attending board meetings in Denmark. Furthermore, the members of the Board of Directors are entitled to reimbursement of certain reasonable expenses in relation to performance of their tasks as board members.

The Company has not granted any loans, issued any guarantees or undertaken any other obligations to or on behalf of any members of the Existing Board of Directors or expected members of the New Board of Directors who are expected to be elected at the completion of the Offering.

No member of the Board of Directors is entitled to any kind of compensation upon resignation from the Board of Directors. The Company has not allocated funds or made provisions for any pension benefits, severance scheme or the like for the Board of Directors and it has no obligation to do so.

Prior to the Offering, certain members of the Existing Board of Directors, the New Board of Directors, the Executive Management, the Key Employee and a limited number of other employees of STG have irrevocably undertaken to buy Offer Shares at the Offer Price up to a certain fixed investment amount for each eligible person. The number of Offer Shares that will be allocated to meet these orders will depend on the Offer Price, see "*The Offering—The Offering*". Any Offer Shares acquired in accordance with the said offer will be subject to a lock-up of 365 days from the completion of the Offering. See "*Plan of Distribution*".

None of the members of the Board of Directors has received compensation from any of the Company's subsidiaries for any services performed to such subsidiary while they have held the position as a member of the Board of Directors, except that employee representatives have received salaries as part of their employment with the Group.

Executive Management

Pursuant to article 13.1 of the Articles of Association, the Board of Directors must appoint the members of the Executive Management. The Executive Management must consist of one to five members who are responsible for the day-to-day management of the Company's business.

The Company believes that the current members of Executive Management possess the professional skills and experience required for their positions in the Company and to manage a company with shares admitted to trading and official listing on Nasdaq Copenhagen.

The following table sets forth an overview of the current members of the Executive Management:

	Position	Year of first employment with the Group	Year of appointment to current position in the Group
Niels Frederiksen	Chief Executive Officer	1999	2015
Sisse Fjelsted Rasmussen	Chief Financial Officer	2008	2008
Vincent Crepy	Executive Vice President	2015	2015
Christian Hother Sørensen	Executive Vice President	2003	2006
Rob Zwarts	Executive Vice President	2002	2010

Biographies

Niels Frederiksen (born 1964, Danish nationality) joined the Group in 1999 and, since March 2015, has served as the Company's President and Chief Executive Officer. From April 2013 until his appointment as President and Chief Executive Officer, Mr Frederiksen served as Executive Vice President of the Company. From January 2009 until April 2013, Mr Frederiksen was a senior advisor to the Group. He is currently also the chairman of the board of directors of Boman A/S and a member of the board of directors of Ingeniør Kaptajn Aage Nielsens Familiefond. In the past five years, Mr Frederiksen also served as a member of the boards of directors of LK Gruppen A/S and Dagrofa ApS. Mr Frederiksen holds Bachelor of Science degrees in General Economics and in Marketing from Copenhagen Business School and has completed Executive Development and Global Supply Chain programmes at the International Institute for Management Development, Switzerland.

Sisse Fjelsted Rasmussen (born 1967, Danish nationality) joined the Group in 2008. Since August 2008, Ms Rasmussen has held executive officer positions with the Group and she currently serves as the Company's Chief Financial Officer and Executive Vice President. Ms Rasmussen also currently serves as a partner and executive officer of Fjelsted Rasmussen Invest ApS. She is currently also a member of the boards of directors and audit committees of PostNord AB and Inwido AB. In the past five years, Ms Rasmussen has served as the chairperson of the board of directors of Skandinavisk Group A/S (dissolved after voluntary liquidation in 2011) and an executive officer and member of the board of directors of Stanwell A/S (dissolved after voluntary liquidation in 2011). From 2012 to 2013, Ms Rasmussen served as the liquidator of Skandinavisk Group A/S and Stanwell A/S. Ms Rasmussen holds a Master's degree in Auditing from Copenhagen Business School and is a State Authorised Public Accountant in Denmark.

Vincent Crepy (born 1966, French nationality) joined the Group in September 2015. Since September 2015, Mr Crepy has served as Executive Vice President of the Company. In the past five years, Mr Crepy served as Executive Vice President Operations at Ventura Foods and Senior Vice President Supply Chain at Reckitt Benckiser for North America, Australia and New Zealand. Mr Crepy holds a Master's degree in Engineering from École Centrale Paris.

Christian Hother Sørensen (born 1964, Danish nationality) joined the Group in 2003. Since October 2006, he has served as Executive Vice President of the Group. Mr Sørensen also currently serves as deputy chairman of the board of directors of Toms Gruppen A/S. He also currently serves on the board of directors of K/S Finland Retail II. In the past five years, Mr Sørensen has served as chairman of the boards of directors of STG Holme Real Estate ApS, Stanwell A/S and K/S Augsburg Bayern. He has also been a member of the board of directors of Stanwell A/S (dissolved by voluntary liquidation in 2013) and has held executive positions at Skandinavisk Holding II and ST Sales A/S (dissolved by merger in 2011). In 2011, Mr Sørensen served as the liquidator of Nobel Cigars Production ApS. Mr Sørensen holds a Master's degree in Marketing and Economics from Aarhus University.

Rob Zwarts (born 1955, Dutch nationality) joined the Group in 2002. Mr Zwarts has served as Executive Vice President since October 2010. From 2002 to 2008, Mr Zwarts was Managing Director of ST Cigar Group. From 2008 to 2014, Mr Zwarts served as Executive Vice President of Supply Chain of the Company. Mr Zwarts also currently serves as a member of the advisory board of NDF Special Lightning B.V. Mr Zwarts holds a MSc degree from Delft University of Technology/ Aerospace Technology.

Compensation of the Executive Management

The compensation paid to the members of the Executive Management consists of a fixed cash salary (including, but not limited to, standard benefits covering typical management fringe benefits, such as health insurance, a company car and mobile telephones, and with respect to Mr Crepy, a one-time housing stipend) and a performance-related cash bonus programme with an earning potential of up to 125 percent of the individual's gross annual salary. Furthermore, the members of the Executive Management participate in the Existing LTIP (as defined below). The Executive Management's remuneration is subject to the Company's remuneration policy. See "—*Corporate Governance—Remuneration*" below. For additional information regarding the performance-related cash bonus programme and the Existing LTIP, see "—*Incentive Programmes*" below.

For the year ended 31 December 2014, the aggregate compensation paid to the current Executive Management in salary and bonus was DKK 16,186,020. The aggregate compensation of the current Executive Management is estimated to be approximately DKK 28.1 million in 2015, excluding any transactions under the Existing LTIP. Niels Frederiksen was appointed the Company's Chief Executive Officer in March 2015. The compensation paid to the Company's Executive Management for the year ended 31 December 2014 and estimated payment in 2015 does not include compensation and severance pay to the former Chief Executive Officer.

The following table sets forth an overview of the allocation of the aggregate compensation to the Executive Management for the nine months ended 30 September 2015 and for the year ended 31 December 2014:

	For the nine months ended 30 September 2015		For the year ended 31 December 2014		Existing LTIP Option grants (A and B Options)
	Salary	Bonus(1)	Salary	Bonus(1)	
	(DKK, unless otherwise indicated)				
Niels Frederiksen	4,105,000	2,312,266	3,355,000	305,112	168,750
Sisse Fjelsted Rasmussen	2,722,500	2,312,266	3,355,000	400,154	168,750
Vincent Crepy(2)	276,000	n/a	n/a	n/a	168,750
Christian Hother Sørensen	3,345,000	2,999,169	4,351,667	525,175	168,750
Rob Zwarts(3)	2,800,039	1,838,088	3,571,805	322,107	168,750

(1) Bonuses relating to previous financial year as qualifying year.

(2) The annual salary of Vincent Crepy is DKK 3,320,056 (EUR 445,000).

(3) The salary of Rob Zwarts includes pension contributions of DKK 519,000 in 2014 and DKK 406,000 in 2015.

Except for Mr Crepy, the Company can terminate the employment of each member of the Executive Management for any reason upon at least 24 months' advance notice. The Company can terminate Mr Crepy's employment upon at least six months' advance notice. Each member of the Executive Management will continue to receive his or her salary for the duration of the full notice period. Other than Mr Crepy, each member of the Executive Management can terminate his or her employment with the Company for any reason upon at least 12 months' advance notice. Mr Crepy can terminate his employment with the Company for any reason upon at least three months' advance notice.

Certain members of the Executive Management are entitled to receive compensation and benefits in the event of termination of his or her employment. In the event that the Company terminates the employment of Messrs Frederiksen or Sørensen or Ms Rasmussen without valid reason relating to such individual's conduct, Messrs Frederiksen or Sørensen or Ms Rasmussen will be eligible to receive his or her most recent gross monthly salary for the 24 month notice period following termination. In the event that any of Messrs Frederiksen or Sørensen or Ms Rasmussen terminates his or her employment with the Company within 12 months of any material change in ownership of the Company, other than an initial public offering, and such termination is due to the material change, Messrs Frederiksen and Sørensen and Ms Rasmussen, as the case may be, will be entitled to receive his or her most recent gross monthly salary for the 24 month notice period following termination and will also be eligible to receive a proportionate part of his or her stay-on bonus described below.

In the event that the Company terminates Mr Crepy's employment without adequate cause, or if Mr Crepy terminates his employment with the Company within 12 months of any material changes in ownership of the Company, and such termination is due to the material changes, Mr Crepy will be entitled to receive a severance payment equal to 12 times his most recent gross monthly salary, including any holiday allowance, minus any transitional compensation due from the Company to Mr Crepy under applicable law in the

Netherlands. If Mr Crepy terminates his employment due to material changes in ownership of the Company prior to 1 September 2024, then he will also be eligible to receive a proportionate part of his stay-on bonus described below, see "—*Incentive Programmes*" below.

As regards Mr Zwarts who is nearing the age of retirement, STG and Mr Zwarts have entered into an agreement whereby Mr Zwarts will be employed until May 2017 as Executive Vice President Special Projects. From May 2017 and until May 2018, Mr Zwarts will be available to STG in a role as employed ad hoc advisor.

Each member of the Executive Management is subject to non-competition restrictions. The non-competition period with respect to Messrs Frederiksen, Sørensen and Crepy and Ms Rasmussen expires 24 months after termination of the individual's employment, however, Messrs Frederiksen, Sørensen and Crepy and Ms Rasmussen are not prohibited from engaging in any wholesale or retail business with tobacco products during the non-competition period. The non-competition period with respect to Mr Zwarts expires 12 months after termination of his employment.

Members of the Executive Management also hold options to purchase a total of 843,750 Shares. However, such options will be settled in cash prior to or at the completion of the Offering. Furthermore, Mr Frederiksen, Ms Rasmussen and Mr Sørensen are as employees of the Danish Group companies entitled to payments under STG's Profit Sharing Programme (as defined herein) for employees of the Danish Group companies. The amounts payable to each of Mr Frederiksen, Ms Rasmussen and Mr Sørensen will be DKK 12,000 and to Mr Frederiksen DKK 6,000 provided certain financial criteria are met and the payments are approved by the General Meeting. For more information on the participation of the Executive Management in the Company's incentive programmes, see "—*Incentive Programmes*" below.

The compensation to the members of the Executive Management is in respect of all of their services provided to the Group.

The Company has not granted any loans, issued any guarantees or undertaken any other obligations to or on behalf of the Executive Management.

Mr Zwarts is the only member of Executive Management covered by a pension scheme, pursuant to which STG pays an amount equivalent to 10.85 percent of Mr Zwarts' monthly base salary with an addition of 12 percent each month until Mr Zwarts reaches the age of 62. The Company has not allocated funds or made provisions for any pension benefits, severance scheme or similar arrangements for the members of the Executive Management and the Company has no obligation to do so.

Key Employee

The Key Employee supports the Executive Management in the day-to-day management within his functional areas.

The Company believes that the following senior officer represents its Key Employee:

	Position	Year of first employment with the Group	Year of appointment to current position in the Group
Craig Reynolds	Executive Vice President and President, Cigars International	2009	2015

Biography

Craig Reynolds (born 1955, United States nationality) joined the Group in 2009. Since January 2011, Mr Reynolds has served as President of Cigars International and, since November 2015, he has served as Executive Vice President for handmade cigars globally. From February 2009 until his appointment as President of Cigars International, Mr Reynolds served as Executive Vice President of Cigars International. Mr Reynolds holds a Bachelor of Arts degree in Economics from Brooklyn College and an MBA degree in Finance from Pace University.

Compensation of the Key Employee

The compensation paid to Mr Reynolds consists of a fixed cash salary (including, but not limited to, standard benefits covering typical management fringe benefits, such as health insurance, a company car and mobile telephone), contributions to retirement plans and a performance-related cash bonus programme with an earning potential of up to 125 percent of the individual's gross annual salary. For additional information regarding the performance-related cash bonus programme, see "—*Incentive Programmes—Short-Term Incentive Programme*" below.

For the year ended 31 December 2014, STG paid aggregate salary compensation to the Key Employee in an amount of USD 345,667 (approximately DKK 1,954,746), bonus payments in an amount of USD 39,400 and contributions to retirement plans in an amount of USD 13,800. The aggregate compensation paid to the Key Employee is estimated to be USD 643,420 in 2015.

STG can terminate the employment of Mr Reynolds for any reason upon at least 24 months' advance notice. Mr Reynolds can terminate his employment with STG for any reason upon at least 12 months' advance notice.

Mr Reynolds is entitled to receive severance compensation if his employment is terminated by STG without cause or by Mr Reynolds for good reason. In the event that Mr Reynolds's employment is terminated by STG without cause or if Mr Reynolds terminates his employment for good reason, Mr Reynolds is entitled to receive his then-current monthly salary for a period equal to the shorter of (a) the month in which the Chairman receives notice of Mr Reynolds's termination plus 24 months thereafter, or (b) the remainder of the term of Mr Reynolds's employment agreement.

Mr Reynolds is subject to non-competition and non-solicitation restrictions and is further restricted from entering into any business relationship, or interfering with STG's relationship, with any of STG's current or prospective customers, suppliers, vendors or contractors. These restrictions expire 12 months after termination of employment.

STG has not granted any loans, issued any guarantees or undertaken any other obligations to or on behalf of Mr Reynolds.

STG has not allocated funds or made provisions for any pension benefits, severance scheme or similar arrangements for Mr Reynolds and STG has no obligation to do so.

Incentive Programmes

Overall Guidelines on Incentive Pay

In accordance with the remuneration policy and section 139 of the Danish Companies Act, the Company has adopted overall guidelines on incentive pay for the Board of Directors and Executive Management, which have been approved by the General Meeting. The guidelines are available on the Company's website at www.st-group.com; however, information on the Company's website does not form part of and is not incorporated by reference into this Offering Circular.

The remuneration policy is based on the following key principles:

- It ensures that the Company is able to attract, motivate and retain qualified members of the Board of Directors and Executive Management.
- It is constructed to reflect the Company's competitive remuneration strategy globally and local market conditions.
- It strengthens the coincidence of interest between the Company's Board of Directors, Executive Management and shareholders.
- It rewards both short- and long-term contributions and results.

Stock Option Programme

Existing Long-Term Incentive Programme

The Company has established a stock option programme (the "**Existing LTIP**") pursuant to which the members of the Executive Management have been granted options to purchase Shares. The Company has issued two different classes of stock options, A Options and B Options (collectively, the "**Existing LTIP Options**"), which have identical terms, except for the exercise price and vesting conditions, each of which are described below.

The following table presents an overview of the options held by the members of the Executive Management under the Existing LTIP as at the date of this Offering Circular:

	A Options	B Options
Niels Frederiksen	43,750	125,000
Sisse Fjelsted Rasmussen	43,750	125,000
Vincent Crepy	43,750	125,000
Christian Hother Sørensen	43,750	125,000
Rob Zwarts	43,750	125,000
Total	218,750	625,000

Each issued A Option entitles the holder, subject to the terms and conditions of the Existing LTIP, to purchase one Share at an exercise price equal to DKK 1.00 per Share. Each issued B Option entitles the holder, subject to the terms and conditions of the Existing LTIP, to purchase one Share at an exercise price equal to DKK 100.00 per Share.

Under the Existing LTIP, all of the Existing LTIP Options will vest upon (a) Skandinavisk Holding II or Skandinavisk Holding A/S ceasing to own, directly or indirectly, a majority of the Shares, (b) Aktieselskabet Chr. Augustinus Fabrikkers' ceasing to own at least 50 percent of the issued and outstanding shares in Skandinavisk Holding A/S or its successor, (c) Swedish Match, directly or indirectly, divesting more than 5 percent of the Shares owned by it or (d) completion of an initial public offering with respect to the Company; provided that the enterprise value of the Company at the time of such event is equal to or greater than DKK 10 billion (as adjusted in accordance with the Existing LTIP). If the enterprise value of the Company at the time of such event is less than DKK 10 billion (as adjusted in accordance with the Existing LTIP), then only the A Options will vest upon the occurrence of such event and no B Options will vest. If no triggering event has taken place, the Existing LTIP will lapse on 31 December 2021 and the participants in the Existing LTIP will negotiate a new bonus programme on similar terms.

The Existing LTIP Options will only vest if the participant at the relevant vesting time has not terminated his or her employment with the Company or any other member of the Group. If the Company terminates the employment of the participant without cause, the participant will maintain his or her Existing LTIP Options throughout the termination notice period set forth in such participant's employment agreement. Any unexercised Existing LTIP Options outstanding at the expiration of the termination notice period will lapse without further compensation.

A participant in the Existing LTIP may exercise his or her Existing LTIP Options in his or her sole discretion during the 60 day period immediately following a triggering event, described above. With regard to Mr Crepy, if a triggering event occurs prior to 1 January 2017, he may only exercise up to 50 percent of his A Options and 50 percent of his B Options and the remaining Existing LTIP Options will lapse.

The Company or the participant in the Existing LTIP may elect to settle any exercised Existing LTIP Options for a pre-determined cash settlement amount under the Existing LTIP. Pursuant to an agreement between the Company and the Executive Management, the Existing LTIP will be settled in cash prior to or upon the completion of the Offering. The total value of the programme in case of cash settlement is expected to vary between DKK 33 million and DKK 43 million for the five members of the Executive Management.

New Long-Term Incentive Programme

In December 2015, the Board of Directors approved the principles of a new long-term incentive programme (the "**New LTIP**"), which the Company expects to establish shortly after completion of the Offering. In line with executive remuneration market practice for listed companies in Denmark and in Western Europe, the New LTIP is established in order to

- further align the interests of members of Executive Management and key executive-level employees with those of the Company's shareholders;
- assist in the retention of these key individuals; and
- at the same time link the reward of participants in the New LTIP with their performance against key strategic objectives on a three-year horizon, as defined by the Board of Directors at the time of allocation.

Under the New LTIP, participants will receive an annual allocation of performance share units ("**PSUs**"). The specific allocation of PSUs for each participant will be determined based on the role and associated responsibilities of each participant. The annual grant value of allocated PSUs to any participant will not exceed 50 percent of the participant's annual base salary, calculated using a fair value approach based on the 10-day average share price immediately prior to issuance of the PSUs. The value of each PSU will follow the trading price of the Shares during the three-year performance and retention period.

Prior to vesting, New LTIP participants will not hold any Shares in connection with the New LTIP, and will thus not have any of the rights which shareholders would otherwise be entitled to, such as voting rights. The Board of Directors has decided that the corresponding value of annual dividends will be granted to the participants as additional PSUs under the programme.

Vesting of PSUs will be subject to the fulfilment of a predetermined key performance indicator multiplier between 0.0 and 2.0 based on the Company's cumulative revenue, profit performances and/or other criteria (the "**KPI Multiplier**"), in part or in full, as defined by the Board of Directors at the time the PSUs are granted of allocation. Market-aligned leaver provisions will apply to the New LTIP, including that all unvested PSUs will lapse in connection with the participant's resignation from the Group except if the participant is entitled to pension at the time of the resignation. At the time of vesting, the final number of PSUs will be calculated using the initial allocation and the performance against the predetermined KPI Multiplier, resulting in a number of Shares transferred to the participant. Natural rounding to the closest number of Shares will apply.

The Company expects that the first annual grant of PSUs under the New LTIP will take place shortly after completion of the Offering, with the vesting of such PSUs to take place in connection with the participants' salary review process in the second quarter of 2019.

The annual cost of the new LTIP will vary depending on the Company's actual performance against the KPI Multiplier, though the Company expects costs to be between DKK 0 and DKK 20 million per year.

Transition Share Plan

In connection with the introduction of the New LTIP in December 2015, the Board of Directors also approved the principles of a one-time transition share plan (the "**Transition Share Plan**"), which the Company expects to establish shortly after the completion of the Offering. The purpose of the Transition Share Plan is to strengthen the retention for the Executive Management and certain executive level employees in the immediate transition period after the Offering and until the New LTIP is operating on a three-year rolling basis (in 2019 based on an Offering in 2016).

The Transition Share Plan consists of a one-time allocation of PSUs to the members of the Executive Management and around 10 key executive-level employees shortly after completion of the Offering.

The one-time allocation of PSUs is identical to the New LTIP in all parameters except for the performance and vesting period. The one-time allocation of PSUs will vest in two tranches: one half the first year and one half the second year, respectively, after the first and second financial year following the Offering, and subject to the fulfilment of a KPI Multiplier (as with the New LTIP).

The one-time cost of the Transition Share Plan will vary depending on actual performance against the KPI Multiplier, though the Company expects it to be between DKK 0 and DKK 20 million.

Short-Term Incentive Programme

Existing Short-Term Incentive Programme

Each member of the Executive Management and the Key Employee participates in the Company's bonus scheme for management board and executive staff in the Group valid for 2015 (the "**Existing STIP**"). Pursuant to the Existing STIP, each member of the Executive Management and the Key Employee were eligible to receive a cash bonus payment not to exceed 125 percent of such individual's gross salary based on certain EBITDA targets for the year ended 31 December 2014. In 2015, the Group paid the Executive Management (excluding the previous Chief Executive Officer, whose position with the Company terminated on 28 February 2015) and the Key Employee under the Existing STIP for 2014 an aggregate amount equal to DKK 10.8 million.

For the year ended 31 December 2015, each member of the Executive Management and the Key Employee will be eligible to receive a bonus under the Existing STIP equal to 50 percent of such individual's gross salary if the Group's EBITDA adjusted for selected nonrecurring items amounts to DKK 1,255 million, which bonus percentage will be increased by 1 percent for each positive deviation in adjusted EBITDA of DKK 2.5 million, up to a maximum of 125 percent of an individual's gross salary, or decreased by 1 percent for each negative deviation in EBITDA of DKK 2.5 million. The Company expects to pay the Executive Management and the Key Employee an aggregate bonus in an amount between DKK 15 million and DKK 20 million under the Existing STIP for the year ended 31 December 2015.

New Short-Term Incentive Programme

In connection with the introduction of the New LTIP, the Company also revised the Existing STIP (the "**New STIP**"), so that the programme participants may be eligible to receive an annual cash-based performance bonus up to 70 percent of the participant's annual base salary. The maximum bonus percentage for each participant will be determined based on each participant's role with the Group and his or her associated responsibilities.

The New STIP is intended to reward annual performance against the achievement of certain key performance indicators, which may include financial and non-financial metrics at the Group and individual level, such as EBITDA, revenue, working capital, employee engagement and other individual targets. The Company will determine the applicable key performance indicators on an individual participant basis at the beginning of each financial year. Performance will be measured on an annual basis for each financial year, and the New STIP bonus, if any, will be payable after the announcement of the annual report the following year.

Chairman Bonus

Under an agreement with Skandinavisk Holding II originating from 2004 and subsequently updated in 2012 and 2015, Jørgen Tandrup is entitled to a cash bonus equal to 0.051 percent of the enterprise value of STG in connection with the Offering. The total value of the programme is expected to vary between DKK 6 million and DKK 7.5 million. The bonus is payable by Skandinavisk Holding II.

Extraordinary Bonus Programme

The Key Employee and certain other employees of the Group participate in an extraordinary bonus programme (the "**Extraordinary Bonus Programme**"), pursuant to which each such employee will be entitled to receive a one-time cash bonus in an amount equal to between 33.3 percent and 100 percent of his/her then current annual fixed salary (excluding any bonuses) if the Shares are subject to a transaction in which more than 10 percent of the total number of Shares are transferred, through an initial public offering, merger, acquisition or similar transaction or a transaction between the Selling Shareholders. Any such bonus will be paid out two months after the completion of the initial public offering or the relevant transaction, as the case may be, provided that the entitled employee has not terminated his or her employment with the Company prior to the payment date. The Extraordinary Bonus Programme will be triggered upon the completion of the Offering and will entail total costs for the Group of between DKK 10 million and DKK 12.5 million.

Stay-on Bonus Programme

Subject to the Offering being completed, Messrs Frederiksen and Sørensen and Ms Rasmussen are each entitled to a stay-on bonus, accumulating over time.

If the Executive Manager on each of 1 January 2018, 1 January 2021 and 1 January 2024 continues to be employed in the same position with STG, the Executive Manager will receive a payment of:

	On 1 January		
	2018	**2021**	**2024**
		(DKK)	
Niels Frederiksen	12,198,000	6,126,000	6,126,000
Sisse Fjelsted Rasmussen	9,213,000	3,159,000	3,159,000
Christian Hother Sørensen	11,359,000	3,131,000	3,131,000

The bonus entitlement terminates forthwith going forward if the Executive Manager terminates his or her position or is terminated by the Company due to breach by the Executive Manager of his/her employment contract. If the employment is terminated by the Company for a reason other than breach by the Executive Manager or if the Executive Manager terminates his or her employment due to breach by the Company, the Executive Manager will be entitled to a proportionate part of any unpaid portion of the bonus.

Mr Crepy is entitled to certain additional loyalty payments if he is employed by the Company on each of the third, sixth and ninth anniversary of the start of his employment. If Mr Crepy is employed on such dates, he is entitled to a lump sum payment in the amount of nine times his then applicable gross monthly salary on the third anniversary and twelve times his then applicable gross monthly salary on each of the sixth and ninth anniversaries. If the Company terminates Mr Crepy's employment without adequate cause, Mr Crepy will be entitled to a proportionate part of the closest upcoming loyalty bonus, based on the number of months since the immediately prior loyalty bonus.

The Key Employee is entitled to a stay-on bonus based on his continued employment with STG after 1 December 2015. The stay-on bonus is not conditional upon completion of the Offering. Provided that the Key Employee remains employed on 31 May 2020, the stay-on bonus will be an amount corresponding to 12 months' base salary of the Key Employee at that time. If the Key Employee's employment is terminated prior to 31 May 2020 as a result of the Key Employee's death or STG's termination of the employment without cause, the Key Employee or his estate will be entitled to a proportionate part of the stay-on bonus calculated as 1/54 of the full stay-on bonus per month of employment calculated from 1 December 2015.

Profit Sharing Programme

The Group has a profit sharing programme (the "**Profit Sharing Programme**") in place, under which the employees of the Group's Danish entities, including the members of the Executive Management, may be eligible to receive additional compensation if certain net profit targets are met. Payment to each full-time employee under the Profit Sharing Programme is DKK 6,000 or DKK 12,000, depending on the participant's seniority. In 2015, participants in the Profit Sharing Programme received an aggregate bonus payment of DKK 5,024,000, based on the Company's 2014 net profit. Sisse Fjelsted Rasmussen and Christian Hother Sørensen, both members of Executive Management, each received DKK 12,000 and Niels Frederiksen, a member of Executive Management, received DKK 6,000 under the Profit Sharing Programme in 2015 relating to the financial year 2014. The Company will determine the net profit target for the financial year 2015 that will trigger payments under the Profit Sharing Programme and expects the criteria set will be met.

Provisions Regarding Incentive Programmes

As at 30 September 2015, the Company made provisions of DKK 24.5 million for the Existing LTIP, DKK 14.0 million for the stay-on bonus programme, DKK 1.8 million for the Extraordinary Bonus Programme for the Key Employee and DKK 11.8 million for the Existing Short-Term Incentive Programme for the Executive Management.

Statement of Past Records

During the past five years, none of the members of the Board of Directors, the Executive Management or the Key Employee have been (i) convicted of fraudulent offenses; (ii) directors or officers of companies that have entered into bankruptcy, receivership or liquidation, other than as set out in "*—Board of Directors*", "*—Executive Management*" and "*—Key Employee*" above; or (iii) subject to any public incrimination and/or sanctions by statutory regulatory authorities (including designated professional bodies) and have not been disqualified by a court from acting as a member of an issuer's board of directors, executive board or supervisory body or being in charge of an issuer's management or other affairs.

Statement on Conflicts of Interest

There are no family ties among the members of the Board of Directors, the Executive Management or the Key Employee.

The members of the Existing Board of Directors elected by the General Meeting have all been appointed upon nomination of the Selling Shareholders in accordance with the terms of the existing shareholders' agreement, entered into among the Selling Shareholders (the "**Existing Shareholders' Agreement**"), Mr Tandrup, Mr Pedersen, Mr Obel and Mr Kruse Petersen representing Skandinavisk Holding II (and the two former ultimately representing The Augustinus Foundation and the two latter ultimately representing The Obel Family Foundation) and Mr Karlsson, Mr Dahlgren, Ms Forsell and Mr Lagercrantz representing Swedish Match. Upon the completion of the Offering, the Existing Shareholders' Agreement will terminate and cease to apply.

Except for Mr Tandrup, Mr Kruse Petersen, Mr Olsen, Mr Asmussen, Mr Obel, Mr Pedersen, Mr Karlsson, Mr Lagercrantz, Mr Dahlgren and Ms Forsell, none of the members of the Existing Board of

Directors, the New Board of Directors, Executive Management or the Key Employee have conflicts of interest with respect to their duties as members of the Board of Directors, the Executive Management or the Key Employee. Mr Tandrup, Mr Olsen, Mr Asmussen, Mr Pedersen and Mr Kruse Petersen hold offices at and/or represent Skandinavisk Holding or Skandinavisk Holding II and Mr Karlsson and Ms Forsell hold offices at and/or represent Swedish Match. Accordingly, the Selling Shareholders may be able to influence the strategy, direction of operations and other affairs of the Company through such representation. See "*Risk Factors—Risks Relating to the Offering—Following the Offering, the Selling Shareholders will continue to be significant shareholders in the Company and may control or otherwise influence important actions the Company takes in a way that may not be aligned with the interests of the Company's minority shareholders*".

None of the members of the Board of Directors, Executive Management or the Key Employee has positions in other companies that could result in a conflict of interest vis-à-vis such companies, either because the Company has an equity interest in such company or because the Company and the company concerned have an ongoing business relationship, save for the members of the Board of Directors that also hold offices of Swedish Match, which is a competitor of the Group within the machine-made cigars business in the United States and certain markets for products exported from the United States. In addition, Swedish Match also holds a 40 percent equity stake in German cigar producer Arnold André GmbH & Co. KG and the Group have entered into certain distribution agreement with Swedish Match and affiliates thereof. Such agreements are not material to the Group and are on market terms. In order to safeguard the interests of the Group, the rules of procedure of the Board of Directors provide, in addition to the statutory Danish rules on conflicts of interests applicable to the members of the Board of Directors, that no director may participate in (and must not receive any information otherwise presented to the Board of Directors regarding) the Board of Directors' deliberations regarding specific transactions or similar matters presented to the Board of Directors for decision if such director also represents or is otherwise directly involved with a third party that is a competitor of the Company or its subsidiaries and if the disclosure of such information to the said director would under the specific circumstances present be inconsistent with the interests of the Company. The Chairman decides whether a director will be excluded from taking part in any business transacted by the Board of Directors on account hereof.

Description of Procedures and Internal Control over Financial Reporting

The Board of Directors assesses the general and specific risks on an ongoing basis in relation to the Group's activities and operations, as well as the risks related to financial reporting and ensures that such risks are managed in a proactive and efficient manner. As part of the overall risk management, the Company has established internal control systems, which are reviewed regularly by the Board of Directors and the Audit Committee to ensure that these systems are appropriate and sufficient in relation to the present activities and operations. The duties of the Board of Directors and the Audit Committee, with respect to internal controls and related risks, include the following:

- monitoring the integrity of the Group's annual financial statements, focusing specifically on significant financial reporting issues, significant judgemental areas (including in relation to expectations), accounting policies and the consistency of such policies across the Group and on a year-on-year basis, and compliance with accounting standards and best practice;
- reviewing the Group's internal financial controls (including, the systems established to identify, assess, manage and monitor financial risk);
- monitoring and reviewing the organization and effectiveness of the Group's internal control function; and
- overseeing litigation in the Group at least once a year.

The Company's annual report contains information about the management of financial risks. The Company has procedures and internal control over financial reporting aimed at enabling it to monitor its performance, operations, funding and risk. The Company believes that its reporting and internal control systems enable it to be compliant with disclosure obligations applying to issuers whose shares are admitted to trading and official listing on Nasdaq Copenhagen.

The Company's procedures and internal controls over financial reporting include, among other things:

- monthly financial highlights that include key performance indicators for all sales units covering sales volumes, net sales and contribution on segments level compared with budgeted performance and previous year performance by business units and geographical market. The monthly financial highlights are reported to the Executive Management and the Key Employee;

- monthly financial highlights that include key performance indicators for supply chain units within the areas of quality, delivery, efficiency and capability. The relevant key performance indicators include number of complaints, backlog and out-of-stock situation, conversion cost, conversion cost base, productivity, inventory levels, complexity, production and price variances;
- monthly reports from business units that include actual results compared with budgeted performance and previous year performance and explanations of any deviations, together with key performance indicators;
- consolidated monthly financial information packages, including income statement, balance sheet and cash flow results and developments with respect to working capital compared with budgeted performance and previous year performance and explanations of any deviations, together with key performance indicators. The monthly financial information package is reported to the Board of Directors, the Executive Management and the Key Employee;
- an annual budget process, a "bottom up" process that results in a budget approved by the Board of Directors, including an income statement, balance sheet and cash flow statement; and
- self-assessments of internal controls performed by each business unit, and reported to STG's Group Internal Control Manager, which are tested in connection with Group controller visits, and any unusual observations are reported to the Audit Committee.

Corporate Governance

It is important for the Company to exercise good corporate governance and in that connection to comply with statutory requirements and, as deemed relevant to the Company, the Corporate Governance Recommendations. In connection with the Offering and with effect from the date of admission of the Shares to trading and official listing on Nasdaq Copenhagen, the Board of Directors has adopted a set of corporate governance principles that form the Company's corporate governance policy. The Company's corporate governance statement is available on its website at www.st-group.com. The Company believes it complies with all of the Corporate Governance Recommendations.

Information included on the Company's website does not form part of and is not incorporated by reference into this Offering Circular.

Communication and Interaction with Investors and Other Stakeholders

The Company is committed to maintain a constructive dialogue and a high level of transparency when communicating with shareholders and other stakeholders.

The Company's stakeholders are important to it, and the Board of Directors has, therefore, adopted an investor relations policy and a corporate social responsibility policy. The Company takes corporate social responsibility seriously and it constantly seeks to create business value while ensuring proper working conditions for its employees and conducting its business in a lawful manner and minimising its negative impact on the environment. The Company's investor relations and CSR policies can be found on its website at www.st-group.com. Information included on the Company's website does not form part of and is not incorporated by reference into this Offering Circular.

In addition to the Company's investor relations policy, the Board of Directors has approved a set of internal rules aimed at ensuring that the disclosure of information complies with the applicable stock exchange regulations. All company announcements are published through Nasdaq Copenhagen and the Danish Financial Supervisory Authority (the "**Danish FSA**"), and can subsequently be accessed from the Company's website at www.st-group.com. All announcements will be published in English and, if so decided by the Company, in Danish.

The Company publishes quarterly and annual reports. Investor presentations and telephone conferences are expected to be held following the publication of each interim and annual report to provide participants with the opportunity to ask questions of the Executive Management. Webcasts of such presentations by the Executive Management will subsequently be available on the Company's website at www.st-group.com. Investors may also contact the Company's investor relations department to obtain additional information.

The Board of Directors will strive to ensure that the General Meetings encourage active ownership by shareholders.

Not later than eight weeks before the contemplated date of the annual General Meeting, the Company will publish the date of the meeting and the deadline for submitting requests for specific proposals to be included on the agenda. In accordance with the Articles of Association, General Meetings will be convened by the Board of Directors with at least three weeks' and not more than five weeks' notice. Notices convening General Meetings will be published by posting on the Company's website at www.st-group.com, or by other means.

Every shareholder will be entitled to have specific business considered at the annual General Meeting, provided that a written request to that effect is submitted to the Board of Directors no later than six weeks prior to the meeting. At General Meetings, the attending shareholders will be able to ask questions of the Board of Directors and the Executive Management concerning the items on the agenda.

The Company has adopted contingency procedures in the event of takeover bids according to which the Board of Directors will not without the acceptance of the General Meeting attempt to counter the takeover bid by making decisions that in effect prevent shareholders from deciding on the takeover bid themselves.

Role of Board of Directors and Executive Management

As is practice in Denmark, powers to manage the Company are distributed between the Board of Directors and the Executive Management, which are independent of one another. The non-employee members of the Board of Directors are elected by the General Meeting and all members of the Board of Directors, other than members elected by the employees, are up for election every year. The members of the Board of Directors elected by the employees of the Group and/or Company are up for election every four years. The members of the Executive Management are appointed by the Board of Directors. The Executive Management handles day-to-day management, while the Board of Directors supervises the work of the Executive Management and is responsible for the general strategic direction. The primary tasks for the Board of Directors are to ensure that the Company has a strong management team, an adequate organisational structure, efficient business processes, optimal capital structure, transparent bookkeeping and practices, and responsible asset management.

The composition of the Board of Directors must be such that, at any time, the consolidated competencies of the Board of Directors enable it to supervise the Company's development and diligently address the specific opportunities and challenges faced by the Company. The Board of Directors, together with the Executive Management, develops the Company's overall strategies and oversees that the competencies and resources are in place to maximise the likelihood of the Company achieving its objectives. Furthermore, the Board of Directors oversees the financial development of the Company and the related planning and reporting systems.

Remuneration

Pursuant to the Company's remuneration policy, each member of the Board of Directors and Executive Management is entitled to receive an annual remuneration. The remuneration policy lays down the principles governing remuneration of, and provides general guidelines for incentive pay to the members of the Board of Directors and Executive Management as required under the Danish Companies Act and the Corporate Governance Recommendations. The General Meeting has, in accordance with section 139(2) of the Danish Companies Act, on 15 January 2016 approved general guidelines for the incentive pay for the members of the Board of Directors and Executive Management. The guidelines can be found on the Company's website at www.st-group.com. Information included on the Company's website does not form part of and is not incorporated by reference into this Offering Circular.

The overall object of the remuneration policy is to attract, motivate and retain qualified members of the Board of Directors and Executive Management, as well as to ensure that the Board of Directors, Executive Management and the shareholders have common interests in achieving the Company's goals. Members of the Board of Directors receive an annual fixed remuneration. The remuneration must be reasonable having regard to the amount of work required by the members and the extent of their liability and should reflect market terms. The annual General Meeting must approve the remuneration paid to the members of the Board of Directors for the current financial year. Members of the Board of Directors do not receive incentive pay. The remuneration paid to the Chairman and the Vice-chairman is usually higher than the amount paid to the ordinary members of the Board of Directors. Likewise, members of any committee of the Board of Directors, receive a higher remuneration.

Expenses such as travel and accommodation relating to meetings of the Board of Directors and relevant training are reimbursed by the Company. In extraordinary circumstances, the Board of Directors may, on a case-by-case basis, derogate from the remuneration policy's requirements in order to satisfy its overall object. In such case, the Board of Directors must explain such derogation at the next General Meeting.

The Remuneration Committee submits proposals to the Board of Directors on the Executive Management's remuneration annually. The remuneration of the Executive Management is assessed each year and is compared to the remuneration paid by other Danish businesses. The remuneration package may consist of a fixed base salary, a pension allowance contained in the base salary or separate pension contribution, a short-term cash bonus opportunity, a long-term share-based incentive scheme, a stay-on bonus opportunity, other market-aligned benefits and terms related to the termination of employment. Members of the Executive Management will receive usual non-monetary benefits such as a company car, telephone, etc. All travelling, conference, training and other similar expenses incurred by the members will be reimbursed. See also "*—Executive Management—Compensation of the Executive Management*" above.

The Company reports the remuneration paid to the members of the Board of Directors and Executive Management in accordance with applicable accounting rules.

Board Assessment

The Board of Directors undertakes an assessment annually to account for the skills it must have to best perform its tasks and disclose if its members are considered to be independent. The assessment and evaluation of the Board of Directors is otherwise done by the Nomination Committee. See also "*—Board of Directors—Board Practices and Committees—Nomination Committee*" above.

Internal Controls and Risk Management Systems in relation to Financial Reporting Process

The Board of Directors and the Audit Committee assess the general and specific risks on an ongoing basis in relation to the Company's activities and operations, as well as the risks related to the financial reporting and ensures that such risks are managed in a proactive and efficient manner. As part of the overall risk management, the Company has set up internal control systems, which are reviewed regularly by the Board of Directors to ensure that these systems are appropriate and sufficient in relation to the present activities and operations. The annual report will contain information about the management of operational risks. See "*—Board of Directors—Description of Procedures and Internal Control over Financial Reporting*" above.

The Board of Directors has adopted a decision to implement a whistleblower policy, which is in the process of being implemented by STG.

In 2015, STG adopted Group-wide trade restrictions compliance procedures to ensure compliance with applicable trade sanctions and export controls (*e.g.*, compliance with the U.S. embargo against Cuban-content products and EU sanctions). STG has started implementation of the procedures in its organisation and will continue further implementation, development, targeted training and auditing going forward.

Audit

The external auditors are appointed for a term of one year by the annual General Meeting upon recommendation by the Audit Committee. Prior to recommendation, the Board of Directors assesses, in consultation with the Executive Management, the independence and competencies and other matters pertaining to the auditors. The framework for the auditors' duties, including their remuneration, audit and non-audit tasks, is agreed annually between the Board of Directors and the auditors based on a recommendation from the Audit Committee.

OWNERSHIP STRUCTURE AND SELLING SHAREHOLDERS

Ownership Structure

As at the date of this Offering Circular, the Company's share capital is DKK 100,000,000 divided into 100,000,000 Shares with a nominal value of DKK 1.00 each.

The Shares are owned by Swedish Match Cigars Holding and Skandinavisk Holding II. As at the date of this Offering Circular, Swedish Match Cigars Holding and Skandinavisk Holding II own 49.0 percent and 51.0 percent, respectively, of the Company's share capital. Swedish Match Cigars Holding is wholly owned by Swedish Match, a publicly owned company listed on NASDAQ Stockholm AB ("**Nasdaq Stockholm**"). Skandinavisk Holding II is directly owned by Skandinavisk Holding A/S and ultimately owned by The Augustinus Foundation and The Obel Family Foundation, both Danish foundations. Until the completion of the Offering, the Company is for accounting and tax purposes a subsidiary of The Augustinus Foundation.

In connection with the Offering, the Selling Shareholders are offering 35,600,000 Firm Shares. In addition, Skandinavisk Holding II has granted an Overallotment Option to the Managers, exercisable in whole or in part by the Stabilising Manager, to purchase up to 4,400,000 Option Shares at the Offer Price, from the first day of trading in, and official listing of, the Shares until the day 30 calendar days thereafter, solely to cover overallotments or other short positions, if any, incurred in connection with the Offering. In relation to the Overallotment Option, the Selling Shareholders have entered into the Balancing Agreement pursuant to which, subject to certain conditions, Swedish Match Cigars Holding agrees to sell to Skandinavisk Holding II, and Skandinavisk Holding II agrees to purchase from Swedish Match Cigars Holding, at the Offer Price, such number of Shares that would result in the Selling Shareholders selling an equal number of Shares in the Offering. See "*The Offering — Share Lending Agreement and Balancing Agreement*".

The Company, the Selling Shareholders, the Board of Directors, Executive Management, the Key Employee and a limited number of other employees will be subject to certain lock-up obligations. See "*Plan of Distribution*".

Shares Outstanding after the Offering

Immediately after the completion of the Offering, the Company's registered share capital will amount to DKK 100,000,000 divided into 100,000,000 Shares with a nominal value of DKK 1.00 each.

Overview of Selling Shareholders

The following table sets forth information regarding the Company's ownership structure (i) as at the date of this Offering Circular assuming that the current Share Options granted to members of the Executive Management, the Key Employee and the Chairman are settled in cash; and (ii) immediately following the completion of the Offering assuming (a) no exercise of the Overallotment Option and (b) full exercise of the Overallotment Option:

	Shares owned as at the date of this Offering Circular with the assumption listed under (i) above		Shares owned following the completion of the Offering with the assumptions listed under (i) and (ii) above — Assuming no exercise of the Overallotment Option		Assuming full exercise of the Overallotment Option	
	Number of Shares	**Approx. percent**	**Number of Shares**	**Approx. percent**	**Number of Shares**	**Approx. percent**
Swedish Match Cigars Holding	49,000,000	49.0	31,200,000	31.2	29,000,000	29.0
Skandinavisk Holding II	51,000,000	51.0	33,200,000	33.2	31,000,000	31.0
Total Selling Shareholders	100,000,000	100.0	64,400,000	64.4	60,000,000	60.0

For information on the number of Offer Shares to be purchased in the employee offering, see "*The Offering—The Offering*".

Selling Shareholders

Swedish Match Cigars Holding

Swedish Match Cigars Holding is a wholly owned subsidiary of Swedish Match, which is a publicly owned company incorporated under the laws of Sweden and listed on Nasdaq Stockholm, with company registration number 556367-1253, having its registered address at Sveavägen 44, 118 85 Stockholm, Sweden. As at the date of this Offering Circular, Swedish Match Cigars Holding owns 49,000,000 Shares, corresponding to 49 percent of the Company's share capital and voting rights. Swedish Match Cigars Holding is offering 17,800,000 Shares in the Offering. Upon the completion of the Offering, Swedish Match Cigars Holding will own 31,200,000 Shares, corresponding to 31.2 percent of the Company's share capital and voting rights, assuming no exercise of the Overallotment Option. Assuming the Overallotment Option is exercised in full, Swedish Match Cigars Holding will own 29,000,000 Shares, corresponding to 29.0 percent of the Company's share capital and voting rights upon the completion of the Offering.

Skandinavisk Holding II

Skandinavisk Holding II is a public limited liability company organised under the laws of Denmark, having its registered address at Sydmarken 42, 2860 Søborg, Denmark. As at the date of this Offering Circular, Skandinavisk Holding II owns 51,000,000 Shares, corresponding to 51 percent of the Company's share capital and voting rights. Skandinavisk Holding II is offering up to 22,200,000 Shares in the Offering. Upon the completion of the Offering, Skandinavisk Holding II will own 33,200,000 Shares, corresponding to 33.2 percent of the Company's share capital and voting rights, assuming no exercise of the Overallotment Option. Assuming the Overallotment Option is exercised in full, Skandinavisk Holding II will own 31,000,000 Shares, corresponding to 31.0 percent of the Company's share capital and voting rights upon the completion of the Offering.

As at the date of this Offering Circular, Chr. Augustinus Fabrikker Aktieselskab and C.W. Obel A/S own 65 percent and 35 percent, respectively, of Skandinavisk Holding II via Skandinavisk Holding A/S. Chr. Augustinus Fabrikker Aktieselskab is owned by The Augustinus Foundation and C.W. Obel A/S is owned by The Obel Family Foundation.

The Augustinus Foundation

Manufacturer Ludvig Augustinus established The Augustinus Foundation in 1942. Chr. Augustinus Fabrikker Aktieselskab, a wholly owned subsidiary of The Augustinus Foundation, is an investment company with an indirect controlling stake in Skandinavisk Holding II. Among others, The Augustinus Foundation also, indirectly, holds a controlling stake in Tivoli A/S. The objective of The Augustinus Foundation is to work for charitable and humane, artistic, scientific or similar purposes.

The Obel Family Foundation

The Obel Family Foundation was established in 1956. The Obel Family Foundation is the sole owner of the investment company C.W. Obel A/S. C.W. Obel A/S invests in commercial property, capital interests in Danish industrial companies and Scandinavian Holding A/S. Among other things, the objective of The Obel Family Foundation is to support activities aimed at research and education, social and health objectives and art and culture, both in Denmark and internationally.

RELATED PARTY TRANSACTIONS

The Board of Directors, the Executive Management and the Selling Shareholders are considered to be related parties as they exercise a significant influence on the Company's operations. Related parties also include such persons' relatives as well as undertakings in which such persons have significant interests. In addition, companies controlled by The Augustinus Foundation and Swedish Match are considered related parties.

Except as set out below or in relation to compensation and benefits received as a result of membership of the Board of Directors, employment with the Company or shareholdings in the Company, the Company has not undertaken any significant transactions with members of the Board of Directors, the Executive Management or the Selling Shareholders, or undertakings outside of the Group, in which related parties have interests. For information on remuneration paid to the members of the Board of Directors and Executive Management, see "*Board of Directors, Executive Management and Key Employee*". For a description of the Company's incentive programmes, see "*Board of Directors, Executive Management and Key Employee—Incentive Programmes*".

The following table sets forth information on STG's transactions with related parties for the periods indicated:

	For the nine months ended 30 September		For the year ended 31 December		
	2015	2014	2014	2013	2012
	(unaudited)		(audited)		
	(DKK in millions)				
Skandinavisk Holding A/S					
Services provided by STG	1.8	1.8	3.2	3.1	2.8
Skandinavisk Holding II A/S					
Services provided by STG	–	–	–	–	0.8
Dagrofa ApS(1)					
Sale of products by STG	–	–	–	74.5	100.1
Tivoli A/S(2)					
Purchase of products and sponsorship by STG	(1.2)	(0.8)	(0.9)	(0.9)	(0.9)
Swedish Match group companies					
Purchase of products by STG	(67.5)	(68.7)	(86.7)	(119.1)	(124.8)
Sale of products by STG	58.1	65.8	86.6	82.6	55.5
Caribbean Cigar Holding Group Co. S.A (Associated company)					
Purchase of products by STG	(42.9)	(42.9)	(50.2)	(45.0)	(30.0)
Sale of products by STG	1.3	1.0	2.0	0.7	0.7

(1) Dagrofa ApS was a related party to STG until 29 October 2013, prior to which it was an indirect subsidiary of The Augustinus Foundation. For a description of The Augustinus Foundation, see "*Ownership Structure and Selling Shareholders—Selling Shareholders*".

(2) Tivoli A/S is an indirect subsidiary of The Augustinus Foundation. For a description of The Augustinus Foundation, see "*Ownership Structure and Selling Shareholders—Selling Shareholders*".

The following table sets forth STG's outstanding receivables from related parties as at the dates indicated:

	As at 30 September 2015	As at 31 December 2014	2013	2012
	(unaudited)	(audited)		
	(DKK in millions)			
Skandinavisk Holding A/S	0.8	1.7	1.6	0.8
Skandinavisk Holding II A/S	–	–	–	16.7
Dagrofa ApS[(1)]	–	–	–	20.0
Swedish Match AB	(3.0)	(6.0)	(5.4)	(6.4)
Caribbean Cigar Holding Group Co. S.A.	0.1	0.3	(1.0)	0.1
Total	(2.1)	(4.0)	(4.8)	31.2

(1) Dagrofa ApS was a related party to STG until 29 October 2013, prior to which it was an indirect subsidiary of The Augustinus Foundation. For a description of The Augustinus Foundation, see "*Ownership Structure and Selling Shareholders—Selling Shareholders*".

Transactions with Skandinavisk Holding A/S related primarily to administrative services provided by STG to Skandinavisk Holding A/S and Skandinavisk Holding II.

Transactions with Dagrofa ApS related primarily to the sale of tobacco products by STG to Dagrofa ApS.

Transactions with Tivoli A/S related primarily to sponsorship from STG to Tivoli A/S and entertainment services purchased by STG from Tivoli A/S.

Transactions with Swedish Match entities related primarily to sales and distribution by STG of matches, lighters and fire lighting products in various countries and certain cigars in the United States, as well as sales by Swedish Match of STG's products. The transactions with Swedish Match entities also included payments by STG related to the lease of industrial sites in the United States, lobbying services in the United States and the purchase by Swedish Match of Swedish Match Fosforos Portugal SA from STG.

Transactions with Caribbean Cigar Holding Group Co. S.A related primarily to purchases of tobacco leaf by STG.

The following is a description of the related party transactions made by the Company during 2015 until the date of this Offering Circular and the past three financial years. In this respect, related parties are entities within the respective group of companies of Swedish Match and Skandinavisk Holding A/S (or its majority shareholders):

With Swedish Match entities:

- Distribution Agreement between the Company and Swedish Match Lighters B.V., dated 29 October 2010, regarding distribution of lighters and lighter accessories in various countries (*i.e.*, Australia, Belgium, Croatia, France, Italy, Luxembourg, the Netherlands, New Zealand, Poland, Portugal, Slovenia and Spain (whereof Portugal was terminated by the parties and replaced by a new agreement between Swedish Match Lighters B.V. and STG Portugal effective 3 October 2013 and Italy was terminated by Swedish Match Lighters B.V. effective 29 October 2015)).
- Distribution Agreement between the Company and Swedish Match Industries Aktiebolag, dated 9 November 2010, regarding distribution of matches in various countries (*i.e.*, Australia, Belgium, France, Luxembourg, the Netherlands, New Zealand, Poland, Portugal, Slovenia and Spain (whereof Portugal was terminated by the parties and replaced by a new agreement between Swedish Match Industries Aktiebolag and STG Portugal effective 3 October 2013)).
- Distribution Agreement between Scandinavian Tobacco Group Canada Inc. and Swedish Match Lighters B.V., dated 5 February 2015, regarding distribution of lighters in Canada.
- Commission Agreement between Scandinavian Tobacco Group Australia PTY Ltd and Swedish Match Industries Aktiebolag, dated 9 November 2010, regarding sales promotion of matches in Oceania.
- License Agreement between Scandinavian Tobacco Group Australia PTY Ltd and Swedish Match Industries, Aktiebolag, dated 9 November 2010, regarding a license for the use of "Redheads" and "Beehive" in Australia and New Zealand.

- License Agreement between Scandinavian Tobacco Group Eersel B.V. and Swedish Match North Europe AB, dated 25 October 2010, regarding the use of "SWAN".
- Commission Agreement between Scandinavian Tobacco Group Italy S.R.L. and Swedish Match Industries Aktiebolag, dated 9 November 2010, regarding sales promotion of matches in Italy (terminated by Swedish Match Industries Aktiebolag effective 9 November 2015).
- Distribution Agreement between General Cigar Co., Inc. and Swedish Match North America, Inc., dated 1 October 2012, regarding distribution of small and miniature premium cigars in mass merchandise stores, food stores drug chains and convenience stores (mass channel).
- Lease Agreement between M&D Wholesale Distributors Inc. and Triple Net Investments II L.P., dated 22 June 2009, regarding lease of Lehigh Valley Industrial Park Lots 15 and 16, Bethlehem, PA. Swedish Match has agreed to guarantee and stand as surety for all obligations of the tenant under the lease agreement. STG has granted a guarantee to Swedish Match covering any obligations of Swedish Match in respect of its guarantee related to the lease agreement.
- General Cigar Co., Inc. has engaged the services of the Alpine Group in Washington DC to assist with federal lobbying matters. Alpine Group has had a long-standing relationship with Swedish Match and General Cigar Co., Inc. and represents both companies. General Cigar Co., Inc. and Swedish Match share the cost of Alpine Group's services.
- General Cigar Co., Inc. and Swedish Match also share the cost of a consultant fee for approximately 15 state lobbyists and the salary for the director of the state lobbying programme. General Cigar Co., Inc. pays 15 percent of the lobbyists' fees in addition to reimbursing Swedish Match 15 percent of the director's salary at a total cost of approximately USD 200,000 per year.
- Share Sale and Transfer Agreement between Scandinavian Tobacco Group Eersel B.V. and Swedish Match US AB, dated 1 December 2014, regarding transfer of the shares in Swedish Match Fosforos Portugal SA.
- In addition, an agreement between Swedish Match and the Company is described under "*Business—Legal Proceedings—Legal Proceedings in the United States*".

With Skandinavisk Holding A/S:

- Management Agreement between the Company and Skandinavisk Holding II, dated 1 October 2010, with addendum I dated 4 January 2012 and addendum II, undated, under which the Company provides administrative services (treasury, tax, legal accounting and administration) to Skandinavisk Holding A/S and Skandinavisk Holding II.

DESCRIPTION OF THE SHARES AND SHARE CAPITAL

The following is a summary of material information relating to the Company's share capital, including a summary of certain provisions of the Articles of Association dated 15 January 2016 as well as a brief description of certain provisions of the Danish Companies Act. This summary does not purport to be exhaustive and should be read in conjunction with the full text of the Articles of Association (which are attached hereto as Annex A) as well as in the context of applicable Danish law.

The Company is a public limited company incorporated on 28 November 2007 and is organised under the laws of Denmark under the name Scandinavian Tobacco Group A/S. The Company has its registered office at Sydmarken 42, DK-2860 Søborg, Denmark. The Company is registered with the Danish Business Authority under CVR no. 31 08 01 85. The Company also carries on business under the secondary name of Skandinavisk Tobakskompagni A/S.

Registered Share Capital

As at the date of this Offering Circular, the Company's share capital is DKK 100,000,000, divided into 100,000,000 Shares with a nominal value of DKK 1.00 each. The Shares are denominated in Danish kroner. The Shares are not divided into share classes and all Shares rank *pari passu* in respect of voting rights, pre-emption rights, redemption, conversion and restrictions or limitations according to the Articles of Association of eligibility to receive dividend or proceeds in the event of dissolution and liquidation. No Shares carry special rights. All Shares are issued and fully paid up. Each Share entitles its holder to one vote at General Meetings.

The Company has not issued any securities that are convertible, exchangeable nor have warrants attached.

Historical Movement in Share Capital

The following table sets forth the development of the Company's share capital from its incorporation to the date of this Offering Circular:

		Share capital before change	Share capital change	Share capital after change	Price(1)	Number of Shares after change
			(DKK)			
28 November 2007	Incorporation of the Company as a private limited liability company (Dk. *ApS*)	–	125,000	125,000	100.00	125,000
4 August 2010	Capital increase(2)	125,000	375,000	500,000	100.00	500,000
1 October 2010	Capital increase(3)	500,000	99,500,000	100,000,000	3,859.00	100,000,000

(1) Calculated in accordance with the practice of the Danish Business Authority whereby payment of an amount equivalent to the nominal value of a share is set at index price 100.

(2) The shares in the capital increase were subscribed in cash and the Company was converted to a public limited liability company (Dk. *A/S*).

(3) The shares in the capital increase were subscribed by contribution in kind.

Authorisations to Increase Share Capital

Pursuant to article 5.1 of the Articles of Association, the Board of Directors is authorised to increase the share capital by cash contribution, contribution in kind and conversion of debt by issuance of new Shares of no more than nominally DKK 10,000,000. Such increase may be effected either gradually or at once. Any such issuance must be made at market price. The authorisation to the Board of Directors to increase the share capital will be in force until 31 December 2020. The new Shares must be negotiable instruments and recorded in the names of the holders in the Company's register of shareholders. The negotiability of the new Shares may not be subject to restrictions. The pre-emption rights of the existing shareholders would not apply to the issue of new Shares. The new Shares, if any, will carry the same rights as the existing Shares.

Pursuant to article 5.2 of the Articles of Association, the Board of Directors is authorised to increase the share capital by cash contribution by issuance of new Shares of no more than nominally DKK 1,000,000 in connection with offering of shares to STG employees. Such increase may be effected either gradually or at once. Any such issuance can be made at a subscription price below market price. The authorisation to the

Board of Directors to increase the share capital will be in force until 31 December 2020. The new Shares must be negotiable instruments and recorded in the names of the holders in the Company's register of shareholders. The negotiability of the new Shares may not be subject to restrictions. The pre-emption rights of the existing shareholders would not apply to the issue of new Shares. The new Shares, if any, will carry the same rights as the existing Shares.

Authorisation to Acquire Treasury Shares

As at the date of this Offering Circular, the Board of Directors on behalf of the Company is authorised to purchase treasury Shares to the extent that the Company's holding of treasury Shares at no time exceeds DKK 10,000,000 (equal to 10 percent of the Company's share capital at the time of the Offering). The purchase price may not deviate by more than 10 percent from the quoted price on Nasdaq Copenhagen at the time of the purchase. The authorisation is valid until 31 December 2020.

The Company does not hold any treasury shares as at the date of this Offering Circular.

Authorisation to Distribute Interim Dividends

As at the date of this Offering Circular, the Board of Directors has been authorised by the Company's General Meeting to distribute interim dividends, but has no plan to do so in the near future.

For further details on dividends and the Company's dividend policy, see "*Dividends and Dividend Policy*".

General Meetings and Voting Rights

General Meetings must be held at the Company's registered office or in the greater Copenhagen area.

The annual General Meeting must be held each year in time for the audited and adopted annual report to reach the Danish Business Authority before expiry of the time limit provided by the Danish Financial Statements Act. Not later than eight weeks before the contemplated date of the annual General Meeting, which the Company will announce in its financial calendar, the Company must publish the actual date of the General Meeting and the deadline for submitting requests for specific proposals to be included on the agenda.

Extraordinary General Meetings must be held when determined by the Board of Directors or requested by the Company's auditor. Furthermore, an extraordinary General Meeting must be held when requested by shareholders possessing no less than 5 percent of the Company's share capital. Such request must be submitted in writing to the Board of Directors and be accompanied by a specific proposal for the business to be transacted. The Board of Directors must convene an extraordinary General Meeting no later than two weeks after such request has been made.

General Meetings must be convened by the Board of Directors with at least three weeks' and not more than five weeks' notice. The notice of the General Meeting must first be published through Nasdaq Copenhagen. Subsequently, the notice must be published on the Company's website and in the Danish Business Authority's IT system. Furthermore, a notice of the General Meeting must be sent by e-mail to all shareholders recorded in the Company's register of shareholders who have so requested.

The notice must specify the time and place of the General Meeting and the agenda containing the business to be transacted at the meeting. If a proposal to amend the Articles of Association is to be considered at the General Meeting, the main contents of the proposal must be specified in the notice. Notices convening General Meetings at which a resolution will be passed pursuant to section 77 (2), section 92 (1) or (5), or section 107 (1) or (2) of the Danish Companies Act must set out the full wording of the proposals.

Every shareholder is entitled to have a specific subject considered at the annual General Meeting. Such proposals must be submitted in writing to the Board of Directors not later than six weeks prior to the General Meeting.

The right of a shareholder to attend and vote at a General Meeting is determined by the Shares held by the shareholder on the record date. The record date is one week prior to the General Meeting. The Shares held by each shareholder on the record date are calculated based on the registration of the number of shares held by that shareholder in the Company's register of shareholders as well as on any notification of ownership received by the Company for the purpose of registration in its register of shareholders, but which have not yet been registered.

At the General Meeting, each Share carries one vote and, therefore, all Shares have equal voting rights.

Any shareholder who is entitled to attend the General Meeting pursuant to the Articles of Association and who wishes to attend the General Meeting must request to receive an admission card not later than three days prior to the date of the meeting. A shareholder may, subject to having requested an admission card, attend in person or by proxy, and the shareholder or the proxy may attend together with an adviser.

The right to vote may be exercised by a written and dated instrument of proxy in accordance with applicable laws. A shareholder who is entitled to participate in the General Meeting pursuant to the Articles of Association may vote by correspondence in accordance with the provisions of the Danish Companies Act. Such votes by correspondence must be received by the Company not later than the day before the General Meeting. Votes by correspondence cannot be withdrawn.

The language at General Meetings will be English without any simultaneous interpretation to and from Danish. All documents prepared for use by the General Meeting at or after the General Meeting must be in English. The Company's annual reports and interim financial reports are prepared and presented in English.

Resolutions by the General Meetings and Amendments to the Articles of Association

Resolutions at General Meetings must be passed by a simple majority of votes cast unless otherwise prescribed by law or by the Articles of Association.

Adoption of changes to the Articles of Association, dissolution of the Company, merger or demerger requires that the decision is adopted with at least two-thirds of the votes cast as well as the share capital represented at the General Meeting, unless applicable laws prescribe stricter or less strict adoption requirements or applicable laws confer independent competence to the Board of Directors or other bodies.

The provisions in the Articles of Association relating to a change of the rights of shareholders or a change to the capital are no more stringent than required by the Danish Companies Act.

Registration of Shares

The Shares will be delivered in book-entry form through allocation to accounts with VP Securities through a Danish bank or other institution authorised as custodian.

The Shares are issued in dematerialised form through VP Securities. The address of VP Securities is Weidekampsgade 14, DK 2300 Copenhagen S, Denmark.

The Shares will be registered in the name of the holder in the Company's register of shareholders. The Company's register of shareholders is kept by Computershare A/S.

Transfer of Shares

The Shares are negotiable instruments and no restrictions under the Articles of Association or Danish law apply to the transferability of the Shares. See "*Selling Restrictions*" and "*Transfer Restrictions*" for certain restrictions applicable to the transfer of Offer Shares.

Pre-emptive Rights

Under Danish law, all shareholders have pre-emptive subscription rights in connection with capital increases affected as cash contributions. An increase in the share capital can be resolved by the shareholders at a General Meeting or by the Board of Directors pursuant to an authorisation given by the shareholders. In connection with an increase of the Company's share capital, the shareholders may, by resolution at a General Meeting, approve deviations from the general Danish pre-emptive rights of the shareholders. Under the Danish Companies Act, such resolution must be adopted by the affirmative vote of shareholders holding at least a two-thirds majority of the votes cast and the share capital represented at a General Meeting. Furthermore, it is a prerequisite that the capital increase is subscribed for at market price. The Board of Directors is authorised to increase the Company's share capital in one or more issues at market price without pre-emptive rights to the shareholders. See "*—Authorisations to Increase Share Capital*" above.

The exercise of pre-emptive rights may be restricted for shareholders resident in certain jurisdictions, including but not limited to the United States, Canada, Japan and Australia, unless the Company decides to comply with applicable local requirements. Consequently, U.S. Holders (as defined herein) and certain other holders of Shares may not be able to exercise their pre-emptive rights or participate in a rights offer, as the case may be, unless a registration statement under the U.S. Securities Act is effective with respect to such rights or an exemption from the registration requirements is available.

The Company intends to evaluate at the time of any issue of Shares subject to pre-emptive rights or in a rights offer, as the case may be, the cost and potential liabilities associated with complying with any local requirements, including any registration statement in the United States, as well as the indirect benefits to the Company of enabling the exercise of non-Danish shareholders of their pre-emption rights to Shares or participation in any rights offer, as the case may be, and any other factors considered appropriate at the time, and then to make a decision as to whether to comply with any local requirements, including filing any registration statement in the United States. No assurances are given that local requirements will be complied with or that any registration statement would be filed in the United States to enable the exercise of such holders' pre-emption rights or participation in any rights offer.

Redemption and Conversion Provisions

Except as provided for in the Danish Companies Act (see "*The Danish Securities Market—Mandatory Redemption of Shares*"), no shareholder is under an obligation to have his or her Shares redeemed in whole or in part by the Company or by any third party, and none of the Shares carry any redemption or conversion rights or any other special rights.

Dissolution and Liquidation

In the event of dissolution and liquidation of the Company, the shareholders are entitled to participate in the distribution of assets in proportion to their nominal shareholdings after payment of the Company's creditors.

Takeover Bids

No public mandatory or voluntary takeover offers have been made by any third party pursuant to the Danish Securities Trading Act in respect of the Shares during the past or current financial year.

Neither the Articles of Association nor the Company's memorandum of association contains provisions that are likely to have the effect of delaying, deferring or preventing a change in control of the Company.

Consistent with the Corporate Governance Recommendations, the Board of Directors has adopted a set of guidelines for the handling of takeover bids.

TAXATION

Danish Tax Considerations

The following is a summary of certain Danish income tax considerations relating to an investment in the Shares.

The summary is for general information only and does not purport to constitute exhaustive tax or legal advice. It is specifically noted that the summary does not address all possible tax consequences relating to an investment in the Shares. The summary is based solely upon the tax laws of Denmark in effect on the date of this Offering Circular. Danish tax laws may be subject to change, possibly with retroactive effect.

The summary does not cover investors to whom special tax rules apply, and, therefore, may not be relevant, for example, to investors subject to the Danish Tax on Pension Yields Act (*i.e.*, pension savings), professional investors, certain institutional investors, insurance companies, pension companies, banks, stockbrokers and investors with tax liability on return on pension investments. The summary does not cover taxation of individuals and companies who carry on a business of purchasing and selling shares. The summary only sets out the tax position of the direct owners of the Shares and further assumes that the direct investors are the beneficial owners of the Shares and any dividends thereon. Sales are assumed to be sales to a third party. For non-Danish tax residents, this summary further assumes that the investor does not have a permanent establishment in Denmark.

Potential investors in the Shares are advised to consult their tax advisers regarding the applicable tax consequences of acquiring, holding and disposing of the Shares based on their particular circumstances. Investors who may be affected by the tax laws of other jurisdictions should consult their tax advisers with respect to the tax consequences applicable to their particular circumstances as such consequences may differ significantly from those described herein.

Taxation of Danish Tax Resident Shareholders

Sale of Shares (Individuals)

Gains from the sale of shares are taxed as share income at a rate of 27 percent on the first DKK 50,600 in 2016 (for cohabiting spouses, a total of DKK 101,200) and at a rate of 42 percent on share income exceeding DKK 50,600 (for cohabiting spouses, income exceeding DKK 101,200). Such amounts are subject to annual adjustments and include all share income (*i.e.*, all capital gains and dividends derived by the individual or cohabiting spouses, respectively).

Gains and losses on the sale of shares admitted to trading on a regulated market are calculated as the difference between the purchase price and the sales price. The purchase price is generally determined using the average method, which means that each share is considered acquired for a price equivalent to the average acquisition price of all the shareholders' shares in the issuing company.

Losses on the sale of shares admitted to trading on a regulated market can only be offset against other share income deriving from shares admitted to trading on a regulated market, (*i.e.*, received dividends and capital gains on the sale of shares admitted to trading on a regulated market). Unused losses will automatically be offset against a cohabiting spouse's share income deriving from shares admitted to trading on a regulated market and additional losses can be carried forward indefinitely and offset against future share income deriving from shares admitted to trading on a regulated market.

Losses on shares admitted to trading on a regulated market may only be set off against gains and dividends on other shares admitted to trading on a regulated market if the Danish tax authorities have received certain information concerning the ownership of the shares. This information is normally provided to the Danish tax authorities by the securities dealer.

Sale of Shares (Companies)

For the purpose of taxation of sales of shares made by shareholders, a distinction is made between Subsidiary Shares, Group Shares, Tax-Exempt Portfolio Shares and Taxable Portfolio Shares:

"**Subsidiary Shares**" is generally defined as shares owned by a shareholder holding at least 10 percent of the nominal share capital of the issuing company.

"**Group Shares**" is generally defined as shares in a company in which the shareholder of the company and the issuing company are subject to Danish joint taxation or fulfil the requirements for international joint taxation under Danish law.

"**Tax-Exempt Portfolio Shares**" is defined as shares not admitted to trading on a regulated market owned by a shareholder holding less than 10 percent of the nominal share capital of the issuing company.

"**Taxable Portfolio Shares**" is defined as shares that do not qualify as Subsidiary Shares, Group Shares or Tax-Exempt Portfolio Shares.

Gains or losses on disposal of Subsidiary Shares and Group Shares and Tax-Exempt Portfolio Shares are not included in the taxable income of the shareholder.

Special rules apply with respect to Subsidiary Shares and Group Shares in order to prevent exemption through certain holding company structures just as other anti-avoidance rules may apply. These rules will not be described in further detail.

Capital gains from the sale of Taxable Portfolio Shares admitted to trading on a regulated market are taxable at a rate of 22 percent (2016) irrespective of ownership period. Losses on such shares are generally deductible.

Gains and losses on Taxable Portfolio Shares admitted to trading on a regulated market are taxable according to the mark-to-market principle. According to the mark-to-market principle, each year's taxable gain or loss is calculated as the difference between the market value of the shares at the beginning and end of the tax year. Thus, taxation will take place on an accrual basis even if no shares have been disposed of and no gains or losses have been realised. If the Taxable Portfolio Shares are sold or otherwise disposed of before the end of the income year, the taxable income of that income year equals the difference between the value of the Taxable Portfolio Shares at the beginning of the income year and the value of the Taxable Portfolio Shares at realisation. If the Taxable Portfolio Shares are acquired and realised in the same income year, the taxable income equals the difference between the acquisition sum and the realisation sum. If the Taxable Portfolio Shares are acquired in the income year and not realised in the same income year, the taxable income equals the difference between the acquisition sum and the value of the shares at the end of the income years.

A change of status from Subsidiary Shares/Group Shares/Tax-Exempt Portfolio Shares to Taxable Portfolio Shares (or vice versa) is for tax purposes deemed to be a disposal of the shares and a reacquisition of the shares at market value at the time of change of status.

Dividends (Individuals)

Dividends paid to individuals who are tax residents of Denmark are taxed as share income, as described above. All share income must be included when calculating whether the amounts mentioned above are exceeded.

Dividends paid to individuals are generally subject to 27 percent withholding tax.

Dividends (Companies)

Dividends paid on both Tax-Exempt and Taxable Portfolio Shares are subject to the standard corporation tax rate of 22 percent (2016) irrespective of ownership period. However, only 70 percent of dividends received on Tax-Exempt Portfolio Shares will be subject to corporate tax. Thus, the effective tax rate on such dividends is 15.4 percent in 2016.

The withholding tax rate is 22 percent. If the distributing company withholds a higher amount, the shareholder can claim a refund of the excess tax. A claim for repayment must be filed within two months. Otherwise, the excess tax will be credited in the corporate income tax for the year. For 2016, the withholding tax rate on Tax-Exempt Portfolio Shares will be 15.4 percent.

Dividends received on Subsidiary Shares and Group Shares are tax-exempt irrespective of ownership period.

Taxation of Shareholders Residing Outside Denmark

Sale of Shares (Individuals and Companies)

Shareholders not resident in Denmark are normally not subject to Danish taxation on any gains realised on the sale of shares, irrespective of the ownership period, subject to certain anti avoidance rules that will not be described in further detail.

Dividends (Individuals)

Under Danish law, dividends paid in respect of shares are generally subject to Danish withholding tax at a rate of 27 percent. If the withholding tax rate applied is higher than the applicable final tax rate for the shareholder, a request for a refund of Danish tax in excess hereof can be made by the shareholder in the following situations:

1. Double taxation treaty

   In the event that the shareholder is a resident of a state with which Denmark has entered into a double taxation treaty, the shareholder may generally, through certain certification procedures, seek a refund from the Danish tax authorities of the tax withheld in excess of the applicable treaty rate, which is typically 15 percent. Denmark has entered into tax treaties with approximately 75 countries, including the United States and almost all members of the EU. The treaty between Denmark and the United States generally provides for a 15 percent tax rate. The refund is sought by completing form 06.003 and filing it with the Danish tax authorities. The form can be downloaded from the Danish tax authorities' website at: http://www.skat.dk/getFile.aspx?Id=70193.

2. Credit under Danish tax law

   If the shareholder holds less than 10 percent of the nominal share capital of the company and the shareholder is tax resident in a state which has a double tax treaty or an international agreement, convention or other administrative agreement on assistance in tax matters according to which the competent authority in the state of the shareholder is obligated to exchange information with Denmark, dividends are subject to tax at a rate of 15 percent. If the shareholder is tax resident outside the EU, it is an additional requirement for eligibility for the 15 percent tax rate that the shareholder together with related shareholders holds less than 10 percent of the nominal share capital of the company. Note that the reduced tax rate does not affect the withholding rate, why the shareholder must also in this situation claim a refund as described above in order to benefit from the reduced rate.

Note that the Danish tax form described in this section requires a certification by the applicable local tax authority.

As a general rule, a refund of tax withheld in excess of the applicable treaty rate shall be paid within six months following the Danish tax authorities' receipt of the refund claim. If the refund is paid later than six months after the receipt of the claim, interest will be calculated on the amount of refund claimed. For 2016 and subsequent years, the rate per month will be 0.4 percent plus a premium fixed annually. The six-month deadline can be suspended, if the Danish tax authorities are unable to determine whether the taxpayer is entitled to a refund based on the taxpayer's affairs. If the deadline is suspended accordingly, computation of interest is also suspended.

On 25 August 2015, the Danish tax authorities made an announcement on potential fraudulent refund claims. As a result, payment of refunds has been temporarily put on hold pending these investigations. The tax authorities have announced that payment of refunds will be resumed as soon as possible. The six-month deadline applies irrespective of this announcement, but the deadline can be suspended as described above.

Dividends (Companies)

Dividends from Subsidiary Shares are exempt from Danish withholding tax provided the taxation of the dividends is to be waived or reduced in accordance with the Parent-Subsidiary Directive (2011/96/EEC) or in accordance with a tax treaty with the jurisdiction in which the company investor is resident. Further, dividends from Group Shares – not also being Subsidiary Shares – are exempt from Danish withholding tax provided the company investor is a resident of the EU or the EEA and provided the taxation of dividends should have been waived or reduced in accordance with the Parent Subsidiary Directive (2011/96/EEC) or in accordance with a tax treaty with the country in which the company investor is resident had the shares been Subsidiary Shares.

Dividend payments on both Tax-Exempt and Taxable Portfolio Shares will generally be subject to withholding tax at a rate of 27 percent irrespective of ownership period. On 5 October 2015, the Danish Ministry of Taxation published a legislative proposal for public hearing which, if passed in the proposed current form will reduce the tax rate (but not the withholding rate) from 27 percent with effect from 1 July 2016. If the withholding tax rate applied is higher than the applicable final tax rate for the shareholder, a request for a refund of Danish tax in excess hereof can be made by the shareholder in the following situations:

1. Double taxation treaty

   In the event that the shareholder is a resident of a state with which Denmark has entered into a double taxation treaty, the shareholder may generally, through certain certification procedures, seek a refund from the Danish tax authorities of the tax withheld in excess of the applicable treaty rate, which is typically 15 percent. Denmark has entered into tax treaties with approximately 75 countries, including the United States and almost all members of the EU. The treaty between Denmark and the United States generally provides for a 15 percent rate. The refund is sought by completing form 06.003 and filing it with the Danish tax authorities. The form can be downloaded from the Danish tax authorities' website at: http://www.skat.dk/getFile.aspx?Id=70193.

2. Credit under Danish tax law

   If the shareholder holds less than 10 percent of the nominal share capital in the company and the shareholder is resident in a jurisdiction which has a double taxation treaty or an international agreement, convention or other administrative agreement on assistance in tax according to which the competent authority in the state of the shareholder is obligated to exchange information with Denmark, dividends are generally subject to a tax rate of 15 percent. If the shareholder is tax resident outside the EU, it is an additional requirement for eligibility for the 15 percent tax rate that the shareholder together with related shareholders holds less than 10 percent of the nominal share capital of the company. Note that the reduced tax rate does not affect the withholding rate, why the shareholder must also in this situation claim a refund as described above in order to benefit from the reduced rate.

Note that the Danish tax form described in this section requires a certification by the applicable local tax authority.

A refund of tax withheld in excess of the applicable treaty rate shall generally be paid within six months following the Danish tax authorities' receipt of the refund claim. Reference is made to description above, which applies equally to non-Danish resident corporate shareholders.

Share Transfer Tax and Stamp Duties

No Danish share transfer tax or stamp duties are payable on transfer of the Shares.

Withholding Tax Obligations

An issuer of shares is subject to Danish withholding tax obligations in accordance with applicable Danish laws.

Certain U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax consequences to U.S. Holders (as defined below) of acquiring, owning and disposing of Offer Shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to acquire Offer Shares. This discussion applies only to U.S. Holders that are initial purchasers of the Offer Shares pursuant to the Offering and that will hold such Offer Shares as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances, including tax consequences applicable to U.S. Holders subject to special rules, such as:

- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- dealers or certain traders in securities, commodities or currencies;
- persons holding Offer Shares as part of a straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the Offer Shares;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes or other pass through entities or investors that will hold the Offer Shares through such an entity;

- tax exempt entities, including "individual retirement accounts" or "Roth IRAs";
- S corporations;
- certain former citizens or long-term residents of the United States;
- persons that own or are deemed to own 10 percent or more of the Company's voting stock; or
- persons holding Offer Shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes owns Offer Shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships owning Offer Shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of the Offer Shares.

This summary does not address the United States federal estate, gift, alternative minimum or Medicare contribution tax consequences, or any state, local or foreign tax consequences, of acquiring, owning or disposing of Offer Shares.

This discussion is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the income tax treaty between Denmark and the United States (the "**Treaty**"), all as of the date hereof, any of which is subject to change, possibly with retroactive effect. The Company has not sought any ruling from the U.S. Internal Revenue Service (the "**IRS**") with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with such statements and conclusions or that a court will not sustain any challenge by the IRS in the event of litigation.

As used herein, the term "**U.S. Holder**" means a beneficial owner of Offer Shares that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organised in or under the laws of the United States, any state thereof or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and foreign tax consequences of acquiring, owning and disposing Offer Shares in their particular circumstances.

This discussion assumes that the Company is not, and will not become, a "passive foreign investment company", for U.S. federal income tax purposes. See "*—Passive Foreign Investment Company Rules*" below.

Taxation of Distributions

The gross amount of any distributions paid on Offer Shares, other than certain *pro rata* distributions of ordinary shares, before reduction for any Danish withholding tax generally will be includible in the gross income of a U.S. Holder on the date of receipt as a dividend to the extent the distribution is paid out of the Company's current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Distributions in excess of such earnings and profits will be treated first as a tax-free return of capital to the extent of a U.S. Holder's adjusted tax basis in its Offer Shares and thereafter as capital gain. Because the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that any distributions generally will be reported to U.S. Holders as dividends. Subject to applicable limitations, dividends paid to certain non-corporate U.S. Holders may be taxable at favourable rates if certain requirements, including stock holding period requirements, are satisfied by the recipient and the Company is eligible for the benefits of the Treaty. Non-corporate U.S. Holders should consult their tax advisers regarding the availability of the favourable tax rates on dividends. Dividends received on Offer Shares will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders.

Dividends paid by the Company in Danish kroner, including the amount of any taxes withheld from such distributions, will be included in the income of U.S. Holders at a U.S. dollar amount equal to the exchange rate in effect on the date of actual or constructive receipt, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a

U.S. Holder should not be required to recognise foreign currency gain or loss in respect of the amount received. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt, and any such gain or loss will be U.S.-source ordinary income or loss. U.S. Holders should consult their tax advisers regarding the possible recognition of foreign currency gain or loss in respect of any amount of Danish taxes received as a refund from the Danish tax authorities after the date of distribution (see "*—Danish Tax Considerations—Taxation of Shareholders Residing Outside Denmark—Dividends (Individuals)*" and "*—Danish Tax Considerations—Taxation of Shareholders Residing Outside Denmark—Dividends (Companies)*" above).

Dividends with respect to the Offer Shares generally will be treated as income from sources outside of the United States and generally will be treated as "passive category income", or in the case of certain U.S. Holders "general category income", for U.S. foreign tax credit purposes. Subject to applicable limitations, Danish income taxes withheld from dividends on Offer Shares at a rate not exceeding the applicable rate provided by the Treaty may be creditable against the U.S. Holder's U.S. federal income tax liability. Danish income taxes withheld in excess of the rate applicable under the Treaty will not be eligible for credit against a U.S. Holder's federal income tax liability. See "*—Danish Tax Considerations—Taxation of Shareholders Residing Outside Denmark—Dividends (Individuals)*" and "*—Danish Tax Considerations—Taxation of Shareholders Residing Outside Denmark—Dividends (Companies)*" above for a discussion of how to obtain the applicable Treaty rate or a refund of Danish taxes withheld in excess of the applicable Treaty rate. The rules governing foreign tax credits are complex, and U.S. Holders should consult their tax advisers regarding the creditability of foreign taxes in their particular circumstances.

In lieu of claiming a foreign tax credit, U.S. Holders may, at their election, deduct foreign taxes, including any Danish tax withheld from dividends on the Offer Shares, in computing their taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all foreign taxes paid or accrued in the taxable year.

Sale or Other Taxable Disposition of Offer Shares

A U.S. Holder generally will recognise gain or loss on the sale, exchange or other taxable disposition of the Offer Shares equal to the difference between the amount realised on such sale, exchange or other taxable disposition and the U.S. Holder's adjusted tax basis in such Offer Shares. For U.S. federal income tax purposes, such gain or loss will generally be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period for the Offer Shares exceeds one year. Long-term capital gain of non-corporate U.S. Holders (including individuals) generally are eligible for preferential rates. The deductibility of capital losses is subject to limitations. Any gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes.

A U.S. Holder that receives Danish kroner from a sale, exchange or other taxable disposition of Offer Shares generally will realise an amount equal to the U.S. dollar value of Danish kroner on the date of disposition of the Offer Shares. However, if the Offer Shares are treated as "traded on an established securities market", a cash basis or electing accrual basis taxpayer will determine the U.S. dollar value of the amount realised by translating such amount at the spot rate on the settlement date of the taxable disposition. If an accrual basis U.S. Holder makes the election described above, it must be applied consistently from year to year and cannot be revoked without the consent of the IRS. If the U.S. dollar value of the Danish kroner taken into account by a U.S. Holder in determining its amount realised differs from the U.S. dollar value of such Danish kroner when received, the U.S. Holder will have exchange gain or loss. A U.S. Holder will have a tax basis in any Danish kroner received in respect of the sale, exchange or taxable disposition of its Offer Shares equal to its U.S. dollar value on the date of receipt. A U.S. Holder's initial tax basis in the Offer Shares will be such U.S. Holder's U.S. dollar cost of the Offer Shares determined on the date of purchase. However, if the Offer Shares are treated as traded on an established securities market and a U.S. Holder is either a cash basis taxpayer or an accrual basis taxpayer who has made the special election described above, such U.S. Holder will use the exchange rate in effect on the settlement date of the purchase. Any gain or loss recognised upon a subsequent disposition of Danish kroner will be treated as U.S.-source ordinary income or loss.

Passive Foreign Investment Company Rules

A non-U.S. corporation will be classified as a passive foreign investment company ("**PFIC**") for U.S. federal income tax purposes in any taxable year in which, the corporation satisfies either of the following requirements:

- at least 75 percent of its gross income is "passive income"; or

- at least 50 percent of the average quarterly fair market value of its assets is attributable to assets that produce "passive income" or are held for the production of "passive income".

Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions. In addition, there is a look-through rule for investments in subsidiary corporations. Under this rule, if a non-U.S. corporation owns (directly or indirectly) at least 25 percent of another corporation, the non-U.S. corporation is treated as owning a proportionate share of the assets of the other corporation and earning its proportionate share of the income of the other corporation for purposes of determining if the non-U.S. foreign corporation is a PFIC.

Based upon the composition of its income, its assets and the nature of its business, the Company believes that it did not qualify as a PFIC for the tax year ended 31 December 2015, and believes that it will not be classified as a PFIC for its current taxable year or the foreseeable future. There can be no assurance, however, that the Company will not be considered to be a PFIC for any particular year because PFIC status is factual in nature, depends upon factors not wholly within the Company's control, generally cannot be determined until the close of the taxable year in question, and is determined annually.

If the Company were a PFIC in any taxable year, materially adverse U.S. federal income consequences could result for U.S. Holders. For example, the PFIC rules would effectively prevent a U.S. Holder from treating gain on the sale of Offer Shares as capital gain (if the Company is a PFIC for any taxable year during the U.S. Holder's holding period for the Offer Shares). In addition, the lower rates of taxation applicable to qualified dividend income derived by certain non-corporate U.S. Holders discussed above under "—*Taxation of Distributions*" do not apply to dividends paid with respect to shares in a PFIC. If the Company is classified as a PFIC in any year that a U.S. Holder is a shareholder, the Company generally will continue to be treated as a PFIC for that U.S. Holder in all succeeding years, even if the Company ceases to be a PFIC.

U.S. Holders should consult their tax advisers regarding the application of the PFIC rules to their investment in the Offer Shares.

Information Reporting and Backup Withholding

In general, payments of dividends and proceeds from the sale or other taxable disposition of Offer Shares that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and backup withholding, unless (i) the U.S. Holder is a corporation or other "exempt recipient" or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder may be credited against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

Foreign Financial Asset Reporting

U.S. taxpayers that own certain foreign financial assets, including shares of foreign entities, with an aggregate value in excess of certain thresholds at any time during the taxable year may be required to file an information report with respect to such assets with their tax returns. The Offer Shares are expected to constitute foreign financial assets subject to these requirements unless the Offer Shares are held in an account at certain financial institutions (in which case the account may be reportable if maintained by a foreign financial institution). U.S. Holders should consult their tax advisers regarding the application of the rules relating to foreign financial asset reporting.

THE OFFERING

Joint Global Coordinators

The Offering is being arranged by J.P. Morgan, Deutsche Bank and Nordea in their capacity as Joint Global Coordinators.

The Offering

The Offering consists of (i) a public offering to retail and institutional investors in Denmark, (ii) a private placement in the United States only to persons who are qualified institutional buyers or QIBs in reliance on Rule 144A or pursuant to another available exemption from, or a transaction not subject to, the registration requirements under the U.S. Securities Act and (iii) private placements to institutional investors in the rest of the world. The Offering outside the United States will be made in compliance with Regulation S.

The Selling Shareholders are offering in aggregate 35,600,000 Firm Shares, excluding any Shares subject to the Overallotment Option.

Skandinavisk Holding II has granted an Overallotment Option to the Managers, exercisable in whole or in part by the Stabilising Manager, to purchase up to 4,400,000 Option Shares at the Offer Price, from the first day of trading in, and official listing of, the Shares until the day 30 calendar days thereafter, solely to cover overallotments or other short positions, if any, incurred in connection with the Offering. See "*Plan of Distribution*". In relation to the Overallotment Option, the Selling Shareholders have entered into the Balancing Agreement pursuant to which, subject to certain conditions, Swedish Match Cigars Holding agrees to sell to Skandinavisk Holding II, and Skandinavisk Holding II agrees to purchase from Swedish Match Cigars Holding, at the Offer Price, such number of Shares that would result in the Selling Shareholders selling an equal number of Shares in the Offering. See "*—Share Lending Agreement and Balancing Agreement*" below.

Prior to the Offering, certain members of the Existing Board of Directors, the New Board of Directors, the Executive Management, the Key Employee and a limited number of other employees of STG have irrevocably undertaken to buy Offer Shares at the Offer Price up to a certain fixed investment amount for each eligible person. The number of Offer Shares that will be allocated to meet these orders will depend on the Offer Price.

The following table sets forth the total investment amount committed by each eligible person and the number of Offer Shares that will be allocated to each such person at the highest and lowest price of the Offer Price Range:

	Investment amount	Number of allocated Offer Shares at the lowest price of the Offer Price Range	Number of allocated Offer Shares at the highest price of the Offer Price Range
	(DKK)		
Existing and New Board of Directors			
Jørgen Tandrup	3,000,000	32,258	27,272
Conny Karlsson	1,000,000	10,752	9,090
Marlene Forsell	325,000	3,494	2,954
Anders C. Obel	1,000,000	10,752	9,090
Tommy Pedersen	2,000,000	21,505	18,181
Henning Kruse Petersen	3,000,000	32,258	27,272
Søren Bjerre-Nielsen	200,000	2,150	1,818
Dianne Neal Blixt	170,000	1,827	1,545
Hanne Malling	25,000	268	227
Hermod Hvid	200,000	2,150	1,818
Kurt Asmussen	50,000	537	454
Charlotte Nielsen	25,000	268	227
Executive Management			
Niels Frederiksen	2,500,000	26,881	22,727
Sisse Fjelsted Rasmussen	1,500,000	16,129	13,636
Vincent Crepy	225,000	2,419	2,045
Christian Hother Sørensen	2,000,000	21,505	18,181
Key employee			
Craig Reynolds	70,000	752	636
Other eligible persons			
11 employees of STG	4,254,000	45,737	38,667
Total	21,544,000	231,642	195,840

Each of the eligible persons has agreed with the Company that, for a period of 365 days from the first day of trading and official listing of the Shares, they will be subject to materially the same lock-up restrictions as the Selling Shareholders in respect of any Shares acquired in the Offering. See "*Plan of Distribution*".

Except as set forth above in connection with the reservation of Offer Shares, the Company has no knowledge of the Selling Shareholders, the members of the Board of Directors, the members of the Executive Management or the Key Employee intending to acquire Shares in the Offering, or whether any person intends to acquire more than 5 percent of the Offer Shares.

Offer Price

The Offer Price will be determined through a book-building process. Book-building is a process in which the Joint Global Coordinators, prior to the final pricing of the Offering, collect expressions of interest in the Offer Shares from potential institutional investors. The Offer Price is free of brokerage charges and is expected to be between DKK 93 and DKK 110 per Offer Share. This indicative Offer Price Range has been set by the Selling Shareholders, the Board of Directors and the Joint Global Coordinators taking into account STG's historic and projected revenues and earnings, STG's objective to establish an orderly after-market in the Offer Shares and prevailing market conditions. Following the book-building process, the Offer Price will be determined by the Selling Shareholders and the Board of Directors in consultation with the Joint Global Coordinators and the Offer Price is expected to be announced through Nasdaq Copenhagen no later than 8:00 a.m. (CET) on 10 February 2016.

It is currently expected that the Offer Price will be set within the Offer Price Range. If the Offer Price Range is amended, the Company will make an announcement through Nasdaq Copenhagen and publish a supplement to this Offering Circular. Following the publication of the relevant supplement, investors who have submitted orders to purchase Offer Shares in the Offering will have two trading days to withdraw their offer, in its entirety. See also "*—Investors' Withdrawal Rights*" below. If the Offer Price Range is amended, the announcement of the Offer Price will not be published until the period for exercising such withdrawal rights has ended.

Offer Period

The Offer Period will commence on 28 January 2016 and will close no later than 9 February 2016 at 4:00 p.m. (CET). The Offer Period may be closed prior to 9 February 2016; however, the Offer Period will not be closed in whole or in part before 6 February 2016 at 00:01 a.m. (CET). If the Offer Period is closed before 9 February 2016, the first day of trading in and official listing of the Shares on Nasdaq Copenhagen and the date of payment and settlement will be moved forward accordingly. The Offer Period in respect of applications for purchases of amounts up to, and including, DKK 3 million may be closed before the remainder of the Offering is closed at the discretion of the Joint Global Coordinators, if they deem the orders received sufficient to close the book-building process. Any such earlier closing, in whole or in part, will be announced through Nasdaq Copenhagen.

Submission of Bids

Applications to Purchase Amounts of up to and Including DKK 3 Million

Applications by Danish investors to purchase amounts of up to and including DKK 3 million should be made by submitting the application form enclosed in the English Language Offering Circular to the investor's own account holding bank during the Offer Period or such shorter period as may be announced through Nasdaq Copenhagen. Applications are binding and cannot be altered or cancelled. Applications may specify a maximum price per Offer Share in Danish kroner. If the Offer Price exceeds the maximum price per Offer Share specified in the application form, then no Offer Shares will be allocated to the investor. Where no maximum price per Offer Share has been indicated, applications will be deemed to be made at the Offer Price. All applications made at a price equivalent to the Offer Price, or a higher price, will be settled at the Offer Price following allotment, if any. Applications should be made for a number of Offer Shares or for an aggregate amount rounded to the nearest Danish krone amount. Only one application will be accepted from each account in VP Securities. For binding orders, the application form must be submitted to the investor's own account holding bank in complete and executed form in due time to allow the investor's own account holding bank to process and forward the application to ensure that it is in the possession of Nordea Bank Danmark A/S, no later than 4:00 p.m. (CET) on 9 February 2016, or such earlier time at which the Offering is closed.

Applications to Purchase Amounts of more than DKK 3 Million

Investors who wish to apply to purchase amounts of more than DKK 3 million can indicate their interest to one or more of the Managers during the Offer Period. During the Offer Period, such investors can continuously change or withdraw their declarations of interest, but these declarations of interest become binding applications at the end of the Offer Period. Immediately following the determination of the Offer Price, investors will be allocated a number of Offer Shares at the Offer Price within the limits of the investor's most recently submitted or adjusted declaration of interest. All applications made at a price equivalent to the Offer Price, or a higher price, will be settled at the Offer Price following allotment, if any.

Minimum and Maximum Purchase Amounts

The minimum purchase amount is one Offer Share. No maximum purchase amount applies to the Offering. However, the number of shares is limited to the number of Offer Shares in the Offering.

Allocation and Reduction

In the event that the total number of Shares applied for in the Offering exceeds the number of Offer Shares, reductions will be made as follows:

- With respect to applications for amounts of up to and including DKK 3 million, reductions will be made mathematically.
- With respect to applications for amounts of more than DKK 3 million, individual allocations will be made. The Joint Global Coordinators will allocate the Offer Shares after agreement upon such allocations with the Board of Directors and the Selling Shareholders.
- Prior to the Offering, certain members of the Existing Board of Directors, the New Board of Directors, the Executive Management, the Key Employee and a limited number of other employees of STG have irrevocably undertaken to buy Offer Shares at the Offer Price up to a certain fixed investment amount for each eligible person. The number of Offer Shares that will be allocated to meet these orders will depend on the Offer Price, see "—*The Offering*" above. Any Offer Shares

acquired in accordance with the said offer will be subject to a lock-up of 365 days from the completion of the Offering. See "*Plan of Distribution*".

It is expected that the result of the Offering, the Offer Price and the basis of the allocation will be announced through Nasdaq Copenhagen no later than 8:00 a.m. (CET) on 10 February 2016. If the Offer Period is closed before 9 February 2016, the announcement of the Offer Price and allocation will be brought forward accordingly.

Following the expiration of the Offer Period, investors will receive a statement indicating the number of Offer Shares allocated, if any, and the equivalent value at the Offer Price, unless otherwise agreed between the investor and the relevant account holding bank.

Orders and indications of interest may not result in an allocation of Offer Shares.

If the total applications in the Offering exceed the number of Offer Shares, a reduction will be made. In such event, the Joint Global Coordinators reserve the right to require documentation to verify that each application relates to a single account in VP Securities. Further, the Joint Global Coordinators reserve the right to require documentation to verify the authenticity of all orders, to demand the name of each purchaser, to pass on such information to the Company and the Selling Shareholders, and to make individual allocations if there are several orders that are determined to have originated from the same purchaser.

The Board of Directors passed a resolution on 28 January 2016 to launch the Offering and submit an application to Nasdaq Copenhagen for the Shares to be admitted to trading and official listing on Nasdaq Copenhagen.

Trading and Official Listing on Nasdaq Copenhagen

Application has been made for the Shares to be admitted to trading and official listing on Nasdaq Copenhagen. Subject to approval of Nasdaq Copenhagen, the first day of trading in, and official listing of, the Shares registered in the permanent ISIN on Nasdaq Copenhagen is expected to be on 10 February 2016. The admission to trading and official listing of the Shares is subject to, among other things, Nasdaq Copenhagen's approval of the distribution of the Offer Shares and the composition of the New Board of Directors. If the Offering is closed prior to 9 February 2016, the first day of trading in and official listing of the Shares on Nasdaq Copenhagen and the date of payment and settlement will be moved forward accordingly.

If the Offering is not completed, no Offer Shares will be delivered to investors. Consequently, any trades in the Shares effected on or off the market before the Offer Shares have been delivered to investors may subject investors to liability for not being able to deliver the Shares sold, and investors who have sold or acquired Shares on or off the market may incur a loss. Any such dealings will be at the sole risk of the parties involved.

ISIN/Identification

Permanent ISIN: DK0060696300

Nasdaq Copenhagen Symbol: "STG"

Share Lending Agreement and Balancing Agreement

Skandinavisk Holding II has pursuant to a share lending agreement agreed to make available to the Managers up to 4,400,000 Option Shares for purposes of delivery of the Option Shares to investors in connection with the Overallotment Option.

In relation to the Overallotment Option, the Selling Shareholders have entered into the Balancing Agreement pursuant to which Swedish Match Cigars Holding agrees to sell to Skandinavisk Holding II, and Skandinavisk Holding II agrees to purchase from Swedish Match Cigars Holding, at the Offer Price, such number of Shares that would result in the Selling Shareholders selling an equal number of Shares in the Offering. The number of Shares to be sold by Swedish Match Cigars Holding to Skandinavisk Holding II pursuant to the Balancing Agreement would be reduced to the extent that such sale would cause Skandinavisk Holding II to own and control one-third or more of the voting rights in the Company.

Registrations and Settlement

The Offer Shares will be registered in book-entry form electronically with VP Securities, Weidekampsgade 14, P.O. Box 4040, DK-2300 Copenhagen S, Denmark. All Shares are registered on accounts with account holding banks in VP Securities. Investors that are not residents of Denmark may use a Danish bank directly or their own bank's correspondent Danish bank as their account holding bank or arrange for registration and settlement through Clearstream, 42 Avenue JF Kennedy, L-1855 Luxembourg, Luxembourg, or Euroclear, 1, Boulevard du Roi Albert II, B-1210 Brussels, Belgium.

Settlement is expected to take place within two business days after the announcement of the Offer Price and allocation, and is expected to be on 12 February 2016. The account holding bank will normally send a statement to the name and address registered in VP Securities showing the number of Offer Shares purchased by the investor unless otherwise agreed between the investor and the relevant account holding bank. This statement also constitutes evidence of the investor's holding.

The Offer Shares are expected to be delivered in book entry form through the facilities of VP Securities, Euroclear and Clearstream on or around 12 February 2016 against payment in immediately available funds in Danish kroner. If pricing and allocation of the Offering takes place before 9 February 2016, the first date of trading in and official listing of the Shares on Nasdaq Copenhagen and the date of payment and settlement will be brought forward accordingly. All dealings in the Offer Shares prior to settlement will be for the account of and at the sole risk of the parties involved.

Withdrawal of the Offering

The completion of the Offering is conditional upon the Offering not being withdrawn. The Offering may be withdrawn by the Company, the Selling Shareholders or the Joint Global Coordinators at any time before pricing and allocation of the Offering has taken place. The Offering may also be withdrawn if Nasdaq Copenhagen is not satisfied that there will be a sufficiently broad distribution of the Shares to investors (such determination by Nasdaq Copenhagen is expected on or prior to the expected admission to trading and official listing of the Shares) or if, for other reasons, the Shares cannot be admitted to trading and official listing on Nasdaq Copenhagen.

The Underwriting Agreement (as defined herein) contains a provision entitling the Joint Global Coordinators to terminate the Offering (and the arrangements associated with it) at any time prior to the delivery and payment of the Offer Shares in certain circumstances, including force majeure and material changes in the financial condition of STG's business. After the admission to trading and official listing on Nasdaq Copenhagen, withdrawal of the trading and official listing can only take place in certain exceptional circumstances, including force majeure.

The Underwriting Agreement contains closing conditions between the date of the publication of this Offering Circular and the completion of the Offering that the Company believes are customary for offerings such as the Offering. In addition, the Company and the Selling Shareholders have given usual representations and warranties to the Joint Global Coordinators. The completion of the Offering is dependent on compliance with all of the closing conditions set forth in the Underwriting Agreement. If one or more closing conditions are not met, the Joint Global Coordinators may, at their discretion, withdraw the Offering. If the Offering is withdrawn, the Offering and any associated arrangements will lapse, all submitted orders will be automatically cancelled, any monies received in respect of the Offering will be returned to the investors without interest (less any transaction costs) and admission to trading and official listing of the Shares on Nasdaq Copenhagen will be cancelled. All dealings in the Offer Shares prior to settlement are for the account of, and at the sole risk of, the parties concerned.

If the Offering is withdrawn, it will be announced immediately through Nasdaq Copenhagen.

Investor's Withdrawal Rights

In the event that the Company is required to publish a supplement to this Offering Circular, between the date of publication of this Offering Circular and the first day of trading of the Offer Shares, investors who have submitted orders to purchase Offer Shares in the Offering will have two business days following the publication of the relevant supplement within which the investors can withdraw their offer to purchase Offer Shares in the Offering in its entirety. The right to withdraw an application to purchase Offer Shares in the Offering in these circumstances will be available to all investors in the Offering provided the obligation to publish a supplement to this Offering Circular was triggered before the completion of the Offering and provided no Offer Shares have been delivered. If the order is not withdrawn within the stipulated period, any order to purchase Offer Shares in the Offering will remain valid and binding.

Costs of the Offering

Expenses in relation to the Offering, including commissions and fees (fixed and discretionary) to be paid to the Managers, are payable by the Selling Shareholders.

Further, the Selling Shareholders have agreed to pay a selling commission to account-holding banks (unless such account-holding bank is a Manager) equivalent to 0.25 percent of the price of the Offer Shares that are allocated in respect of purchase orders of up to and including DKK 3 million submitted through the account holding banks (except for the Managers).

In addition, certain expenses in relation to the admission to trading and official listing of the Shares on Nasdaq Copenhagen are payable by the Company. The expenses payable by the Company in connection with the Offering are expected to amount to between DKK 44 million and DKK 58 million based on the Offer Price Range relating primarily to the Extraordinary Bonus Programme and the Existing LTIP. Of these estimated expenses, DKK 24.5 million was accrued on STG's consolidated balance sheet as at 30 September 2015.

None of the Company, the Selling Shareholders or the Managers will charge expenses to investors. Investors will have to bear customary transaction and handling fees charged by their account-keeping financial institution.

Selling Agents for the Danish Offering

Nordea Markets (division of Nordea Bank Danmark A/S)
Strandgade 3, PO Box 850
DK-0900 Copenhagen C
Denmark

A request for copies of the English Language Offering Circular and the Danish Offering Circular may be submitted by persons who satisfy the requirements of the applicable selling restrictions from:

Nordea Markets (division of Nordea Bank Danmark A/S)
Strandgade 3, PO Box 850
DK-0900 Copenhagen C
Denmark

In addition, the English Language Offering Circular and the Danish Offering Circular are available, subject to certain restrictions, on the Company's website at www.st-group.com.

The distribution of this Offering Circular and the offer or sale of the Offer Shares in certain jurisdictions is restricted by law. Persons possessing this Offering Circular are required by the Company, the Selling Shareholders and the Managers to inform themselves about and to observe any restrictions. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any of the Offer Shares in any jurisdiction to any person to whom it would be unlawful to make such an offer in such jurisdiction.

Interests of Natural and Legal Persons Involved in the Offering

See "*Plan of Distribution*" for a description of certain interests of the Managers in the Offering. The Company is not aware of any other potential interest of natural or legal persons involved in the Offering who may have a material interest in the Offering.

Governing Law

The Shares are issued in accordance with Danish law.

THE DANISH SECURITIES MARKET

Set forth below is a summary of certain information concerning the Danish securities market, including information on certain provisions of Danish law and Danish securities market regulations in effect on the date of the Offering Circular. Such summary is qualified in its entirety by reference to the applicable Danish law and securities market regulations.

Nasdaq Copenhagen

Nasdaq Copenhagen is a company incorporated and organised under the laws of Denmark. Trading on Nasdaq Copenhagen is conducted by authorised firms, which include major Danish banks and other securities brokers, as well as certain mortgage credit institutions and the Danish Central Bank.

The trading system for equities trading in Denmark on Nasdaq Copenhagen operates between 9:00 a.m. and 4:55 p.m. (CET) weekdays. After the end of the continuous trading there is a pre-closing call between 4:55 p.m. to 5:00 p.m. (CET). An after trade "post trade" session exists from 5:00 p.m. to 5:20 p.m. (CET). Before the continuous trading begins, there is a second after trade "pre-open" session from 8:00 a.m. to 8:45 a.m. (CET) and a morning call session from 8:45 a.m. to 9:00 a.m. (CET) for the purpose of establishing fair opening prices. After the opening prices have been presented, the continuous trading begins.

Registration Process

In connection with an initial public offering, a company's shares are registered in book-entry form on accounts maintained in the computer system of VP Securities, which acts as an electronic central record of ownership and as the clearing centre for all transactions in Denmark. The address of VP Securities is Weidekampsgade 14, P.O. Box 4040, DK-2300 Copenhagen S, Denmark.

Danish financial institutions, such as banks, are authorised to keep accounts for each specific investor with VP Securities, including for Euroclear and Clearstream. All Danish shares listed on Nasdaq Copenhagen are dematerialised, "non-certificated" and registered at VP Securities. The account is maintained through an account holding bank.

The account holding bank has the exclusive right to make transactions and registrations on these accounts on behalf of its customers.

Shares may be registered in the name of the holder through the account holding bank.

Nominees

An account with VP Securities may be kept on behalf of one or more owners, meaning that a shareholder may appoint a nominee.

A nominee shareholder is entitled to receive dividends and to exercise all subscription and other financial and administrative rights attached to the shares held in its name with VP Securities. The relationship between the nominee shareholder and the beneficial owner is regulated solely by an agreement between the parties, and the beneficial owner must disclose its identity, if any of the aforementioned rights are to be exercised directly by the beneficial owner.

The right to appoint a nominee does not eliminate a shareholder's obligation to notify us and the Danish FSA of a major shareholding. See "*—Disclosure of Major Shareholdings*" below.

Settlement Process

Settlement in connection with trading on Nasdaq Copenhagen normally takes place on the second business day after effecting a sale or purchase transaction. On behalf of VP Securities, the account holding bank sends a statement to the name and address recorded in VP Securities, showing the amount of shares held in that name, which provides the holder with evidence of its rights. Settlement can also take place through the clearing facilities of Euroclear and Clearstream.

Disclosure of Major Shareholdings

Holders of shares in Danish companies with shares admitted to trading and official listing on Nasdaq Copenhagen are, pursuant to the Danish Securities Trading Act Section 29, required to give simultaneous notice to the company and the Danish FSA of the shareholdings in the company immediately, when the shareholding reaches, exceeds or falls below thresholds at intervals of 5, 10, 15, 20, 25, 50 or 90 percent and limits of ⅓ or ⅔ of the voting rights or nominal value of the total share capital.

Holders of shares in a company mean a natural or legal person who, directly or indirectly, holds (i) shares in the company on behalf of himself and for his own account, (ii) shares in the company on behalf of himself, but for the account of another natural or legal person, or (iii) share certificates, where such holder is considered a shareholder in relation to the underlying securities represented by the certificate.

The duty to notify set forth above further applies to natural and legal persons who are entitled to acquire, sell or exercise voting rights which are:

(i) held by a third party with whom that natural or legal person has concluded an agreement, which obliges them to adopt, by concerted exercise of the voting rights they hold, a lasting common policy towards the management of the issuer in question (common duty to inform for all parties to the agreement);

(ii) held by a third party under an agreement concluded with that natural or legal person providing for the temporary transfer of the voting rights in question in return for consideration;

(iii) attached to shares which are lodged as collateral for that natural or legal person, provided the person controls the voting rights and declares an intention of exercising them;

(iv) attached to shares in which that natural or legal person has a lifelong right of disposal;

(v) held, or may be exercised within the meaning of (i) to (iv), by an undertaking controlled by that person or entity;

(vi) attached to shares deposited with that natural or legal person and which the person can exercise at his own discretion in the absence of specific instructions from the shareholders;

(vii) held by a third party in its own name on behalf of that person; or

(viii) exercisable by that person through a proxy where that person may exercise the voting rights at his discretion in the absence of specific instructions of the shareholder.

The duty to notify set forth above also applies to anyone, who directly or indirectly holds (a) financial instruments that afford the holder a right to purchase existing shares (*e.g.*, share options); and/or (b) financial instruments based on existing shares and with an economic effect equal to that of the financial instruments mentioned in (a), regardless of them not affording the right to purchase existing shares (*e.g.*, cash-settled derivatives linked to the value of the shares in question). Holding these kinds of financial instruments counts towards the thresholds mentioned above and may thus trigger a duty to notify by themselves or when accumulated with a shareholding.

The notification must be made immediately and within the same trading day (before midnight) of the transaction and in accordance with the provisions of the Executive Order no. 1256 of 4 November 2015 and must disclose the number of voting rights and shares held directly or indirectly following the transaction. The notification must further state the transaction date on which the threshold was reached or no longer reached and the identity of the shareholder as well as the identity of any natural or legal person with the right to vote on behalf of the shareholder and, in the case of a group structure, the chain of controlled undertakings through which voting rights are effectively held. The information must be notified to the company and simultaneously submitted electronically to the Danish FSA. Failure to comply with the notification requirements is punishable by fine.

When an obligation to notify rests on more than one natural or legal person, the notification may be made through a joint notification. However, use of a joint notification does not exempt the individual shareholders or natural or legal persons from their responsibilities in connection with the obligation to notify or the contents of the notification.

After receipt of the notification, the company must publish the contents of the notification. Furthermore, the general duty of notification under the Danish Companies Act Section 55 in respect of notification of significant holdings applies, namely when the limit of 100 percent of the share capital's voting rights or nominal value of the company are reached or are no longer reached. Section 58 of the Danish Companies Act provides that a company must publish information related to major shareholdings received pursuant to Section 55 of the Danish Companies Act in an electronic public register of shareholders, which is kept by the Danish Business Authority.

Short-selling

The Short Selling Regulation (236/2012/EU) includes certain notification requirements in connection with short selling and imposes restrictions on uncovered short selling of shares admitted to trading on a trading venue (including Nasdaq Copenhagen).

When a natural or legal person reaches or falls below a net short position of 0.2 percent of the issued share capital of a company that has shares admitted to trading on a trading venue, such person must notify the relevant competent authority, which in Denmark is the Danish FSA. The obligation to notify, moreover, applies in each case where the short position reaches 0.1 percent above the 0.2 percent threshold. In addition, when a natural or legal person reaches or falls below a net short position of 0.5 percent of the issued share capital of a company that has shares admitted to trading on a trading venue and each 0.1 percent above that, such person must make a public announcement of its net short position.

A natural or legal person is prohibited from entering into a short sale of a share admitted to trading on a trading venue unless one of the following conditions is satisfied: (i) the natural or legal person has borrowed the share or has made alternative provisions resulting in a similar legal effect, (ii) the natural or legal person has entered into an agreement to borrow the share or has another absolutely enforceable claim under contract or property law to be transferred ownership of a corresponding number of securities of the same class so that settlement can be effected when it is due or (iii) the natural or legal person has an arrangement with a third party under which that third party has confirmed that the share has been located and has taken measures vis-à-vis third parties necessary for the natural or legal person to have reasonable expectation that settlement can be effected when it is due. Certain exemptions apply to the prohibition, such as in the case of market-makers or in relation to the carrying out of a stabilisation permitted under the Safe Harbour Regulation (2273/2003/EC).

Mandatory Tender Offers

The Danish Securities Trading Act (Part 8) and the Executive Order no. 562 of 2 June 2014 include rules concerning public offers for the acquisition of shares admitted to trading on a regulated market (including Nasdaq Copenhagen).

If a shareholding is transferred, directly or indirectly, in a company with one or more share classes admitted to trading on a regulated market or an alternative market place, to an acquirer or to persons acting in concert with such acquirer, the acquirer must give all shareholders of the company the option to dispose of their shares on identical terms, if the acquirer gains a controlling interest as a result of the transfer.

A controlling interest exists if the acquirer, directly or indirectly, holds more than one third of the voting rights in the company, unless it can be clearly proven in special cases that such ownership does not constitute a controlling interest. An acquirer who does not hold more than one third of the voting rights in a company nevertheless has a controlling interest when the acquirer has:

(i) the right to control more than one third of the voting rights in the company according to an agreement with other investors;

(ii) the right to control the financial and operational affairs of the company according to the articles of association or agreement; or

(iii) the right to appoint or dismiss a majority of the members of the supervisory body and this body has controlling influence over the company.

Warrants, call options and other potential voting rights, which may currently be exercised or converted, must be taken into account in the assessment of whether the acquirer holds a controlling interest. Voting rights attached to treasury shares must be included in the calculation of voting rights.

Exemptions from the mandatory tender offer rules may be granted under special circumstances by the Danish FSA.

Mandatory Redemption of Shares

Where a shareholder holds more than 90 percent of the shares in a company and a corresponding proportion of the voting rights, such shareholder, pursuant to Section 70 of the Danish Companies Act, may deem that the other shareholders have their shares redeemed by that shareholder. In that case, the other shareholders must be requested, under the rules governing notices for a general meeting, to transfer their shares to the redeeming shareholder no later than four weeks after the request to transfer their shares. In addition, the other shareholders will be requested, through the Danish Business Authority's IT system, to transfer their shares within the same four-week period. If the redemption price cannot be agreed upon, the redemption price will be determined by an independent expert appointed by the court in the jurisdiction of the company's registered office in accordance with the provisions of the Danish Companies Act. Specific requirements apply to the contents of the notice to the other shareholders regarding any such redemption. However, the redemption price will be deemed fair under any circumstances, provided that (i) the redemption takes place in continuation of a voluntary tender offer by which the bidder obtained at least 90 percent of the voting rights, or (ii) the redemption takes place after a mandatory tender offer. To the extent there are any minority shareholders who have not transferred their shares to the acquiring shareholder before the expiry of the four-week period, the redeeming shareholder must, as soon as possible thereafter, deposit the amount required for redemption to the benefit of the other shareholders. Upon such deposit, the other shareholders will have been redeemed. The other shareholders must be notified through the Danish Business Authority's IT system that the right to require determination of the redemption price by the independent expert expires at the end of a period, which cannot be less than three months pursuant to Section 72 of the Danish Companies Act.

Furthermore, where a shareholder holds more than 90 percent of the shares in a company and a corresponding proportion of the voting rights, the other shareholders may require such shareholder to acquire their shares pursuant to Section 73 of the Danish Companies Act. If the redemption price cannot be agreed upon, the redemption price must be determined by an independent expert appointed by the court in the jurisdiction of the company's registered office in accordance with the provisions of the Danish Companies Act. Expenses relating to the determination of the redemption price must be paid by the shareholder requesting such determination. If the valuation is higher than that offered by the redeeming shareholder, the court may order the redeeming shareholder to pay the expenses relating to determination of the redemption price in full or in part.

Disclosure Requirements for Companies Admitted to Trading and Official Listing on Nasdaq Copenhagen

Under the Danish Securities Trading Act, the Danish Executive Order no. 1258 of 9 November 2015 on Issuer's Duty to Provide Information and the issuer rules of Nasdaq Copenhagen, as a company admitted to trading and official listing on Nasdaq Copenhagen, the Company will be obliged to inform the public and the Danish FSA as soon as possible of inside information, as defined in the Danish Securities Trading Act Section 34(2), if such information directly relates to its business. Inside information must be disclosed as soon as possible upon the coming into existence of the relevant circumstances or the occurrence of the relevant event. The Company is also obliged to disclose any significant changes concerning already publicly disclosed inside information.

In addition, the Company must ensure that all market participants simultaneously have access to any material information about the Company pursuant to the Danish Securities Trading Act and the rules of Nasdaq Copenhagen, if such information is assumed to affect the pricing of its securities. The Company is also required to ensure that no unauthorised person gains access to such inside information prior to its publication to the market. Inside information includes, for example, (i) changes to the Board of Directors, Executive Management and auditors, (ii) decisions to introduce share-based incentive schemes, (iii) substantial changes in business activities, (iv) material acquisitions and divestments, (v) significant deviations in the Company's financial results or position, (vi) proposed changes in the Company's capital structure, (vii) interim reports and accounts and (viii) annual reports and accounts.

PLAN OF DISTRIBUTION

The Company, the Selling Shareholders and the Managers named below have entered into an underwriting agreement, dated 28 January 2016 (the "**Underwriting Agreement**"), with respect to the Offer Shares. Subject to certain conditions set forth in the Underwriting Agreement, the Selling Shareholders severally but not jointly will agree to sell to the purchasers procured by the Managers or, failing which, to the Managers themselves, and each of the Managers named below, severally but not jointly will agree to procure purchasers for, or failing such procurement, to purchase from the Selling Shareholders, the percentage of the total number of Offer Shares listed opposite such Manager's name below.

	Percentage of Offer Shares
	(percent)
Managers	
J.P. Morgan Securities Ltd	41.6250
Deutsche Bank AG, London Branch	25.4375
Nordea Markets (division of Nordea Bank Danmark A/S)	25.4375
Carnegie Investment Bank, filial af Carnegie Investment Bank AB (publ), Sverige	7.5000
Total	100.0000

The Underwriting Agreement provides that the obligations of the Managers to procure purchasers for, or failing which, to purchase themselves, the Offer Shares are subject to: (i) entry into the pricing agreement between the Company, the Selling Shareholders and the Managers, which will contain the Offer Price and the exact number of Offer Shares, (ii) receipt of opinions on certain legal matters from counsel and (iii) certain other conditions. The Company and the Selling Shareholders have agreed to indemnify the Managers against certain losses and liabilities arising out of or in connection with the Offering, including liabilities under the U.S. Securities Act. The Managers are not required to take or pay for any Option Shares pursuant to the Overallotment Option described below.

The Underwriting Agreement provides that, upon the occurrence of certain events, such as the general suspension of all trading on Nasdaq Copenhagen, a material adverse change in the Company's business, results of operations or financial condition or in the financial markets and under certain other conditions, the Managers may elect to terminate their several commitments and have the right to withdraw from the Offering before delivery of the Offer Shares. If the Managers elect to terminate their several commitments, the Offering may be cancelled and, if it is cancelled, no Offer Shares will be delivered. All dealings in the Offer Shares prior to delivery and settlement are for the account of, and at the sole risk of the parties concerned.

Pursuant to the Underwriting Agreement, Skandinavisk Holding II has granted an Overallotment Option to the Managers, exercisable in whole or in part by the Stabilising Manager, to purchase up to 4,400,000 Option Shares at the Offer Price, from the first day of trading in, and official listing of, the Shares until the day 30 calendar days thereafter, solely to cover overallotments or other short positions, if any, incurred in connection with the Offering. If any Option Shares are agreed to be purchased under the Overallotment Option, each Manager named above will be obligated, subject to certain conditions contained in the Underwriting Agreement, to purchase a number of additional Option Shares proportionate to that Manager's initial percentage of Offer Shares reflected in the table above, and Skandinavisk Holding II will be obligated to sell up to the number of Option Shares over which it has granted the Overallotment Option. In relation to the Overallotment Option, the Selling Shareholders have entered into the Balancing Agreement pursuant to which, subject to certain conditions, Swedish Match Cigars Holding agrees to sell to Skandinavisk Holding II, and Skandinavisk Holding II agrees to purchase from Swedish Match Cigars Holding, at the Offer Price, such number of Shares that would result in the Selling Shareholders selling an equal number of Shares in the Offering. See "*The Offering—Share Lending Agreement and Balancing Agreement*".

Purchasers of the Offer Shares may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the Offer Price.

Application has been made to admit the Shares to trading and official listing on Nasdaq Copenhagen and trading in the Shares in the permanent ISIN is expected to commence on 10 February 2016 provided that the announcement of the Offer Price and allocation has been published through Nasdaq Copenhagen no later than 8:00 a.m. CET on 10 February 2016. The admission to trading in, and official listing of the

Shares is subject to, among other things, Nasdaq Copenhagen's approval of the distribution of the Offer Shares and the composition of the New Board of Directors. The Managers expect to deliver the Offer Shares to investors' accounts on or around 12 February 2016. The Offer Shares will be accepted for delivery through the facilities of VP Securities, Euroclear and Clearstream, against payment in immediately available funds. All dealings in the Offer Shares prior to settlement will be for the account of and at the sole risk of the parties involved.

In connection with the Offering, the Managers and any affiliates acting as investors for their own account may take up the Shares and in that capacity may retain, purchase or sell the Shares, for their own account and may offer or sell such securities otherwise than in connection with the Offering, in each case, in accordance with applicable law. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In connection with the Offering, any resale of the Offer Shares (a) inside the United States will be made solely to QIBs in reliance on Rule 144A or pursuant to another available exemption from , or a transaction not subject to, the registration requirements of the U.S. Securities Act, and (b) outside the United States in offshore transactions in compliance with Regulation S. Any offer or sale of Offer Shares in reliance on Rule 144A or pursuant to another available exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act will be made by affiliates of the Managers who are broker-dealers registered as such under the U.S. Exchange Act. Terms used in this paragraph have the meanings given to them in Regulation S and Rule 144A under the U.S. Securities Act.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the U.S. Securities Act.

No action has been or will be taken in any jurisdiction other than Denmark that would permit a public offering of the Offer Shares, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Company or the Offer Shares, in any jurisdiction where action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Offer Shares may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

Prior to the Offering, certain members of the Existing Board of Directors, the New Board of Directors, the Executive Management, the Key Employee and a limited number of other employees of STG have irrevocably undertaken to buy Offer Shares at the Offer Price up to a certain fixed investment amount for each eligible person. The number of Offer Shares that will be allocated to meet these orders will depend on the Offer Price, see "*The Offering—The Offering*".

The Selling Shareholders have agreed with the Managers that they will not, except as set forth below, for a period of 180 days from the first day of trading and official listing of the Shares, without the prior written consent of the Joint Global Coordinators, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, cause the Company to issue, or otherwise transfer or dispose of (or publicly announce such action), directly or indirectly, any of the Shares, or any securities convertible into or exercisable or exchangeable for the Shares, (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares, whether any such transactions described in clause (i) or (ii) above are to be settled by delivery of the Shares or such other securities, in cash or otherwise or (iii) submit to the shareholders a proposal to effect any of the foregoing.

The foregoing will not apply to (i) the sale of the Offer Shares in the Offering; (ii) the lending of Shares under the share lending agreement (see "*The Offering—Share Lending Agreement and Balancing Agreement*"); (iii) the sale of any Shares pursuant to the Balancing Agreement (see "*The Offering—Share Lending Agreement and Balancing Agreement*"); or (iv) the transfer of Shares to the direct or indirect existing shareholders of the Selling Shareholders in connection with or arising out of any dividend or other distribution, or any liquidation, dissolution, reorganisation or other similar event affecting the Selling Shareholders or any of their affiliates; provided, however that if any such distribution or other event takes place during the 180 day lock-up period of the Selling Shareholders the restrictions set forth above shall apply to such shareholders of the Selling Shareholders receiving the Shares as part of any such distribution or other event.

In addition, the members of the Board of Directors, Executive Management, the Key Employee and a limited number of other employees have agreed with the Company that, for a period of 365 days from the first day of trading and official listing of the Shares, they will be subject to materially the same restrictions as the Selling Shareholders set forth above in respect of any Shares acquired in the Offering. In addition to the exceptions set out above, the lock-up obligations agreed by the members of the Board of Directors, Executive Management, the Key Employee and other eligible persons, will not apply to (i) the transfer of any or all of the Shares to a spouse, child or any legal entity over which a member of the Board of Directors, Executive Management, the Key Employee or other eligible persons alone or together with any other related party has or have a controlling influence, (ii) the receipt of restricted stock units or shares in any share-based incentive programmes, (iii) the transfer of any or all of the Shares as a result of death, permanent disability or an interruption in employment for a continuous period of not less than 16 weeks due to disability or illness or (iv) the pledge any Shares to or in favour of a financial institution for such amount as was borrowed from such financial institution to finance the purchase of Shares, subject to certain restrictions; provided, however, with respect to (i), that the transferring party will use all reasonable endeavours to procure the transferee to execute a deed of adherence with respect to the Shares containing the same lock-up terms.

In connection with the Offering, the Stabilising Manager, or its agents, on behalf of the Managers, may engage in transactions that stabilise, maintain or otherwise affect the price of the Shares for up to 30 days from the first day of trading in and official listing of the Shares on Nasdaq Copenhagen (*i.e.*, from 10 February 2016 to and including 10 March 2016). Specifically, the Managers, the Selling Shareholders and the Company have agreed that the Stabilising Manager on behalf of the Managers may over-allot Offer Shares by accepting offers to purchase a greater number of Offer Shares than for which they are obligated to procure purchasers under the Underwriting Agreement, creating a short position. A short sale is covered if the short position is no greater than the number of Option Shares available for purchase by the Stabilising Manager on behalf of the Managers under the Overallotment Option.

The Managers can close out a covered short sale by exercising the Overallotment Option or purchasing Shares in the open market. In determining the source of Shares to close out a covered short sale, the Managers will consider, among other things, the open market price of Shares compared to the price available under the Overallotment Option. As an additional means of facilitating the Offering, the Stabilising Manager or its agents may effect transactions to stabilise the price of the Shares. These activities may support the market price of the Offer Shares at a level higher than that which might otherwise prevail. Such transactions may be effected on Nasdaq Copenhagen, in the over-the-counter markets or otherwise. The Stabilising Manager and its agents are not required to engage in any of these activities and, as such, there is no assurance that these activities will be undertaken; if undertaken, the Stabilising Manager or its agents may end any of these activities at any time and they must be brought to an end at the end of the 30-day period mentioned above. Save as required by law or regulation, the Stabilising Manager does not intend to disclose the extent of any Stabilisation transactions under the Offering.

Prior to the Offering, the Shares have never been listed and there is currently no public market for the Shares. The Offer Price will be determined by the Selling Shareholders and the Board of Directors following consultation with the Joint Global Coordinators, on the basis of a number of factors, including the following:

- the orders, in terms of price and quantity, received from potential institutional and retail investors;
- prevailing market conditions;
- the Company's historical, operational and financial performance;
- estimates of the Company's business potential and earning prospects; and
- the market valuation of publicly traded common stock of comparable companies.

The Offer Price is expected to be announced no later than 10 February 2016. The indicative Price Range set forth on the cover page of this Offering Circular is subject to change as a result of market conditions and other factors. See also "*The Offering—Offer Price*". There can be no assurance that an active trading market will develop for the Shares or that the Shares will trade in the public market after the Offering at or above the Offer Price. See also "*Risk Factors—Risks Relating to the Offering*".

Some of the Managers and their respective affiliates have from time to time engaged in, and may in the future engage in, commercial banking, investment banking and financial advisory transactions and services in the ordinary course of their business with the Company or the Selling Shareholders or any of their respective related parties. With respect to certain of these transactions and services, the sharing of information is generally restricted for reasons of confidentiality, internal procedures or applicable rules and regulations. The Managers have received and will receive fees and commissions for these transactions and services and may come to have interests that may not be aligned or could potentially conflict with interests of prospective investors and the Company. See "*The Offering*". In addition, the Managers and their respective affiliates may, from time to time, in the ordinary course of their asset management and investment banking activities, hold or otherwise control minority interests in Swedish Match or Swedish Match Cigars Holding, one of the Selling Shareholders. In addition, Nordea Bank Danmark A/S is among the lenders under the Facilities Agreement. For additional information on STG's Facilities Agreement, see "*Operating and Financial Review—Liquidity and Capital Resources—Financial Indebtedness—Facilities Agreement*".

SELLING RESTRICTIONS

United States

The Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States for offer or sale as part of their distribution and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the U.S. Securities Act.

The Managers (a) through their respective selling agents, propose to resell the Offer Shares in the United States only to QIBs in reliance on Rule 144A under the U.S. Securities Act; and (b) propose to resell the Offer Shares outside the United States in offshore transactions in compliance with Regulation S under the U.S. Securities Act and in accordance with applicable law. Any offer or sale of Offer Shares in reliance on Rule 144A will be made by broker dealers who are registered as such under the U.S. Exchange Act. Terms used above have the meanings given to them by Regulation S and Rule 144A under the U.S. Securities Act.

European Economic Area

In relation to each Relevant Member State of the EEA that has implemented the Prospectus Directive, other than the offer contemplated in Denmark as described in this Offering Circular, the Offer Shares have not been, and will not be offered to the public in any Relevant Member State, except that the Offer Shares may be offered to the public in that Relevant Member State:

(i) to any qualified investor as defined in the Prospectus Directive;

(ii) by the Managers to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators for any such offer;

(iii) to investors who acquire securities for a total consideration of at least EUR 100,000 per investor, for each separate offer;

(iv) if the denomination per unit amounts to at least EUR 100,000; or

(v) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Offer Shares shall result in a requirement for the publication by the Company, any of the Selling Shareholders or any of the Managers of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive as supplemented by Commission Delegated Regulation (EC) no. 382/2014 of 7 March 2014.

For the purposes of this section, the expression an "offer of the Offer Shares to the public" in relation to any of the Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Offer Shares to be offered so as to enable an investor to decide to purchase the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

United Kingdom

Each Manager proposes to only and will only make offers of the Offer Shares pursuant to the Offering to persons in the United Kingdom who are "qualified investors" or otherwise in circumstances which do not require publication by the Company of a prospectus pursuant to section 85(1) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

Any investment or investment activity to which this Offering Circular relates is available only to, and will be engaged in only with, Relevant Persons. Persons who are not Relevant Persons should not take any action on the basis of this Offering Circular and should not act or rely on it.

Canada

The Offer Shares are not deposit liabilities of the Company and are not insured by the Canada Deposit Insurance Corporation, the U.S. Federal Deposit Insurance Corporation or any other governmental agency of Canada, the United States or any other jurisdiction. The Company is not regulated as a financial institution in Canada.

The Offer Shares are not being offered and may not be sold to any purchaser in a province or territory of Canada other than the provinces of Alberta, British Columbia, Ontario and Quebec.

The Offer Shares may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Offer Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts ("**NI 33-105**"), the Managers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with the Offering.

General

No action has been or will be taken in any country or jurisdiction other than Denmark that would, or is intended to, permit a public offering of the Offer Shares, or the possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required.

Persons into whose hands this Offering Circular comes are required by the Company, the Selling Shareholders and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Offer Shares or have in their possession or distribute such offering material, in all cases at their own expense. None of the Company, the Selling Shareholders and the Managers accepts any legal responsibility for any violation by any person, whether or not a prospective purchaser of any of the Offer Shares, of any such restrictions.

TRANSFER RESTRICTIONS

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act and may not be offered or sold within the United States except pursuant to an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws.

Each purchaser of the Offer Shares within the United States purchasing pursuant to Rule 144A under the U.S. Securities Act or another exemption from the registration requirements of the U.S. Securities Act will be deemed to have represented and agreed that it has received a copy of this Offering Circular and such other information as it deems necessary to make an informed investment decision and that:

(i) the purchaser is authorised to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations;

(ii) the purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;

(iii) the purchaser (a) is a QIB, (b) is aware that the sale to it is being made in reliance on Rule 144A or pursuant to another exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act, and (c) is acquiring such Offer Shares for its own account or for the account of a QIB;

(iv) the purchaser is aware that the Offer Shares are being offered in the United States in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act;

(v) if, in the future, the purchaser decides to offer, resell, pledge or otherwise transfer such Offer Shares, or any economic interest therein, such Offer Shares or any economic interest therein, may be offered, sold, pledged or otherwise transferred only (a) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (b) in accordance with Regulation S, or (c) in accordance with Rule 144 under the U.S. Securities Act (if available), in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction;

(vi) the Offer Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act and no representation is made as to the availability of the exemption provided by Rule 144 for resale of any Offer Shares;

(vii) the purchaser will not deposit or cause to be deposited such Offer Shares into any depositary receipt facility established or maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility, so long as such Offer Shares are "restricted securities" within the meaning of Rule144(a)(3);

(viii) the Company will not recognise any offer, sale pledge or other transfer of the Offer Shares made other than in compliance with the above stated restrictions;

(ix) if it is acquiring any of the Offer Shares as a fiduciary or agent for one or more accounts, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of such account; and

(x) the purchaser acknowledges that the Company, the Managers and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Each purchaser of the Offer Shares in compliance with Regulation S will be deemed to have represented and agreed that it has received a copy of this Offering Circular and such other information as it deems necessary to make an informed investment decision and that:

(i) the purchaser is authorised to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations;

(ii) the purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act, or with any securities regulatory authority of any state of the United States, and are subject to significant restrictions on transfer;

(iii) the purchaser and the person, if any, for whose account or benefit the purchaser is acquiring the Offer Shares was, located outside the United States at the time the buy order for the Offer Shares was originated and continues to be located outside the United States and has not purchased the Offer Shares for the account or benefit of any person in the United States or entered into any arrangement for the transfer of the Offer Shares or any economic interest therein to any person in the United States;

(iv) the purchaser is not an affiliate of ours or a person acting on behalf of such affiliate;

(v) the Offer Shares have not been offered to it by means of any "directed selling efforts" as defined in Regulation S;

(vi) the purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act, or with any securities regulatory authority of any state of the United States, and, subject to certain exceptions, may not be offered or sold within the United States;

(vii) if it is acquiring any of the Offer Shares as a fiduciary or agent for one or more accounts, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and

(viii) the purchaser acknowledges that the Company, the Managers and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements;

(ix) the purchaser is aware of the restrictions on the offer and sale of the Offer Shares pursuant to Regulation S described in this Offering Circular; and

(x) the Company will not recognise any offer, sale, pledge or other transfer of the Offer Shares made other than in compliance with the above stated restrictions.

Each person in a Relevant Member State, other than persons receiving offers contemplated in the English Language Offering Circular in Denmark, who receives any communication in respect of, or who acquires any Offer Shares under, the offers contemplated hereby will be deemed to have represented, warranted and agreed to and with each of the Managers, the Selling Shareholders and the Company that:

(i) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(ii) in the case of any Offer Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (a) the Offer Shares acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in other circumstances falling within Article 3(2) of the Prospectus Directive and the prior consent of the Joint Global Coordinators has been given to the offer or resale; or (b) where Offer Shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Offer Shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this provision, the expression an "offer" in relation to any of the Offer Shares in any Relevant Member States means the communication in any form and by any means of sufficient information on the terms of the offer and any Offer Shares to be offered so as to enable an investor to decide to purchase the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for the Company by White & Case LLP, United States and English legal counsel to the Company, and by Kromann Reumert, Danish legal counsel to the Company, and for the Managers by Latham & Watkins (London) LLP, United States and English legal counsel to the Managers, and by Plesner, Danish legal counsel to the Managers.

STATE AUTHORISED PUBLIC ACCOUNTANTS

The consolidated financial statements of STG included in this Offering Circular as at and for the years ended 31 December 2014, 2013 and 2012 included in this Offering Circular have been prepared in accordance with IFRS as adopted by the European Union and additional Danish disclosure requirements and have been audited by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab as stated in their report appearing therein. The consolidated interim financial statements of STG as at and for the nine months ended 30 September 2015 and 2014 have been prepared in accordance with IAS 34 as adopted by the European Union and, with respect to the unaudited consolidated interim financial statements as at and for the nine months ended 30 September 2015, have been reviewed by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab as stated in their report appearing therein. PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab is a member of FSR – Danish Auditors (Dk. *FSR—danske revisorer*).

The name and address of STG's independent auditors are as follows:

PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup
Denmark

PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab is represented by Torben Jensen, State Authorised Public Accountant, and Thomas Wraae Holm, State Authorised Public Accountant, both members of FSR – Danish Auditors. Kim Füchsel was replaced by Torben Jensen at the beginning of 2014 due to Danish regulatory rotation requirements.

The independent auditors' report included in the Company's published annual report as at and for the year ended 31 December 2014 was signed by Torben Jensen, State Authorised Public Accountant, and Thomas Wraae Holm, State Authorised Public Accountant, both members of FSR – Danish Auditors. The independent auditors' reports included in the Company's published annual reports as at and for the years ended 31 December 2013 and 2012 were signed by Kim Füchsel, State Authorised Public Accountant, and Thomas Wraae Holm, State Authorised Public Accountant, both members of FSR – Danish Auditors.

ADDITIONAL INFORMATION

Name, Registered Office and Date of Incorporation

Scandinavian Tobacco Group A/S
Sydmarken 42
DK-2860 Søborg
Denmark
Telephone: +45 39 55 62 00
Website: www.st-group.com

The Company was incorporated as a public limited company under the laws of Denmark on 28 November 2007.

Information on the Company's website does not form a part of, and is not incorporated by reference into, this Offering Circular.

The Company also carries on business under the secondary name of Skandinavisk Tobakskompagni A/S.

Registered Office

The Company's registered office is located in the municipality of Gladsaxe at Sydmarken 42, DK-2860 Søborg, Denmark.

Registration

The Company is registered with the Danish Business Authority under CVR no. 31 08 01 85.

Objectives of the Company

Pursuant to article 2.1 of the Articles of Association, the Company's objectives are to carry on business at home and abroad, directly or through its subsidiaries, by manufacturing, distribution and marketing, and to undertake, perform and carry on all such other things incidental to the attainment of such objects.

Material Subsidiaries

The following table sets forth the Company's material subsidiaries as at the date of this Offering Circular:

	Country of incorporation	Currency	Nominal share capital	Direct or indirect ownership interest and voting rights
				(percent)
Scandinavian Tobacco Group Australia PTY Ltd	Australia	Australian dollars	5,000,000.00	100
Scandinavian Tobacco Group Belux N.V.	Belgium	EUR	2,441,654.00	100
Scandinavian Tobacco Group Lummen N.V.	Belgium	EUR	6,448,964.29	100
Scandinavian Tobacco Group Canada Inc.(1)	Canada	n/a	n/a	100
Scandinavian Tobacco Group Assens A/S	Denmark	DKK	100,000,000.00	100
Scandinavian Tobacco Group Denmark A/S	Denmark	DKK	3,000,000.00	100
Scandinavian Tobacco Group Nykøbing ApS	Denmark	DKK	100,000,000.00	100
Scandinavian Tobacco Group Deutschland GmbH	Germany	EUR	520,000.00	100
General Cigar Dominicana, S.A.S.(2)	Dominican Republic	Dominican pesos	897,260,500.00	100
Scandinavian Tobacco Group Eersel B.V.	The Netherlands	EUR	2,079,700.00	100
Scandinavian Tobacco Group Nederland B.V.	The Netherlands	EUR	45,400.00	100
Scandinavian Tobacco Group United Kingdom Limited	United Kingdom	British pounds sterling	79.00	100
BPA Sales, LP(3)	United States	n/a	n/a	100
General Cigar Co., Inc.(4)	United States	n/a	n/a	100
M&D Wholesale Distributors, Inc.(5)	United States	n/a	n/a	100
Scandinavian Tobacco Group Lane Ltd.(6)	United States	n/a	n/a	100

(1) As at 30 September 2015, Scandinavian Tobacco Group Canada Inc. was authorised to issue an unlimited number of shares, with no par value.

(2) As at 30 September 2015, General Cigar Dominicana, S.A.S. had an authorised share capital of 2,900,000,000.00 Dominican pesos.

(3) As at 30 September 2015, the partners of BPA Sales, LP had made capital contributions to BPA Sales, LP in an amount equal to USD 397,000,200.00.

(4) As at 30 September 2015, General Cigar Co., Inc. had 1,000 shares, with no par value, issued and outstanding.

(5) As at 30 September 2015, M&D Wholesale Distributors, Inc. had 1,000 shares, with a par value of USD 0.01 per share, issued and outstanding.

(6) As at 30 September 2015, Scandinavian Tobacco Group Lane Ltd. had 200 shares, with no par value, issued and outstanding.

The Company has selected the material subsidiaries on the basis of a commercial materiality assessment, primarily focusing on (i) where revenue is generated, (ii) number of employees and (iii) risks associated with each of its subsidiaries. The material subsidiaries set out above account for approximately 93 percent of the Group's net sales and comprise the Group's material production units.

General Meetings

The General Meeting is the ultimate authority in all matters relating to the Company, subject to the limitations in Danish law and the Articles of Association. See "*Description of the Shares and Share Capital—General Meetings and Voting Rights*".

Information Incorporated by Reference

The additional information explicitly listed in the table below has been incorporated by reference into this Offering Circular pursuant to article 28 of the Prospectus Regulation as also set out in section 19 of the Danish Executive Order on Prospectuses. Direct and indirect references in the reports to other documents or websites are not incorporated by reference and do not form part of this Offering Circular. The reports speak only as at the date of their respective publications and have not been updated for purposes of this Offering Circular. Potential investors should assume that the information in this Offering Circular as well as the information incorporated by reference herein is accurate as at the date on the front cover of those documents only. The Company's business, financial condition, cash flows and results of operations may have changed since those dates.

Potential investors are encouraged to read the information incorporated by reference in conjunction with the cautionary statements in "*Special Notice Regarding Forward-looking Statements*" and in conjunction with the "*Risk Factors*" in this Offering Circular.

The additional information incorporated by reference into this Offering Circular is exclusively set out in the cross reference table below, and is available for inspection at the Company's address, Sydmarken 42, DK-2860 Søborg, Denmark, and on the Company's website.

	Reference	Page(s)
Parent Company financial statements	Annual Report 2014	108–118

Principal Bankers

The Company's principal bankers are Nordea Bank Danmark A/S and Danske Bank A/S.

Share Issuing Agent

The Company's share issuing agent is:

Nordea Bank Danmark A/S
Issuer Services
Strandgade 3
PO Box 850
DK-0900 Copenhagen C
Denmark

GLOSSARY

"6-2-4 Project"	STG's project to integrate its machine-made cigar production footprint following the establishment of STG in 2010.
"Addressed markets"	The cigar, pipe tobacco and fine-cut tobacco sub-segments in geographic markets in which STG has its own sales organisation, namely Australia, Belgium, Canada, Germany, Denmark, Spain, France, Croatia, Italy, Luxembourg, the Netherlands, New Zealand, Poland, Portugal, Slovenia, the United Kingdom and the United States. The market size and other information regarding STG's addressed markets presented in this Offering Circular excludes Croatia, the Faroe Islands (Denmark), Greenland (Denmark) and Luxembourg as sales volumes in these locations are insignificant.
"AICPA"	The American Institute of Certified Public Accountants.
"Articles of Association"	The articles of association of the Company.
"Audit Committee"	The audit committee of STG.
"Audited Consolidated Financial Statements"	STG's audited consolidated financial statements as at and for the years ended 31 December 2014, 2013 and 2012, included in the F-pages to this Offering Circular.
"Balancing Agreement"	The agreement between the Selling Shareholders in relation to the Overallotment Option pursuant to which, subject to certain conditions, Swedish Match Cigars Holding agrees to sell to Skandinavisk Holding II, and Skandinavisk Holding II agrees to purchase from Swedish Match Cigars Holding, at the Offer Price, such number of Shares that would result in the Selling Shareholders selling an equal number of Shares in the Offering.
"Board of Directors"	The board of directors of the Company at any given time.
"CAGR"	Compound annual growth rate. CAGR represents the average year-over-year growth rate, expressed as a percentage, over the specified period of time.
"Caribbean Cigar"	Caribbean Cigar Holdings Group, S.A.
"Caribbean Cigar Shareholders' Agreement"	The joint venture agreement regarding the rights and obligations of San Cristobal and Intermatch as holders of shares in Caribbean Cigar.
"Carnegie"	Carnegie Investment Bank, filial af Carnegie Investment Bank AB (publ), Sverige.
"Chairman"	The chairman of the Board of Directors.

"Cigars International"	The group of STG companies that comprises STG's direct marketing – primarily online and catalogue – of handmade cigars as well as other tobacco products and tobacco-related accessories in the United States. General Cigar and Cigars International together comprise STG's handmade cigars segment.
"Clearstream"	Clearstream Banking, S.A.
"Code"	The U.S. Internal Revenue Code of 1986, as amended.
"Co-Lead Manager"	Carnegie.
"Company"	Scandinavian Tobacco Group A/S.
"Consolidated Financial Statements"	The Unaudited Consolidated Interim Financial Statements and the Audited Consolidated Financial Statements.
"Corporate Governance Recommendations"	The recommendations on Corporate Governance of the Danish Committee on Corporate Governance, issued on 6 May 2013, as updated in November 2014.
"CRM"	Customer relationship management.
"Cubatabaco"	Empresa Cubana del Tabaco.
"Danish Companies Act"	The Danish Consolidated Act no. 1089 of 14 September 2015 on limited liability companies.
"Danish Executive Order on Prospectuses"	Executive Order no. 1257 of 6 November 2015 on prospectuses for securities admitted to trading in a regulated market and for offering to the public of securities of at least EUR 5,000,000.
"Danish FSA"	The Danish Financial Supervisory Authority.
"Danish krone", "Danish kroner" or "DKK"	The Danish krone, the lawful currency of the Kingdom of Denmark.
"Danish Offering"	The initial public offering of Offer Shares to retail and institutional investors in Denmark.
"Danish Offering Circular"	The offering circular in Danish to be made available in connection with the Danish Offering.
"Danish Securities Trading Act"	The Danish Consolidated Act no. 1530 of 2 December 2015 on Securities Trading, as amended.
"Dark markets"	Markets with display restrictions, where consumers are required to ask for the product by name.
"Deeming Regulations"	A proposed rule that would extend the tobacco regulatory power of the FDA to cover tobacco products not currently regulated by the FDA under the Tobacco Control Act.
"Deutsche Bank"	Deutsche Bank AG, London Branch.
"EEA"	The European Economic Area.
"EHS"	Environment, health and safety.
"English Language Offering Circular"	The prospectus in English approved by the Danish FSA for the purposes of the Danish Offering.

"ERP"	Enterprise resource planning.
"EU"	The European Union.
"euro" or "EUR"	The euro, the lawful currency of the participating member states in the Third Stage of the European and Monetary Union of the Treaty Establishing the European Community.
"Euroclear"	Euroclear Bank S.A./N.A.
"Executive Management"	The executive management team of STG.
"Existing Board of Directors"	The Board of Directors as at the date of this Offering Circular.
"Existing Danish Tax Group"	The Company, its Danish subsidiaries and all Danish companies controlled by The Augustinus Foundation.
"Existing LTIP"	The stock option programme pursuant to which the members of the Executive Management have been granted options to purchase Shares.
"Existing LTIP Options"	The options issued under the Existing LTIP.
"Existing Shareholders' Agreement"	The existing shareholders' agreement, entered into among the Selling Shareholders.
"Existing STIP"	The Company's bonus scheme for management board and executive staff in the Company valid for 2015.
"Extraordinary Bonus Programme"	The extraordinary bonus programme, pursuant to which the Key Employee and certain other employees will be entitled to receive a one-time cash bonus in an amount equal to 100 percent of his/her then current annual fixed salary (excluding any bonuses) if the Shares are subject to a transaction in which more than 10 percent of the total Shares of the Company are transferred, either through an initial public offering, a merger, acquisition or similar transaction or a transaction between the Selling Shareholders.
"Facilities Agreement"	The facilities agreement among the Company, Nordea Bank Danmark A/S and Danske Bank A/S dated 3 September 2015.
"FCTC"	The WHO's Framework Convention on Tobacco Control.
"FDA"	The U.S. Food and Drug Administration.
"Final Maturity Date"	The final maturity date of the committed credit facility under the Facilities Agreement, 30 September 2020.
"Firm Shares"	The 35,600,000 existing Shares to be offered by the Selling Shareholders in the Offering.
"Fixed Compensation"	The fixed compensation, by way of which Swedish Match will indemnify the Company for the Group's lost sales and profits in the event of a final resolution or injunction, the effect of which is to prevent the Group from producing and selling cigars in connection with the word "COHIBA" in the United States or parts thereof.

"General Cigar"	The group of STG companies that comprises STG's production of handmade cigars and distribution of handmade cigars in the United States. General Cigar and Cigars International together comprise STG's handmade cigars segment.
"General Meeting"	The general meeting of shareholders of the Company.
"Group Shares"	Shares in a company, in which the shareholder of the company and the issuing company are subject to Danish joint taxation or fulfil the requirements for international joint taxation under Danish law.
"IFRS"	International Financial Reporting Standards as adopted by the EU.
"Imperial"	Imperial Tobacco Group.
"Intermatch"	Intermatch Sweden AB.
"International Offering"	The private placement of Offer Shares in the United States only to persons who are QIBs in reliance on Rule 144A or pursuant to another available exemption from, or a transaction not subject to, the registration requirements under the U.S. Securities Act and private placements of Offer Shares to institutional investors outside of Denmark and the United States.
"International Offering Circular"	The offering circular in English for use in the international private placement of Offer Shares outside of Denmark and the United States.
"IRI"	Information Resources (UK) Ltd.
"IRS"	The U.S. Internal Revenue Service.
"J.P. Morgan"	J.P. Morgan Securities Ltd.
"Joint Global Coordinators"	J.P. Morgan, Deutsche Bank and Nordea.
"Key Employee"	Craig Reynolds.
"KPI Multiplier"	A predetermined key performance indicator multiplier between 0.0 and 2.0 based on the Company's cumulative revenue, profit performances and/or other criteria.
"Lane"	Lane Limited.
"Logista"	Grupo Logista.
"Managers"	The Joint Global Coordinators and the Co-Lead Manager.
"NI 33-105"	National Instrument 33-105 Underwriting Conflicts.
"Nasdaq Copenhagen"	Nasdaq Copenhagen A/S.
"Nasdaq Stockholm"	NASDAQ Stockholm AB.
"New Board of Directors"	The Board of Directors expected to be elected at an extraordinary General Meeting held on or about 10 February 2016.
"New LTIP"	The new long-term incentive programme planned to be established shortly after the completion of the Offering.

"New STIP"	The short-term incentive programme that the Company revised in connection with the introduction of the New LTIP.
"Nomination Committee"	The nomination committee of STG.
"Nordea"	Nordea Markets (division of Nordea Bank Danmark A/S).
"OFAC"	The U.S. Treasury Department's Office of Foreign Assets Control.
"Offer Period"	The offer period will commence on 28 January 2016 and will close no later than 9 February 2016 at 4:00 p.m. (CET).
"Offer Price"	The price at which the Offer Shares will be sold, expected to be between DKK 93 and DKK 110 per Offer Share.
"Offer Price Range"	DKK 93 – DKK 110 per Offer Share.
"Offer Shares"	The Firm Shares and the Option Shares.
"Offering"	The initial public offering of the Offer Shares by the Selling Shareholders.
"Offering Circular"	The English Language Offering Circular, the Danish Offering Circular, the International Offering Circular and the U.S. Offering Circular.
"Option Shares"	The up to 4,400,000 additional shares that the Managers may purchase from Skandinavisk Holding II pursuant to the Overallotment Option.
"Overallotment Option"	The option granted by Skandinavisk Holding II to the Managers, exercisable in whole or in part by the Stabilising Manager, to purchase up to 4,400,000 Option Shares at the Offer Price. In relation to the Overallotment Option, the Selling Shareholders have entered into the Balancing Agreement pursuant to which, subject to certain conditions, Swedish Match Cigars Holding agrees to sell to Skandinavisk Holding II, and Skandinavisk Holding II agrees to purchase from Swedish Match Cigars Holding, at the Offer Price, such number of Shares that would result in the Selling Shareholders selling an equal number of Shares pursuant to the Overallotment Option, if partially or fully exercised. References in this Offering Circular to the "Overallotment Option" include any sale of Shares pursuant to the Balancing Agreement.
"PFIC"	A passive foreign investment company under U.S. federal income tax laws.
"Principal product markets"	The cigar, pipe tobacco and fine-cut tobacco sub-segments of the tobacco industry.
"Profit Sharing Programme"	The profit sharing programme, under which the employees of the Group's Danish entities, including the members of the Executive Management, may be eligible to receive additional compensation if certain EBITDA targets are met.

"Prospectus Directive"	Directive 2003/71/EC and amendments thereto, including the Amending Directive 2010/73/EU (together with any applicable implementing measures in any member state).
"Prospectus Regulation"	European Commission Regulation (EC) no. 809/2004 of 29 April 2004, as amended.
"PSU"	A performance share unit.
"Qualified institutional buyers" or "QIBs"	Qualified institutional buyers as defined in Rule 144A.
"Regulation S"	Regulation S under the U.S. Securities Act.
"Relevant Member State"	Any member state of the EEA other than Denmark.
"Relevant Persons"	Persons who are investment professionals falling within Article 19(5) or fall within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc."), of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or other persons to whom such investment or investment activity may lawfully be made available.
"Remuneration Committee"	The remuneration committee of the Board of Directors.
"Revolving Facility"	A revolving facility in the amount of EUR 155 million, included in the Facilities Agreement.
"Rule 144A"	Rule 144A under the U.S. Securities Act.
"San Cristobal"	San Cristobal Holdings, S.A.
"Selling Shareholders"	Skandinavisk Holding II and Swedish Match Cigars Holding.
"Shares"	The outstanding shares in the Company at any given time.
"Skandinavisk Holding II"	Skandinavisk Holding II A/S.
"Stabilising Manager"	Nordea.
"STG" or "Group"	The Company and its consolidated subsidiaries, unless the context requires otherwise.
"STG Eersel"	Scandinavian Tobacco Group Eersel BV.
"Subsidiary Shares"	Shares owned by a shareholder holding at least 10 percent of the nominal share capital of the issuing company.
"Swedish Match"	Swedish Match AB.
"Swedish Match Cigars Holding"	Swedish Match Cigars Holding AB.
"Taxable Portfolio Shares"	Shares that do not qualify as Subsidiary Shares, Group Shares or Tax-Exempt Portfolio Shares for Danish income tax purposes.
"Tax-Exempt Portfolio Shares"	Shares not admitted to trading on a regulated market owned by a shareholder holding less than 10 percent of the nominal share capital of the issuing company.

"Term Loan Facilities"	Term loan facilities in the amounts of EUR 225 million and USD 150 million, included in the Facilities Agreement.
"Tobacco Control Act"	The U.S. Family Smoking Prevention and Tobacco Control Act, as amended.
"Tobacco Products Excise Directive"	EU directive 2011/64/EU of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco products.
"TPD"	The EU Tobacco Products Directive (2014/40/EU).
"Transition Share Plan"	The one-time transition share plan the principles of which the Board of Directors approved in connection with the introduction of the New LTIP.
"Treaty"	The income tax treaty between Denmark and the United States.
"TTAB"	The U.S. Trademark Trial and Appeal Board.
"TTB"	The U.S. Tobacco Tax and Trade Bureau.
"U.S. dollar", "U.S. dollars" or "USD"	The United States dollar, the lawful currency of the United States of America.
"U.S. Exchange Act"	The U.S. Securities Exchange Act of 1934, as amended.
"U.S. Holder"	A person that, for U.S. federal income tax purposes, is a beneficial owner of Offer Shares, is eligible for the benefits of the Treaty and is an individual who is a citizen or resident of the United States, a corporation, or other entity taxable as a corporation, created or organised in or under the laws of the United States, any state therein or the District of Columbia or an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.
"U.S. Offering Circular"	The offering circular in English to be made available in connection with the International Offering in the United States.
"U.S. Securities Act"	The U.S. Securities Act of 1933, as amended.
"Unaudited Consolidated Interim Financial Statements"	STG's unaudited consolidated interim financial statements as at and for the nine months ended 30 September 2015, including unaudited consolidated comparative interim financial information for the nine months ended 30 September 2014, included in the F-pages to this Offering Circular.
"Underwriting Agreement"	The underwriting agreement among the Company, the Selling Shareholders and the Managers, dated 28 January 2016, with respect to the Offer Shares.
"Verellen"	Verellen N.V.
"Vice-chairman"	The vice-chairman of the Board of Directors.
"VP Securities"	VP SECURITIES A/S.
"WHO"	The World Health Organization.

CONSOLIDATED FINANCIAL INFORMATION

Reviewed condensed consolidated financial statements of Scandinavian Tobacco Group A/S as at and for the nine month period ended 30 September 2015 prepared in accordance with IFRS as adopted by the European Union:

Audited consolidated financial statements of Scandinavian Tobacco Group A/S as at and for the years ended 31 December 2014, 2013 and 2012 prepared in accordance with IFRS as adopted by the European Union:

MANAGEMENT STATEMENT

Statement by the Executive Management and Board of Directors on the interim condensed consolidated financial statements of Scandinavian Tobacco Group A/S for the period 1 January to 30 September 2015

The Executive Management and Board of Directors have today considered and adopted the interim report of Scandinavian Tobacco Group A/S for the period 1 January to 30 September 2015.

The interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union. In our opinion, the accounting policies applied are appropriate, and the interim consolidated financial statements give a true and fair view of the financial position at 30 September 2015 and of the result of the Group's operations and cash flows for the period 1 January to 30 September 2015 in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union.

Søborg, 28 January 2016

Executive Management

Niels Frederiksen	Christian Hother Sørensen	
Vincent Crepy	Rob Zwarts	Sisse Fjelsted Rasmussen

Board of Directors

Jørgen Tandrup
Chairman

Anders C. Obel	Charlotte Nielsen	Conny Karlsson
Fredrik Lagercrantz	Hanne Malling	Henning Kruse Petersen
Hermod Hvid	Kurt Asmussen	Lars Dahlgren
Marlene Forsell	Tommy Pedersen	

Independent Auditor's review report on the interim condensed consolidated financial statements of Scandinavian Tobacco Group A/S for the nine months ended 30 September 2015 included on F-pages F-4 to F-10

To the Readers of this Offering Circular

We have reviewed the interim condensed consolidated financial statements of Scandinavian Tobacco Group A/S for the period 1 January–30 September 2015 comprising condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed statement of changes in equity and condensed consolidated cash flow statement as well as selected explanatory notes as presented on F-pages F-4 to F-10.

Management's Responsibility for the Interim Condensed Consolidated Financial Statements

Management is responsible for the preparation of interim condensed consolidated financial statements in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU, and for such internal control as Management determines is necessary to enable the preparation of interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim condensed consolidated Financial Statements based on our review. We conducted our review in accordance with the International Standard on Review of Interim Financial Information Performed by the Independent Auditor of the Company and additional requirements under Danish audit regulation. This requires us to conclude whether anything has come to our attention that causes us to believe that the interim condensed consolidated Financial Statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This also requires us to comply with ethical requirements.

A review of interim condensed consolidated financial statements in accordance with the International Standard on Review of Interim Financial Information Performed by the Independent Auditor of the Company is a limited assurance engagement. The auditor performs procedures, primarily consisting of making inquiries of management and others within the Company, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly we do not express an audit opinion on the interim condensed consolidated Financial Statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared in all material respects in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU.

Other Matter

We have not audited or reviewed the comparative figures for the period 1 January–30 September 2014 and accordingly, we do not express an opinion or conclusion on these comparative figures.

Copenhagen, 28 January 2016

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Torben Jensen State Authorised Public Accountant	Thomas Wraae Holm State Authorised Public Accountant

Condensed Consolidated Income Statement 1 January–30 September

DKK million	Note	2015	2014
Net sales	2	4,965.4	4,495.8
Cost of goods sold	2	(2,548.4)	(2,349.4)
Gross profit	**2**	**2,417.0**	**2,146.4**
Other external costs		(799.7)	(744.7)
Staff costs		(679.8)	(535.1)
Other income		1.3	0.7
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**938.8**	**867.3**
Depreciation		(90.5)	(74.4)
Earnings before interest, tax and amortisation (EBITA)		**848.3**	**792.9**
Amortisation		(137.5)	(122.8)
Earnings before interest and tax (EBIT)		**710.8**	**670.1**
Share of profit of associated companies, net of tax		7.0	3.6
Financial income		15.5	17.0
Financial costs		(75.5)	(70.8)
Profit before tax		**657.8**	**619.9**
Income taxes		(164.4)	(158.3)
Net profit for the period		**493.4**	**461.6**
Earnings per share			
Earnings per share (DKK)		4.9	4.6
Diluted earnings per share (DKK)		4.9	4.6
Other comprehensive income			
Items that will not be recycled subsequently to the Consolidated Income Statement:			
Actuarial gains and losses on pension obligations		18.1	(62.1)
Tax of actuarial gains and losses on pension obligations		(6.3)	19.6
Items that will be recycled subsequently to the Consolidated Income Statement, when specific conditions are met:			
Cash flow hedges, deferred gains/(losses) incurred during the period		22.2	(25.1)
Tax of hedging instruments		(6.1)	5.8
Foreign exchange rate adjustments		407.4	416.3
Other comprehensive income for the period, net of tax		**435.3**	**354.5**
Total comprehensive income for the period		**928.7**	**816.1**

Condensed Consolidated Balance Sheet

Assets

DKK million	**30 SEP 2015**	**31 DEC 2014**
Total intangible assets	8,080.2	7,890.1
Total property, plant and equipment	1,286.8	1,202.9
Total other non-current assets	273.2	282.6
Total non-current assets	**9,640.2**	**9,375.6**
Inventories	3,093.2	3,099.2
Receivables	1,206.0	1,106.1
Cash and cash equivalents	291.2	581.0
Total current assets	**4,590.4**	**4,786.3**
Total assets	**14,230.6**	**14,161.9**

Equity and liabilities

DKK million	**Note**	**30 SEP 2015**	**31 DEC 2014**
Total equity		**8,688.7**	**9,087.0**
Bank loans	4	3,311.4	2,307.5
Other non-current liabilities		1,053.4	1,013.6
Total non-current liabilities		**4,364.8**	**3,321.1**
Bank loans	4	0.0	650.8
Credit facilities		8.2	0.0
Other liabilities		1,168.9	1,103.0
Total current liabilities		**1,177.1**	**1,753.8**
Total liabilities		**5,541.9**	**5,074.9**
Total equity and liabilities		**14,230.6**	**14,161.9**

Condensed Consolidated Cash Flow Statement 1 January–30 September

DKK million	**2015**	**2014**
Net profit for the period	493.4	461.6
Adjustments	475.8	405.7
Changes in working capital	100.7	49.7
Cash flow from operating activities before financial items	**1,069.9**	**917.0**
Financial income received	15.5	17.0
Financial costs paid	(75.5)	(70.8)
Cash flow from operating activities before tax	**1,009.9**	**863.2**
Tax payments	(113.2)	(125.3)
Cash flow from operating activities	**896.7**	**737.9**
Acquisitions	0.0	(309.9)
Acquisition of intangible assets	(18.3)	(14.4)
Acquisition of property, plant and equipment	(153.2)	(137.7)
Proceeds from sale of property, plant and equipment	1.5	0.0
Dividend from associated companies	4.2	3.1
Cash flow from investing activities	**(165.8)**	**(458.9)**
New funding from financial institutions	3,311.4	353.5
Instalment and repayment bank loans	(3,013.3)	(235.0)
Dividend payment	(1,327.0)	(382.0)
Cash flow from financing activities	**(1,028.9)**	**(263.5)**
Net cash flow for the period	**(298.0)**	**15.5**
Cash and cash equivalents, net at 1 January	581.0	464.3
Net cash flow for the period	(298.0)	15.5
Cash and cash equivalents, net at 30 September	**283.0**	**479.8**
Which in the balance sheet is specified as:		
Cash and cash equivalents	291.2	479.8
Credit facilities	8.2	0
	283.0	479.8

Condensed Statement of Changes in Group Equity

1 January–30 September 2015

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Retained earnings	Total
Equity at 1 January 2015	**100.0**	**(67.6)**	**485.0**	**8,569.6**	**9,087.0**
Comprehensive income for the period					
Net profit for the period	**0.0**	**0.0**	**0.0**	**493.4**	**493.4**
Other comprehensive income					
Cash flow hedges		22.2			**22.2**
Tax of cash flow hedges		(6.1)			**(6.1)**
Foreign exchange adjustments			407.4		**407.4**
Actuarial gains and losses on pension obligations				18.1	**18.1**
Tax of actuarial gains and losses on pension obligations				(6.3)	**(6.3)**
Total other comprehensive income	**0.0**	**16.1**	**407.4**	**11.8**	**435.3**
Total comprehensive income for the period	**0.0**	**16.1**	**407.4**	**505.2**	**928.7**
Transactions with shareholders					
Dividend paid				(1,327.0)	**(1,327.0)**
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**(1,327.0)**	**(1,327.0)**
Equity at 30 September 2015	**100.0**	**(51.5)**	**892.4**	**7,747.8**	**8,688.7**

1 January–30 September 2014

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Retained earnings	Total
Equity at 1 January 2014	**100.0**	**(63.1)**	**(58.4)**	**8,354.3**	**8,332.8**
Comprehensive income for the period					
Net profit for the period	**0.0**	**0.0**	**0.0**	**461.6**	**461.6**
Other comprehensive income					
Cash flow hedges		(25.1)			**(25.1)**
Tax of cash flow hedges		5.8			**5.8**
Foreign exchange adjustments			416.3		**416.3**
Actuarial gains and losses on pension obligations				(62.1)	**(62.1)**
Tax of actuarial gains and losses on pension obligations				19.6	**19.6**
Total other comprehensive income	**0.0**	**(19.3)**	**416.3**	**(42.5)**	**354.5**
Total comprehensive income for the period	**0.0**	**(19.3)**	**416.3**	**419.1**	**816.1**
Transactions with shareholders					
Dividend paid				(382.0)	**(382.0)**
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**(382.0)**	**(382.0)**
Equity at 30 September 2014	**100.0**	**(82.4)**	**357.9**	**8,391.4**	**8,766.9**

NOTES

NOTE 1

BASIS OF PREPARATION

The interim report comprises the condensed consolidated financial statements of Scandinavian Tobacco Group A/S. The interim report is presented in accordance with the International Accounting Standards IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and as adopted by the EU and Danish disclosure requirements.

Significant accounting estimates

The estimates made by Management in the determination of the carrying amounts of assets and liabilities are based on assumptions that are subject to future events. For a description of risks and accounting estimates, see F-pages F21-22, F33, F35-F36, F39, F42-F43 and F46-F51 of the 2012–2014 Annual Report.

Accounting policies

The accounting policies applied in the interim report are unchanged from those applied in the 2014 Annual Report as presented in the F-pages. For further information see F-pages F21-F59 of the 2012–2014 Annual Report.

NOTE 2

SEGMENT INFORMATION

1 January–30 September 2015

DKK million	Handmade cigars	Machine made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allocated	Total
Net sales	1,438.7	1,991.5	459.4	439.0	636.8	0.0	4,965.4
Cost of goods sold	(812.1)	(973.7)	(172.4)	(173.7)	(416.5)	0.0	(2,548.4)
Gross profit	**626.6**	**1,017.8**	**287.0**	**265.3**	**220.3**	**0.0**	**2,417.0**
Other external costs						(799.7)	(799.7)
Staff costs						(679.8)	(679.8)
Other income						1.3	1.3
EBITDA						**(1,478.2)**	**938.8**
Depreciation						(90.5)	(90.5)
Amortisation						(137.5)	(137.5)
EBIT						**(1,706.2)**	**710.8**
Share of profit of associated companies, net of tax						7.0	7.0
Financial income						15.5	15.5
Financial costs						(75.5)	(75.5)
Profit before tax						**(1,759.2)**	**657.8**

NOTE 2 (Continued)

1 January–30 September 2014

DKK million	Handmade cigars	Machine made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allocated	Total
Net sales	1,106.6	1,885.2	429.6	407.3	667.1	0.0	4,495.8
Cost of goods sold	(624.2)	(936.2)	(172.4)	(186.4)	(430.2)	0.0	(2,349.4)
Gross profit	**482.4**	**949.0**	**257.2**	**220.9**	**236.9**	**0.0**	**2,146.4**
Other external costs						(744.7)	(744.7)
Staff costs						(535.1)	(535.1)
Other income						0.7	0.7
EBITDA						**(1,279.1)**	**867.3**
Depreciation						(74.4)	(74.4)
Amortisation						(122.8)	(122.8)
EBIT						**(1,476.3)**	**670.1**
Share of profit of associated companies, net of tax						3.6	3.6
Financial income						17.0	17.0
Financial costs						(70.8)	(70.8)
Profit before tax						**(1,526.5)**	**619.9**

NOTE 3

RESTRUCTURINGS ETC.

Restructurings expenses etc. impacted EBITDA by DKK 111.8 million (2014: DKK 12.7 million) mainly arising from the reduction in workforce in the machine-made cigars segment, that the Group announced in September 2015 as part of its ongoing efficiency process to optimise its supply chain, as well as various other reductions in workforce and restructurings and provisions for obsolete stock due to regulatory changes.

NOTE 4

FINANCIAL INSTITUTIONS

DKK million	30 SEP 2015	31 DEC 2014
Financial institutions are recognised in the balance sheet as follows:		
Non-current liabilities	3,311.4	2,307.5
Current liabilities	0.0	650.8
Total	**3,311.4**	**2,958.3**

NOTE 4 (Continued)

The Group has the following external loans as at 30 September 2015

Currency	Term/ revolving credit facility	Fixed/ floating	Maturity date	Carrying amount 30 SEP 2015	Carrying amount 31 DEC 2014	Fair value* 30 SEP 2015	Fair value* 31 DEC 2014
EUR	Term	Floating	Early repaid	0.0	576.9	0.0	576.9
EUR	Term	Floating	Early repaid	0.0	576.9	0.0	576.9
EUR	Term	Floating	Early repaid	0.0	576.9	0.0	576.9
EUR	Term	Floating	Early repaid	0.0	576.9	0.0	576.9
EUR	Term	Floating	Early repaid	0.0	148.8	0.0	148.8
USD	Term	Floating	Early repaid	0.0	501.9	0.0	501.9
EUR	Term	Floating	30/09/2020	1,678.5	0.0	1,678.5	0.0
EUR	RCF	Floating	30/09/2020	634.1	0.0	634.1	0.0
USD	Term	Floating	30/09/2020	998.8	0.0	998.8	0.0
				3,311.4	**2,958.3**	**3,311.4**	**2,958.3**

* 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.

End of September 2015 the Group refinanced its debt with a new DKK 3.8 billion 5 year committed club deal financing agreement with its banks. The club deal agreement consists of Term Loan facilities and Revolving Credit facilities and the agreement replaced the majority of the Group's existing loan and credit facilities. End of September 2015 DKK 0.5 billion of the Revolving credit facility is not drawn.

The fair value of financial instruments included in the balance sheet as per 30 September 2015 amount to DKK 67.4 million. The financial instruments mainly relate to interest rate swaps. 100% (2014: 95%) of the interest rate risk related to EUR and USD loans has been hedged by entering into fixed interest rate swap contracts.

MANAGEMENT STATEMENT

Statement by the Executive Management and Board of Directors on the Audited Consolidated Financial Statements of Scandinavian Tobacco Group A/S as at and for the Financial Years Ended 31 December 2014, 2013 and 2012

The Executive Management and Board of Directors have today considered and adopted the consolidated financial statements of Scandinavian Tobacco Group A/S. The consolidated financial statements comprise the statement of financial position as at 31 December 2014, 2013 and 2012 and the income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, including summary of significant accounting policies. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and additional Danish disclosure requirements.

In our opinion, the accounting policies applied are appropriate, and the consolidated financial statements give a true and fair view of Group's financial position at 31 December 2014, 2013 and 2012 and of the results of the Group's operations and cash flows for the financial years ended 31 December 2014, 2013 and 2012 in accordance with International Financial Reporting Standards as adopted by the European Union and additional Danish disclosure requirements.

Søborg, 28 January 2016

Executive Management

Niels Frederiksen	Christian Hother Sørensen	
Vincent Crepy	Rob Zwarts	Sisse Fjelsted Rasmussen

Board of Directors

Jørgen Tandrup
Chairman

Anders C. Obel	Charlotte Nielsen	Conny Karlsson
Fredrik Lagercrantz	Hanne Malling	Henning Kruse Petersen
Hermod Hvid	Kurt Asmussen	Lars Dahlgren
Marlene Forsell	Tommy Pedersen	

Independent Auditor's Report on the Audited Consolidated Financial Statements of Scandinavian Tobacco Group A/S as at and for the Financial Years Ended 31 December 2014, 2013 and 2012 included on F-pages F-13 to F-59

To the readers of this Offering Circular

We have audited the Audited Consolidated Financial Statements of Scandinavian Tobacco Group A/S (together with its subsidiaries, the "Group"), which comprise the statement of financial position as at 31 December 2014, 2013 and 2012, and the income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, including summary of significant accounting policies, as presented on F-pages F-13 to F-59. The Audited Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and additional Danish disclosure requirements.

Management's Responsibility for the Audited Consolidated Financial Statements

Management is responsible for the preparation of the Audited Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and additional Danish disclosure requirements, and for such internal control as Management determines is necessary to enable the preparation of the Audited Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

The audit has not resulted in any qualification.

Opinion

In our opinion, the Audited Consolidated Financial Statements as presented on F-pages F-13 to F-59 give a true and fair view of the Group's financial position as at 31 December 2014, 2013 and 2012 and of the results of the Group's operations and cash flows for the financial years ended 31 December 2014, 2013 and 2012 in accordance with International Financial Reporting Standards as adopted by the European Union and additional Danish disclosure requirements.

Copenhagen, 28 January 2016

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Torben Jensen State Authorised Public Accountant	Thomas Wraae Holm State Authorised Public Accountant

Consolidated Income Statement

DKK million	Note	2014	2013	2012
Net sales	2.1	6,126.0	5,925.3	5,978.0
Cost of goods sold	2.1	(3,178.7)	(3,010.8)	(2,986.5)
Gross profit	**2.1**	**2,947.3**	**2,914.5**	**2,991.5**
Other external costs		(1,049.9)	(1,108.4)	(1,066.5)
Staff costs	2.2	(748.9)	(631.8)	(623.8)
Other income		28.7	0.3	0.1
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**1,177.2**	**1,174.6**	**1,301.3**
Depreciation	3.2	(102.0)	(128.8)	(125.0)
Earnings before interest, tax and amortisation (EBITA)		**1,075.2**	**1,045.8**	**1,176.3**
Amortisation	3.1	(167.5)	(271.1)	(244.9)
Earnings before interest and tax (EBIT)		**907.7**	**774.7**	**931.4**
Share of profit of associated companies, net of tax	4.4	6.2	5.4	11.9
Financial income	4.5	29.1	5.7	5.4
Financial costs	4.5	(97.4)	(110.1)	(106.1)
Profit before tax		**845.6**	**675.7**	**842.6**
Income taxes	2.3	(205.8)	(102.9)	(224.4)
Net profit for the year		**639.8**	**572.8**	**618.2**
Earnings per share				
Earnings per share (DKK)	4.6	6.4	5.7	6.2
Diluted earnings per share (DKK)	4.6	6.4	5.7	6.2
Other comprehensive income				
Items that will not be recycled subsequently to the Consolidated Income Statement:				
Actuarial gains and losses on pension obligations		(62.1)	15.1	(53.4)
Tax of actuarial gains and losses on pension obligations		19.6	(6.0)	14.2
Items that will be recycled subsequently to the Consolidated Income Statement, when specific conditions are met:				
Cash flow hedges, realisation of previously deferred (gains)/losses to financial items		31.0	35.0	37.0
Cash flow hedges, realisation of previously deferred (gains)/losses to net sales and cost of goods sold		9.3	(15.8)	20.3
Cash flow hedges, deferred gains/(losses) incurred during the year		(45.7)	19.7	(121.4)
Tax of hedging instruments		0.9	(9.7)	16.0
Foreign exchange rate adjustments		543.4	(291.2)	(30.3)
Other comprehensive income for the year, net of tax		**496.4**	**(252.9)**	**(117.6)**
Total comprehensive income for the year		**1,136.2**	**319.9**	**500.6**

Consolidated Balance Sheet at 31 December

Assets

DKK million	**Note**	**2014**	**2013**	**2012**
Non-current assets				
Intangible assets				
Goodwill		4,205.3	3,874.5	3,974.4
Trademarks		3,352.1	3,133.7	3,404.6
IT software		82.9	104.4	141.0
Other intangible assets		249.8	266.4	271.7
Total intangible assets	3.1	**7,890.1**	**7,379.0**	**7,791.7**
Property, plant and equipment				
Land and buildings		678.6	565.0	579.7
Plant and machinery		339.1	247.7	254.6
Equipment, tools and fixtures		83.9	69.9	64.4
Leasehold improvements		43.2	36.4	29.5
Construction in progress		58.1	192.7	63.2
Total property, plant and equipment	3.2	**1,202.9**	**1,111.7**	**991.4**
Other non-current assets				
Investments in associated companies	4.4	109.7	97.5	104.7
Deferred income tax assets	2.3	172.3	82.6	88.7
Other financial fixed assets	4.4	0.6	0.7	0.8
Total other non-current assets		**282.6**	**180.8**	**194.2**
Total non-current assets		**9,375.6**	**8,671.5**	**8,977.3**
Current assets				
Inventories	3.3	**3,099.2**	**2,926.9**	**2,780.7**
Receivables				
Trade receivables	3.4	811.1	817.1	971.8
Receivables from affiliated companies		1.7	1.6	37.5
Other receivables		97.4	100.5	119.6
Prepaid corporate tax	2.3	143.2	172.5	110.6
Prepayments	3.5	52.7	41.4	53.8
Total receivables		**1,106.1**	**1,133.1**	**1,293.3**
Cash and cash equivalents		**581.0**	**464.3**	**684.2**
Total current assets		**4,786.3**	**4,524.3**	**4,758.2**
Total assets		**14,161.9**	**13,195.8**	**13,735.5**

Consolidated Balance Sheet at 31 December (Continued)

Equity and liabilities

DKK million	**Note**	**2014**	**2013**	**2012**
Share capital		100.0	100.0	100.0
Reserve for hedging		(67.6)	(63.1)	(92.3)
Reserve for currency translation		485.0	(58.4)	232.8
Retained earnings		8,569.6	8,354.3	8,184.4
Total equity		**9,087.0**	**8,332.8**	**8,424.9**
Bank loans	4.1	2,307.5	2,756.5	3,008.9
Deferred income tax liabilities	2.3	694.3	519.3	582.2
Pension obligations	3.7	233.0	209.5	217.0
Other provisions	3.6	38.9	45.5	96.6
Other liabilities		47.4	56.9	85.7
Total non-current liabilities		**3,321.1**	**3,587.7**	**3,990.4**
Bank loans	4.1	650.8	221.9	232.0
Trade payables		375.9	359.9	352.6
Corporate tax liabilities	2.3	93.9	170.9	148.2
Other provisions	3.6	44.1	41.2	32.7
Other liabilities		589.1	481.4	554.7
Total current liabilities		**1,753.8**	**1,275.3**	**1,320.2**
Total liabilities		**5,074.9**	**4,863.0**	**5,310.6**
Total equity and liabilities		**14,161.9**	**13,195.8**	**13,735.5**

Consolidated Cash Flow Statement

1 January–31 December

DKK million	Note	2014	2013	2012
Net profit for the year		639.8	572.8	618.2
Adjustments	5.1	508.7	601.8	683.1
Changes in working capital	4.3	189.1	(115.4)	(360.6)
Cash flow from operating activities before financial items		**1,337.7**	**1,059.2**	**940.7**
Financial income received	4.5	29.1	5.7	5.4
Financial costs paid	4.5	(97.4)	(110.1)	(106.1)
Cash flow from operating activities before tax		**1,269.4**	**954.8**	**840.0**
Tax payments	2.3	(213.3)	(210.0)	(123.6)
Cash flow from operating activities		**1,056.0**	**744.8**	**716.4**
Acquisitions	3.8	(310.2)	(19.9)	0.0
Acquisition of intangible assets	3.1	(22.8)	(31.1)	(253.7)
Acquisition of property, plant and equipment	3.2	(192.4)	(271.1)	(138.4)
Proceeds from sale of property, plant and equipment		50.1	0.0	0.0
Dividend from associated companies	4.4	4.2	4.4	3.9
Cash flow from investing activities		**(471.2)**	**(317.7)**	**(388.2)**
New funding from financial institutions		353.5	0.0	0.0
Instalment bank loans		(439.7)	(235.0)	(245.7)
Dividend payment		(382.0)	(412.0)	(350.0)
Cash flow from financing activities		**(468.2)**	**(647.0)**	**(595.7)**
Net cash flow for the year		**116.7**	**(219.9)**	**(267.5)**
Cash and cash equivalents, net at 1 January		464.3	684.2	951.7
Net cash flow for the year		116.7	(219.9)	(267.5)
Cash and cash equivalents, net at 31 December		**581.0**	**464.3**	**684.2**

Statement of Changes in Group Equity

1 January–31 December 2014

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

Statement of Changes in Group Equity (Continued)

1 January–31 December 2013

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

Statement of Changes in Group Equity (Continued)

1 January–31 December 2012

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

NOTES

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

Section 1 'Basis of preparation'

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

1.1 Summary of significant accounting policies

1.2 Other accounting policies

1.3 Other general accounting policies

Section 2 'Results for the year'

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

2.1 Gross profit (net sales and cost of goods sold)

2.2 Staff costs

2.3 Income and deferred income taxes

Section 3 'Operating assets and liabilities'

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

3.1 Intangible assets

3.2 Property, plant and equipment

3.3 Inventories

3.4 Trade receivables

3.5 Prepayments

3.6 Other provisions

3.7 Pension obligations

3.8 Business acquisitions

Section 4 'Capital structure and financing items'

Encompasses notes related to capital structure and financing items.

4.1 Financial institutions

4.2 Financial risks and instruments

4.3 Changes in working capital

4.4 Financial fixed assets

4.5 Financial income and costs

4.6 Share capital, distribution to shareholders and earnings per share

4.7 Net interest-bearing debt

Section 5 'Other disclosures'

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

5.1 Cash flow adjustments

5.2 Contingent liabilities

5.3 Related-party transactions

5.4 Events after the reporting period

5.5 Fee to statutory auditor

5.6 Entities in Scandinavian Tobacco Group

5.7 Explanation of financial ratios

Section 1

Basis of preparation of the Consolidated Financial Statements

Scandinavian Tobacco Group presents its Consolidated Financial Statements on the basis of the latest developments in international financial reporting, and the Group strives for early adoption of EU endorsed IFRS accounting standards. All affiliated companies within the Group follow the same Group accounting policies. This section describes the significant accounting policies and other accounting policies in general, including Management's key accounting estimates and the new IFRS requirements.

A detailed description of accounting policies and key accounting estimates related to specific reported amounts is presented in the note to the relevant financial item.

NOTE 1.1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of Scandinavian Tobacco Group as at and for the Financial Years Ended 31 December 2014, 2013 and 2012 have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) and additional Danish disclosure requirements, which are effective as at 1 January 2015 and relevant for listed companies, in accordance with the requirements in the Commission Regulation (EC) No 809/2004 of 29 April 2004 with later amendments.

Recognition and measurement

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

Danish kroner is the presentation currency of the Group.

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

Principal accounting policies

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

Net sales (note 2.1)

Income taxes (note 2.3)

Intangible assets and property, plant and equipment including impairment (notes 3.1 and 3.2)

Inventories (note 3.3)

Trade receivables and allowances for doubtful trade receivables (note 3.4)

Critical accounting estimates and judgments

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

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

NOTE 1.1 (Continued)

Estimation uncertainty

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

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

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

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

Goodwill (note 3.1)

Trademarks (note 3.1)

Inventories (note 3.3)

Pension obligations (note 3.7)

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

NOTE 1.2

OTHER ACCOUNTING POLICIES

CHANGE IN ACCOUNTING ESTIMATES FOR INTANGIBLE AND TANGIBLE ASSETS

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

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

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

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

Due to the change in estimate, trademarks with indefinite useful lives (Strategic trademarks) will be subject to impairment tests on a yearly basis. Strategic trademarks are defined as trademarks of a sizeable significance measured on financial contribution and the trademarks have the potential to grow globally.

NOTE 1.2 (Continued)

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

IMPACT OF NEW ACCOUNTING STANDARDS

Based on an assessment of new or amended and revised accounting standards and interpretations ('IFRS') issued by IASB and IFRS endorsed by the European Union effective on or after 1 January 2014, it has been assessed that the application of these new IFRS has not had a material impact on the Consolidated Financial Statements in 2014, 2013, 2012 and the Group does not anticipate any significant impact on future periods from the adoption of these new IFRS (including the changes made to IFRS 10 regarding Consolidated Financial Statements and IFRS 11 regarding Joint Arrangements).

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

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

IASB has issued IFRS 9 'Financial Instruments', with effective date 1 January 2018. It currently awaits EU endorsement. IFRS 9 is part of the IASB's project to replace IAS 39, and the new standard will substantially change the classification and measurement of financial instruments and hedging requirements. The Group has assessed the impact of the standard and determined that it will not have any significant impact on the Consolidated Financial Statements.

IASB has issued IFRS 15 'Revenue from contracts with customers', with effective date 1 January 2017. It currently awaits EU endorsement. IFRS 15 is part of the convergence project with FASB to replace IAS 18. The new standard will establish a single, comprehensive framework for revenue recognition. The Group has assessed the impact of the standard and determined that it will not have any significant impact on the Consolidated Financial Statements.

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

NOTE 1.3

OTHER GENERAL ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

Subsidiaries are all entities (including structured entities) over which the group has control. 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 entity. Enterprises in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are classified as associated companies. At consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

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

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

NOTE 1.3 (Continued)

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

TRANSLATION POLICIES

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

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

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

OTHER EXTERNAL COSTS

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

EQUITY

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

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

CASH FLOW STATEMENT

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

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

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

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

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

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

Section 2

Results for the year

This section comprises notes in relation to the results for the year, including disclosure on product segments.

NOTE 2.1

GROSS PROFIT (NET SALES AND COST OF GOODS SOLD)

Accounting policies

Net sales

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

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

The Group has transferred the significant risks and rewards of ownership of the goods to the buyer.

The amount of revenue can be measured reliably.

It is possible that the economic benefits associated with the transaction will flow to the entity.

Cost of goods sold

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

SEGMENT REPORTING

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

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

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

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

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

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

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

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

There have been no material transactions between the different segments.

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

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

NOTE 2.1 (Continued)

SEGMENT INFORMATION

2014

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

NOTE 2.1 (Continued)

2013

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

NOTE 2.1 (Continued)

2012

DKK million	Handmade cigars	Machine made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allocated	Total
Net sales	1,378.4	2,592.5	549.1	491.1	966.9	0.0	5,978.0
Cost of goods sold	(741.7)	(1,166.7)	(214.8)	(229.2)	(634.1)	0.0	(2,986.5)
Gross profit	**636.7**	**1,425.8**	**334.3**	**261.9**	**332.8**	**0.0**	**2,991.5**
Other external costs						(1,066.5)	(1,066.5)
Staff costs						(623.8)	(623.8)
Other income						0.1	0.1
EBITDA						**(1,690.2)**	**(1,301.3)**
Depreciation						(125.0)	(125.0)
Amortisation						(244.9)	(244.9)
EBIT						**(2,060.1)**	**931.4**
Share of profit of associated companies, net of tax						11.9	11.9
Financial income						5.4	5.4
Financial costs						(106.1)	(106.1)
Profit before tax						**(2,148.9)**	**842.6**
Goodwill allocated to segments	**1,454.6**	**1,319.8**	**617.8**	**272.3**	**309.9**	**0.0**	**3,974.4**

Geographic information

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

External sales and non-current assets are distributed by geographic region as follows:

Net sales

DKK million	2014	2013	2012
Americas	2,373.5	2,282.9	2,278.9
Europe	3,064.7	2,945.7	3,101.8
Rest of World	687.8	696.7	597.3
Total net sales	**6,126.0**	**5,925.3**	**5,978.0**

The Group is domiciled in Denmark. Net sales from external customers in Denmark amount to DKK 237.4 million (2013: DKK 230.0 million and 2012: DKK 241.2 million), and net sales from external customers outside Denmark amount to DKK 5,888.6 million (2013: DKK 5,695.3 million and 2012: DKK 5,736.8 million). Individual material countries (>10% of total net sales) are the US DKK 2,091.7 million (2013: DKK 1,977.4 million and 2012: DKK 1,991.2 million) and France DKK 683.0 million (2013: DKK 623.1 million and 2012: DKK 741.8 million).

NOTE 2.1 (Continued)

Information about major customers

Net sales of DKK 646.6 million (2013: DKK 569.6 million and 2012: DKK 675.7 million) are derived from a single external customer and are attributable to different product segments, but primarily the machine-made cigar segment with 98% (2013: 97% and 2012: 98%).

Licence income and other sales of DKK 41.3 million (2013: DKK 46.3 million and 2012: DKK 40.9 million) are included in the total net sales.

DKK million	2014	2013	2012
Non-current assets(1)			
Americas	3,862.3	3,398.7	3,561.8
Europe	5,307.1	5,155.8	5,274.0
Rest of World	33.2	33.7	52.0
Total non-current assets	**9,202.6**	**8,588.2**	**8,887.8**

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

Total non-current assets in Denmark amount to DKK 1,789.2 million (2013: DKK 1,767.7 million and 2012: DKK 1,629.7 million)

NOTE 2.2

STAFF COSTS

Accounting policies

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

DKK million	2014	2013	2012
Wages and salaries	1,231.3	1,085.4	1,099.1
Pensions – defined contribution plans	45.6	42.1	33.0
Pensions – defined benefit plans*	(36.0)	22.6	16.8
Social security costs	162.6	169.8	144.1
Total staff costs for the year	**1,403.5**	**1,319.9**	**1,293.0**
Staff costs included in intangible assets and property, plant and equipment	(7.7)	(1.9)	(8.1)
Change in employee costs included in inventories	(3.4)	(3.6)	(9.7)
Total staff costs expensed to the income statement	**1,392.4**	**1,314.4**	**1,275.2**
Included in the income statement:			
Cost of goods sold	643.5	682.6	651.4
Staff costs	748.9	631.8	623.8
Total included in the income statement	**1,392.4**	**1,314.4**	**1,275.2**
Salaries and fees to the Board of Directors and Executive Management can be specified as follows:			
Board of Directors	**4.9**	**4.9**	**4.4**
Executive Management, salaries and other short-term benefits	34.5	23.4	27.5
Executive Management, pensions	2.1	3.4	2.7
Executive Management, share option programme	0.8	4.1	0.0
Total *Executive Management*	**37.4**	**30.9**	**30.2**
Total *Board of Directors and Executive Management*	**42.3**	**35.8**	**34.6**
Average number of employees in the Group	**8,974**	**9,510**	**9,472**

* Gains on curtailments and settlements is offset against the service cost for defined benefit plans

Members of the *Executive Management* are entitled to an early retirement pension plan. The development in the pension commitment is included in the above pension cost with DKK 2.1 million (2013: DKK 3.4 million and 2012: DKK 2.7 million).

NOTE 2.2 (Continued)

Members of the *Executive Management* have been granted share options entitling them to payment based on the created economic value in the case of certain events. The programme is structured in A and B-options with an exercise price of DKK 1 and DKK 100 respectively. The programme can be settled in cash or shares and expires on 31 December 2021. There have been no changes in the programme and no triggering events during the year.

Share options to Executive Management can be specified as follows:

Number of share options with exercise price of DKK 1	2014	2013	2012
Opening balance	245,000	201,250	0
Granted	0	43,750	201,250
Forfeited	(70,000)	0	0
Ending balance	**175,000**	**245,000**	**201,250**
Of which exercisable	0	0	0
Number of share options with exercise price of DKK 100	**2014**	**2013**	**2012**
Opening balance	700,000	575,000	0
Granted	0	125,000	575,000
Forfeited	(200,000)	0	0
Ending balance	**500,000**	**700,000**	**575,000**
Of which exercisable	0	0	0

The programme is recognised as a liability over the expected vesting period based on the number of options granted, the estimated probability of a trigger event and the expected vesting period. The value of the programme is subject to uncertainty due to the timing and probability of any events. The expense recognised in 2014 amounts to DKK 0.8 million (2013: DKK 4.1 million and 2012: 0.0 million) and the total carrying amount is estimated at DKK 4.9 million (2013: DKK 4.1million and 2012: DKK 0.0 million) at 31 December 2014. The valuation of the options is based on the following assumptions: estimated vesting period, exercise price of DKK 1 and DKK 100 respectively, estimated share price and estimated probability of a triggering event.

NOTE 2.3

INCOME AND DEFERRED INCOME TAXES

Accounting policies

Income taxes

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

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

Deferred tax assets and liabilities

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

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

NOTE 2.3 (Continued)

Current tax receivables and liabilities

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

DKK million	**2014**	**2013**	**2012**
Tax expense			
Current income tax	(161.0)	(172.4)	(186.7)
Change in deferred tax charge	(24.3)	53.8	(7.5)
	(185.3)	**(118.6)**	**(194.2)**
Tax is allocated as follows:			
Income taxes	(205.8)	(102.9)	(224.4)
Tax on other comprehensive income related to hedging instruments	0.9	(9.7)	16.0
Tax on other comprehensive income related to actuarial gains and losses on pension obligations	19.6	(6.0)	14.2
	(185.3)	**(118.6)**	**(194.2)**
Income tax receivable (net) – in the balance sheet			
Prepaid tax	143.2	172.5	110.6
Corporate tax liabilities	93.9	170.9	148.2
	(49.3)	**(1.6)**	**37.6**
Income tax receivable (net):			
Balance at 1 January	(1.6)	37.6	5.2
Currency adjustments	8.1	(1.6)	1.7
Acquisition of entities	(3.5)	0.0	0.0
Prior-year tax adjustment	(2.5)	1.3	10.6
Tax paid on account in current year	(197.3)	(200.6)	(99.2)
Received regarding previous years	33.6	33.6	58.9
Paid regarding previous years	(49.6)	(43.0)	(83.3)
Current income tax	163.5	171.1	176.1
Reclassification from deferred income tax	0.0	0.0	(32.4)
Balance at 31 December	**(49.3)**	**(1.6)**	**37.6**

NOTE 2.3 (Continued)

DKK million	2014	2013	2012
Deferred tax (net) – in the balance sheet			
Deferred income tax assets	172.3	82.6	88.7
Deferred income tax liabilities	694.3	519.3	582.2
Deferred income tax liabilities (net)	**522.0**	**436.7**	**493.5**
Deferred tax (net)			
Balance at 1 January	436.7	493.5	458.2
Currency adjustments	(4.5)	(3.0)	(4.6)
Acquisition of entities	65.5	0.0	0.0
Change in deferred tax charge	24.3	(53.8)	7.5
Reclassification to income tax	0.0	0.0	32.4
Balance at 31 December	**522.0**	**436.7**	**493.5**
Breakdown of deferred income tax liabilities (net):			
Intangible assets	605.4	474.9	564.3
Property, plant and equipment	36.3	23.5	32.5
Inventories	(64.2)	(57.1)	(37.8)
Receivables	(1.6)	(1.9)	(1.0)
Pensions	(60.3)	(49.2)	(47.0)
Other liabilities	0.5	(1.9)	(29.9)
Tax losses to be carried forward	(27.3)	(6.4)	(28.8)
Other	33.2	54.8	41.2
	522.0	**436.7**	**493.5**
Breakdown of tax on profit for the year:			
Tax calculated at 24.5% (2012–2013: 25%) of profit before tax	(207.2)	(168.9)	(210.6)
Tax according to income statement	(205.8)	(102.9)	(224.4)
	1.4	**66.0**	**(13.8)**
Tax effect of:			
Non-deductible costs	(12.1)	(7.7)	(7.1)
Income from associated companies	1.5	1.3	3.0
Non-taxable income	3.7	6.5	2.4
Prior-year adjustments	2.7	11.0	(10.6)
Other tax percentages	12.5	7.2	16.5
Effect of enacted change of tax rates	0.4	26.2	0.0
Other	(7.3)	21.5	(18.0)
	1.4	**66.0**	**(13.8)**

At 31 December 2014 the Group has no unrecognised tax assets (2013: DKK 42.9 million and 2012: DKK 0.0 million).

Section 3

Operating assets and liabilities

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

NOTE 3.1

INTANGIBLE ASSETS

Accounting policies

Goodwill

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

NOTE 3.1 (Continued)

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 globally. Other trademarks are amortised on a straight-line basis over the estimated useful lives determined on the basis of Management's experience with the individual trademarks. The amortisation period is typically in the range of 10–25 years.

IT software

IT software are measured at cost less accumulated amortisation and less any accumulated impairment losses. Amortisation is calculated on a straight-line basis over the expected useful lives of the assets, which are 5 years (2013 and 2012: 3–5 years).

Other intangible assets

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

Key accounting estimates

Impairment of intangible assets

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

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

Goodwill and trademarks with indefinite useful lives

In the annual impairment test of goodwill and trademarks with indefinite useful lives, an estimate is made to determine how the enterprise/trademarks will be able to generate sufficient positive net cash flow in the future to support the value of goodwill, trademarks and other net assets of the enterprise/trademark in question. For the purpose of the annual impairment test of goodwill the costs and income in segment note (2.1) has been allocated to each cash generating unit based on relevant allocation keys. The estimates of the anticipated future net cash flow are based on Management's projections based upon the bottom-up strategy plan for the coming years. The years not covered by the bottom-up strategy plan are based on average growth expectations in line with the bottom-up strategy plan. Contribution expectations are based upon projections made on the development in volume, average sales and cost prices for each market in each of the defined cash generating units. The carrying value of goodwill amounted to DKK 4,205.3 million (2013: DKK 3,874.5 million and 2012: DKK 3,974.4 million). The carrying value of trademarks with indefinite useful lives amounted to DKK 1,741.0 (2013: DKK 0.0 million and 2012 DKK 0.0 million as these trademarks were not assessed to have an indefinite useful lives).

Other trademarks

Acquired trademarks have been deemed to have definite useful lives and are in general amortised over a period of 10–25 years. Trademarks are tested for impairment when circumstances indicate that the value of a trademark is impaired. The carrying value of other trademarks amounted to DKK 1,611.1 million (2013: DKK 3,133.7 million and 2012: 3,404.6 million). Amortisation amounted to DKK 102.5 million (2013: DKK 191.8 million and 2012: DKK 191.1 million). During 2014, Management did not identify any indications of impairment.

NOTE 3.1 (Continued)

2014

	Goodwill	Trademarks	IT software	Other intangible assets	Total
Accumulated cost at 1 January 2014	3,875.4	3,750.8	228.4	307.5	8,162.1
Exchange rate adjustment	285.7	118.1	2.4	4.8	411.0
Acquisition of entities	45.1	217.2	0.0	3.1	265.4
Addition	0.0	0.6	22.2	0.0	22.8
Disposal	0.0	0.0	(9.4)	0.0	(9.4)
Accumulated cost at 31 December 2014	4,206.2	4,086.7	243.6	315.4	8,851.9
Accumulated amortisation and impairment at 1 January 2014	0.9	617.1	124.0	41.1	783.1
Exchange rate adjustment	0.0	15.0	1.4	3.5	19.9
Amortisation	0.0	102.5	44.0	21.0	167.5
Disposal	0.0	0.0	(8.7)	0.0	(8.7)
Accumulated amortisation and impairment at 31 December 2014	0.9	734.6	160.7	65.6	961.8
Carrying amount at 31 December 2014	**4,205.3**	**3,352.1**	**82.9**	**249.8**	**7,890.1**

2013

DKK million	Goodwill	Trademarks	IT software	Other intangible assets	Total
Accumulated cost at 1 January 2013	3,975.3	3,842.7	207.2	293.1	8,318.3
Exchange rate adjustment	(99.9)	(100.4)	(0.8)	(2.5)	(203.6)
Acquisition of entities	0.0	0.0	0.0	16.8	16.8
Addition	0.0	8.5	22.2	0.4	31.1
Disposal	0.0	0.0	(0.2)	(0.3)	(0.5)
Accumulated cost at 31 December 2013	3,875.4	3,750.8	228.4	307.5	8,162.1
Accumulated amortisation and impairment at 1 January 2013	0.9	438.1	66.2	21.4	526.6
Exchange rate adjustment	0.0	(12.8)	(0.6)	(0.7)	(14.1)
Amortisation	0.0	191.8	58.4	20.9	271.1
Disposal	0.0	0.0	0.0	(0.5)	(0.5)
Accumulated amortisation and impairment at 31 December 2013	0.9	617.1	124.0	41.1	783.1
Carrying amount at 31 December 2013	**3,874.5**	**3,133.7**	**104.4**	**266.4**	**7,379.0**

NOTE 3.1 (Continued)

2012

DKK million	Goodwill	Trademarks	IT software	Other intangible assets	Total
Accumulated cost at 1 January 2012	4,032.3	3,815.1	123.0	98.1	8,068.5
Exchange rate adjustment	(29.9)	26.8	0.0	(0.8)	(3.9)
Reclassification	(27.4)	0.8	6.7	19.9	0.0
Addition	0.3	0.0	77.5	175.9	253.7
Accumulated cost at 31 December 2012	3,975.3	3,842.7	207.2	293.1	8,318.3
Accumulated amortisation and impairment at 1 January 2012	0.0	230.8	24.0	11.6	266.4
Exchange rate adjustment	0.0	16.2	0.0	(0.9)	15.3
Reclassification	0.0	0.0	4.0	(4.0)	0.0
Amortisation	0.9	191.1	38.2	14.7	244.9
Accumulated amortisation and impairment at 31 December 2012	0.9	438.1	66.2	21.4	526.6
Carrying amount at 31 December 2012	**3,974.4**	**3,404.6**	**141.0**	**271.7**	**7,791.7**

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

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

The values in use are calculated using a valuation model based on discounted expected future cash flows (DCF-model covering a 5 year budget period) that takes basis in the described bottom-up strategy plan. Management has used an overall expectation of moderate growth in EBITDA in the strategy period (also in 2013 and 2012).

The terminal growth is based upon adjusted historical development taken into account the general level of inflation. Discount rates takes basis in the risk-free rate adjusted for the inherent risk and industry comparisons for each individual cash generating unit. The applied assumptions for each individual cash generating unit are illustrated in the table below. For trademarks Management have used a discount rate (WACC after tax) between 6.5% and 11.7% and the terminal growth in EBITDA is set between -2.0% and

NOTE 3.1 (Continued)

+2.0%. The discount rates are based on the risk inherent in the related activity's current business model and industry comparisons.

	Handmade cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	Other	Total
2014						
Allocated goodwill (DKK)	1,635.0	1,356.9	625.9	270.1	317.4	**4,205.3**
WACC (%)	8.0	8.0	8.2	8.0	8.0	n.a
Terminal growth (%)	1.4	1.4	1.4	1.4	1.4	n.a
2013						
Allocated goodwill (DKK)	1,372.4	1,308.7	614.5	270.1	308.8	**3,874.5**
WACC (%)	8.0	8.0	8.3	8.0	8.0	n.a
Terminal growth (%)	0.8	0.8	0.8	0.8	0.8	n.a
2012						
Allocated goodwill (DKK)	1,454.6	1,319.8	617.8	272.3	309.9	**3,974.4**
WACC (%)	8.0	8.0	8.3	8.0	8.0	n.a
Terminal growth (%)	0.0	0.0	0.0	0.0	0.0	n.a

When goodwill and trademarks with indefinite useful lives were tested for impairment in 2014 (and 2013 and 2012 for goodwill), the value in use exceeded the carrying value for the Group and no basis for impairment was found. When performing sensitivity analysis by increasing the discount rate by 1 percentage point, the value in use still exceeded the carrying value per segment.

Trademarks

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

DKK million	Remaining amortisation period	Carrying amount 2014	2013	2012
Captain Black, Bugler and Kite	16 years / Indefinite	753.7	681.3	755.1
Café Crème	Indefinite	482.4	482.4	504.6
Tiedemanns	21 years	251.3	282.2	335.0
Mercator, Cubero and Schimmelpenninck	13 years	203.8	216.8	248.8
La Paz	Indefinite	215.2	215.2	225.2
Other trademarks	1–21 years / Indefinite	1,445.7	1,255.8	1,335.9
Total		**3,352.1**	**3,133.7**	**3,404.6**

Other intangible assets

Other intangible assets comprise mainly acquired distribution rights.

NOTE 3.2

PROPERTY, PLANT AND EQUIPMENT

Accounting policies

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

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

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

	2014	2013	2012
Buildings	10–40 years	10–40 years	10–40 years
Plant and machinery	12–20 years	3–20 years	3–20 years
Equipment, tools and fixtures	3–10 years	3–10 years	3–10 years
Leasehold improvements	1–10 years	1–10 years	1–10 years

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

Impairment of property, plant and equipment

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

2014

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

NOTE 3.2 (Continued)

2013

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

2012

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

NOTE 3.3

INVENTORIES

Accounting policies

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

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

NOTE 3.3 (Continued)

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

Key accounting estimates

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

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

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

DKK million	2014	2013	2012
Raw materials and consumables	1,595.3	1,467.0	1,417.6
Work in progress	496.1	475.7	449.7
Finished goods, goods for resale and excise stamps	1,007.8	984.2	913.4
	3,099.2	**2,926.9**	**2,780.7**
Inventory write-downs expensed during the year	55.6	55.5	11.0

Provision for obsolete stock at year-end amounted to DKK 144.8 million (2013: DKK 125.0 million and 2012: DKK 111.1 million). The net movement in the year in respect of inventory provision is included in 'cost of goods sold'. The cost of inventories recognised as cost and included in 'cost of goods sold' amounted to DKK 2,535.2 million (2013: DKK 2,328.2 million and 2012 DKK 2,335.1 million).

NOTE 3.4

TRADE RECEIVABLES

Accounting policies

Trade receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined

NOTE 3.4 (Continued)

on the basis of an individual assessment of each receivable, and in respect of trade receivables, a provision is also made based on the Company's experience from previous years and aging of the trade receivables.

DKK million	**2014**	**2013**	**2012**
Trade receivables (net) at 31 December comprised the following:			
Trade receivables (gross)	838.5	834.9	996.7
Provision for bad debt	(27.4)	(17.8)	(24.9)
Trade receivables (net)	**811.1**	**817.1**	**971.8**
Movements in the Group provision for bad debt are as follows:			
Provision for bad debt at 1 January	(17.8)	(24.9)	(27.6)
Provision this year	(11.3)	(1.6)	(1.2)
Reversal of provision for possible losses	0.3	5.2	3.8
Confirmed losses	1.7	3.0	1.3
Effect of exchange rate adjustments	(0.3)	0.5	(1.2)
Total provision at 31 December	**(27.4)**	**(17.8)**	**(24.9)**
Non-impaired trade receivables can be specified as follows:			
Current	673.0	662.1	801.0
Overdue <30 days	110.4	126.4	129.4
Overdue 31–60 days	14.7	19.0	26.3
Overdue 61–90 days	4.4	3.5	8.2
Overdue 91–180 days	4.3	4.5	6.7
Overdue >180 days	4.3	1.6	0.2
Total	**811.1**	**817.1**	**971.8**

NOTE 3.5

PREPAYMENTS

Accounting policies

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

NOTE 3.6

OTHER PROVISIONS

Accounting policies

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

NOTE 3.6 (Continued)

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

DKK million	2014	2013	2012
Balance at 1 January	86.7	129.3	148.2
Exchange rate adjustment	0.1	1.1	0.1
Discounting cost	2.4	3.0	4.2
Addition during the period	53.7	0.2	1.1
Utilised during the period	(55.4)	(46.5)	(24.0)
Reversed provision unused	(4.5)	(0.4)	(0.3)
Carrying amount at 31 December	**83.0**	**86.7**	**129.3**
Non-current	38.9	45.5	96.6
Current	44.1	41.2	32.7
Total	**83.0**	**86.7**	**129.3**

Other provisions mainly consist of restructuring costs in relation to a reduction in the number of existing machine-made cigar factories from six to four and restructuring of sales forces. The restructuring costs are primarily related to redundancy payments and the main part is expected to fall due within 1–4 years (2013: 1–5 years and 2012 1–6 years).

NOTE 3.7

PENSION OBLIGATIONS

Accounting policies

The Group operates a number of defined contribution plans throughout the world. In a few countries, the Group operates defined benefit plans; these are primarily located in Belgium, Germany, France, Indonesia, the Dominican Republic and the US. The defined benefit plans for Belgium totals six different step-rate plans and covers both blue and white collar employees. New employees will be included in defined contribution plans. The defined benefit plans for Germany cover all employees with at least ten years of service with the company. 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 covers all employees in the form of severance and gratuity in accordance with labour regulation (Labour Law 13/2013) and other long term employee benefits in form of long service award for employees who have 10, 15 and 20 years of service. The defined benefit plans for the Dominican Republic is enacted by law and covers all employees with at least three months of service. The defined benefit plans in the US is a non-qualified plan that covers a small group of inactive employees where benefits are paid out of corporate assets.

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

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

Past service costs are recognised immediately in the income statement.

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

NOTE 3.7 (Continued)

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

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

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

Post-employment employee benefits

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

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

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

Post-employment defined benefit – recognised in the balance sheet

DKK million	**2014**	**2013**	**2012**
Present value of funded obligations	202.7	585.4	593.9
Fair value of plan assets	(109.5)	(522.5)	(518.6)
Deficit (+) / surplus (-)	93.2	62.9	75.3
Present value of unfunded obligations	139.8	127.9	128.6
Unrecognised assets due to recoverability limit	0.0	18.7	13.1
Net asset (-) / liability (+) in the balance sheet	**233.0**	**209.5**	**217.0**
Amounts in the balance sheet (reported as non-current)			
Liabilities	233.0	209.5	217.0
Assets	0.0	0.0	0.0
Net asset (-) / liability (+) in the balance sheet	**233.0**	**209.5**	**217.0**

DKK million	**2014**	**2013**	**2012**
Movement during the period in the net asset (-) / liability (+)			
Balance at 1 January	209.5	217.0	161.0
Recognised in the income statement	(25.9)	31.6	24.3
Actuarial gain/loss recognised in comprehensive income, financial assumptions	82.9	(20.3)	62.5
Actuarial gain/loss recognised in comprehensive income, demographic assumptions	(1.5)	(0.1)	5.6
Asset limit	(19.3)	5.3	(14.7)
Benefit payments to employees	(12.0)	(6.6)	(8.4)
Employer contributions	(10.9)	(13.5)	(11.9)
Pase service cost not recognised	0.0	0.0	(0.2)
Currency effect	10.2	(3.9)	(1.2)
Balance at 31 December	**233.0**	**209.5**	**217.0**

KEY ACCOUNTING ESTIMATES

Actuarial assumptions

The discount rate is set per country with reference to high quality corporate bond yields of appropriate duration or government bond yields for countries where a deep market of high quality corporate bonds is not available. Assumptions regarding future mortality experience are based on advice in accordance with published statistics and experience in each country. Assumptions regarding expected rate of return are

NOTE 3.7 (Continued)

estimated in each country based on the portfolio as a whole considering both historical performance and future outlook given the long term perspective.

Actuarial assumptions used for valuation (expressed as weighted averages and in %)	**2014**	**2013**	**2012**
Discount rate	3.6	3.7	3.5
Future salary increases	3.9	3.3	3.2

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

	2014		**2013**		**2012**	
DKK million	**1%-point increase**	**1%-point decrease**	**1%-point increase**	**1%-point decrease**	**1%-point increase**	**1%-point decrease**
Discount rate	(45.5)	56.5	(74.1)	89.9	(75.6)	98.2
Future salary increase	52.6	(36.6)	80.7	(60.4)	75.0	(55.4)

DKK million	**2014**	**2013**	**2012**
Change in the defined benefit obligations and plan assets			
Defined benefit obligations – movement			
Balance at 1 January	713.3	722.5	589.6
Current service costs	21.5	24.3	19.5
Interest cost	26.3	23.8	27.0
Recognised past-service costs	0.0	(1.4)	2.0
Actuarial losses (+) / gains (-)	122.4	(24.2)	116.3
Benefits paid	(40.9)	(28.0)	(27.5)
Gains on curtailments	(506.0)	0.0	(3.5)
Gains on settlements	(8.4)	0.0	0.0
Currency effect	14.3	(3.7)	(0.9)
Balance at 31 December	**342.5**	**713.3**	**772.5**
Plan assets – movement in fair value			
Balance at 1 January	522.5	518.6	456.2
Interest income	16.9	16.3	20.6
Actuarial losses (-) / gains (+)	40.9	(3.8)	48.2
Employer contributions	22.7	20.1	19.1
Benefits paid	(40.7)	(27.9)	(27.7)
Gains on curtailments	(451.6)	0.0	0.0
Currency effect	(1.2)	(0.1)	2.2
Other	0.0	(0.7)	0.0
Balance at 31 December	**109.5**	**522.5**	**518.6**

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

The actual return on plan assets in 2014 was a gain of DKK 57.8 million (2013: DKK 12.5 million and 2012: DKK 68.7 million).

	2014		**2013**		**2012**		**2014**	**2013**	**2012**
DKK million	**Quoted**	**Unquoted**	**Quoted**	**Unquoted**	**Quoted**	**Unquoted**	**Total**	**Total**	**Total**
Categories of plan assets									
Equity securities	0.0	0.0	49.6	0.0	50.0	0.0	0.0	49.6	50.0
Bonds	25.7	82.8	257.4	0.0	153.3	0.0	108.5	257.4	153.3
Other	1.0	0.0	32.8	182.7	30.2	285.1	1.0	215.5	315.3
Total	**26.7**	**82.8**	**339.8**	**182.7**	**233.5**	**285.1**	**109.5**	**522.5**	**518.6**

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

NOTE 3.7 (Continued)

The weighted average duration of the defined benefit obligation is 13.4 years (2013: 9.2 years and 2012: 7.7 years).

DKK million	**2014**	**2013**	**2012**
Post-employment benefit plans recognised in income statement			
Current service costs	21.5	24.3	19.5
Interest on net obligation	10.1	8.0	6.4
Recognised past service costs	5.4	0.5	2.0
Gains on curtailments	(54.4)	(1.4)	(3.6)
Gains on settlements	(8.4)	0.0	0.0
Recognised net actuarial losses (+) / gains (-)	(0.1)	0.2	0.0
Net income (-) / expense (+) reported in the income statement	**(25.9)**	**31.6**	**24.3**
The income/costs for defined benefit plans are reported under the following headings in the income statement			
Staff costs	(36.0)	22.6	16.8
Financial costs	10.1	9.0	7.5
Net income (-) / expense (+) reported in the income statement	**(25.9)**	**31.6**	**24.3**

Amounts recognised in other comprehensive income

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

Net actuarial losses (+) / gains (-)	81.4	(20.4)	68.1
Effect of asset limit	(19.3)	5.3	(14.7)
Cumulative net actuarial losses (+) / gains (-)	155.8	71.3	96.4

Expected contribution next year

Expected contributions for post-employment benefit plans for the year ending 31 December 2014 amounts to DKK 15.7 million (2013: DKK 15.3 million and 2012: DKK 18.0 million)

Defined contribution plans

The Group has certain obligations under defined contributions plans. Contributions to these plans are determined by provisions in the relevant plan. Costs for defined contribution plans charged to income statement for the year ending 31 December 2014 amounts to DKK 45.6 million (2013: DKK 42.1 million and 2012: DKK 33.0 million)

NOTE 3.8

BUSINESS ACQUISITIONS

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

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

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

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

Net sales and total assets of Pipes and Cigars constitute less than one per cent of the Group's net sales and total assets.

NOTE 3.8 (Continued)

Given the insignificance of the acquisition no information according to IFRS 3 Business Combination was disclosed in the Annual Report for 2013.

Section 4

Capital management, structure and financing items

This section includes notes related to the Group's capital management, structure and net financials, including financial risks and instruments (see note 4.2). As a consequence of its operations, investments and financing, the Group is exposed to a number of financial risks that are monitored and managed via the Group's Group Treasury. The Group uses financial instruments to hedge its exposure to currency fluctuations and interest rates. The basis of the Group's capital management is the NIBD/EBITDA ratio, which Management seeks to maintain between 2.0 and 3.0. At 31 December 2014, the ratio was 2.3 (2013: 2.4 and 2012: 2.2).

NOTE 4.1

FINANCIAL INSTITUTIONS

Accounting policies

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

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

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

DKK million	**2014**	**2013**	**2012**
Financial institutions are recognised in the balance sheet as follows:			
Non-current liabilities	2,307.5	2,756.5	3,008.9
Current liabilities	650.8	221.9	232.0
Total	**2,958.3**	**2,978.4**	**3,240.9**

The Group has the following external loans as at 31 December

			Carrying amount			Fair value*		
Currency	**Fixed/ floating**	**Maturity date**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
EUR	Floating	31-05-2016	576.9	578.2	1,156.4	576.9	578.2	1,156.4
EUR	Floating	31-05-2018	576.9	578.2		576.9	578.2	
EUR	Floating	31-05-2016	576.9	578.2	1,156.4	576.9	578.2	1,156.4
EUR	Floating	31-05-2018	576.9	578.2		576.9	578.2	
EUR	Floating	27-08-2015	148.8			148.8		
USD	Floating	31-05-2016	501.9	665.6	928.1	501.9	665.6	928.1
			2,958.3	**2,978.4**	**3,240.9**	**2,958.3**	**2,978.4**	**3,240.9**

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

95% (2013: 100% and 2012: 100%) of the interest rate risk related to EUR and USD loans has been hedged by entering into fixed interest rate swap contracts.

In the event of bankruptcy among the lending banks, the Group has the right to offset cash deposits in the counter party bank debt totalling DKK 335.6 million (2013: DKK 198.0 million and 2012: DKK 271.6 million).

End of September 2015, the Group refinanced its debt as described on F-page F-10.

NOTE 4.2

FINANCIAL RISKS AND INSTRUMENTS

Accounting policies

Derivative financial instruments

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

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

Hedge accounting

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

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

Risk management policy

The Group manages financial risks based on financial strategies and policies approved by the 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 hedging of underlying business driven risks, and consequently the Group does not enter into any speculative transactions.

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

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

Foreign exchange risk

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

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

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

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

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

NOTE 4.2 (Continued)

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

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

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

A 5% increase/decrease in the USD rate would impact (before tax) the result positively/negatively by DKK 3.4 million (2013: DKK 4.0 million and 2012: DKK 14.0 million) arising from balance sheet exposures and impact the equity positively/negatively from cash flow hedges by DKK 3.4 million (2013: DKK 4.0 million and 2012: DKK 14.0 million).

Interest rate risk

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

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

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

As at the balance sheet date, the Group has interest swap agreements totalling a principal of EUR 310.0 million (2013: EUR 310.0 million and 2012: EUR 310.0 million) and USD 82.0 million (2013: USD 123.0 million and 2012: USD 164 million), which relate to bank loans originally raised in 2011 and partly extended in 2013.

As 95% (2013: 100% and 2012: 100%) of the total interest rate risk of debt is hedged, a change in interest rate would primarily affect the equity. Assuming the current portfolio of swap contracts remains the same, an increase in the EUR and USD rate of interest by one percentage point would affect (before tax impact) equity positively by DKK 55.0 million (2013: DKK 77.2 million and 2012: DKK 78.3 million) and DKK 4.2 million (2013: DKK 8.8 million and 2012: DKK 16.9 million), respectively.

Credit risk – operational

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

Operational credit risk

The Group's balance sheet at 31 December 2014 included trade receivables with a net book value of DKK 811.1 million (2013: DKK 817.1 million and 2012: DKK 971.8 million), representing a gross receivable balance of DKK 838.5 million (2013: DKK 834.9 million and 2012: DKK 996.7 million) and a bad debt provision of DKK 27.4 million (2013: DKK 17.8 million and 2012: DKK 24.9 million), based on an individual assessment. The provision for bad debt was based on an objective indication of impairment, such as outstanding payments and financial difficulties, e.g. the debtor's suspension of payments, bankruptcy or expected bankruptcy.

In addition, overdue but not impaired receivables as at 31 December which have not been written down totalled DKK 138.2 million (2013: DKK 155.0 million and 2012: DKK 170.8 million). Please refer to note 3.4.

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

NOTE 4.2 (Continued)

Credit risk – financial

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

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

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

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

Liquidity

Maturity at 31 December 2014	0–1 year	2–5 years	After 5 years	Total*	Fair value level 2**	Carrying amount
Recognised at amortised cost						
Financial institutions	676.2	2,350.9		3,027.1		2,958.3
Trade payables	375.9			375.9		375.9
Other liabilities	547.0			547.0		547.0
Total	**1,599.1**	**2,350.9**	**0.0**	**3,950.0**		**3,881.2**
Recognised at fair value						
Interest rate swaps	42.2	47.7		89.9	89.5	89.5
Forward contracts	0.0			0.0	0.0	0.0
Total	**42.2**	**47.7**	**0.0**	**89.9**		**89.5**
Total financial liabilities	**1,641.3**	**2,398.6**	**0.0**	**4,039.9**		**3,970.7**
Recognised at amortised cost						
Cash and cash equivalents	581.0			581.0		581.0
Trade receivables	811.1			811.1		811.1
Other receivables	97.5			97.5		97.5
Total	**1,489.6**	**0.0**	**0.0**	**1,489.6**		**1,489.6**
Recognised at fair value						
Currency swaps	1.6			1.6	1.6	1.6
Total	**1.6**	**0.0**	**0.0**	**1.6**		**1.6**
Total financial assets	**1,491.2**	**0.0**	**0.0**	**1,491.2**		**1,491.2**

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

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

NOTE 4.2 (Continued)

Liquidity

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

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

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

NOTE 4.2 (Continued)

Liquidity

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

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

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

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

Level 1:

Observable market prices of identical instruments

Level 2:

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

Level 3:

Valuation models primarily based on non-observable prices

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

NOTE 4.2 (Continued)

Hedging transactions

The net fair value at 31 December 2014 of outstanding derivative contracts was negative by DKK 89.5 million (2013: negative by DKK 84.1 million and 2012: negative by DKK 122.7 million), of which DKK 0.0 million was attributable to forward contracts (2013: negative by 3.2 DKK million and 2012: positive 0.3 DKK million), while negative DKK 89.5 million related to interest rate swaps (2013: negative by DKK 80.9 million and 2012: negative by DKK 123.0 million).

Forward contracts have been used to hedge currency risk of future cash flows denominated in GBP, CAD, NOK, IDR, CHF and AUD by swapping the exchange rate exposure to fixed payments in DKK and EUR. The total notional amount of these outstanding forward contracts was DKK 344.0 million as at 31 December 2014 (2013: DKK 223.0 million and 2012: DKK 398.8 million). All forward contracts expire within 12 months (2013: within 9 months 2012: within 12 months). The individual most significant currency as of 31 December 2014 is GBP. A 10% increase in the GBP rate will result in a currency loss of DKK 18.1 million (2013: DKK 18.0 and 2012: 17.0) to be recognised in other comprehensive income.

Currency swaps have been used to hedge currency risk on the principal of an internal loan denominated in PLN. The total notional amount of currency swaps as hedge transactions was DKK 0.0 million as at 31 December 2014 (2013: DKK 3.0 million and 2012: DKK 2.7 million).

Interest rate swaps have been used to hedge the floating rate on bank loans. As at the balance sheet date, the Group has outstanding interest rate swaps with a notional amount of EUR 310.0 million and USD 82.0 million (2013: EUR 310.0 million and USD 123.0 million and 2012: EUR 310 million and USD 164 million). Interest rate swaps follow the profile of the bank loans.

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

Other transactions

The Group uses financial transactions which do not qualify as hedge accounting according to IFRS. The net fair value at 31 December 2014 of outstanding currency swaps was positive by DKK 1.6 million (2013: negative by DKK 0.8 million and 2012: negative by DKK 10.9 million). The currency swaps are used to manage Group liquidity. As of the balance sheet date, the Group has outstanding currency swaps with a notional amount of DKK 387.6 million (2013: DKK 396.5 million and 2012: DKK 588.7 million).

NOTE 4.3

CHANGES IN WORKING CAPITAL (CASH FLOW STATEMENT)

Accounting policies

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

DKK million	2014	2013	2012
Change in receivables	70.0	170.5	(120.6)
Change in inventories	98.5	(227.3)	(124.3)
Change in liabilities	20.7	(94.5)	(92.2)
Change in balances with affiliated companies (trade)	(0.1)	35.9	(23.5)
	189.1	**(115.4)**	**(360.6)**

NOTE 4.4

FINANCIAL FIXED ASSETS

Accounting policies

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

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

2014

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

2013

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

NOTE 4.4 (Continued)

2012

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

Name and country of incorporation

Caribbean Cigar Holdings Group Co. S.A, Panama

DKK Million	2014	2013	2012
Profit & loss			
Revenue	263.9	230.5	227.4
Profit for the year	31.0	27.0	59.5
Other comprehensive income	0.0	0.0	0.0
Total comprehensive income	31.0	27.0	59.5
Financial position			
Non-current Assets	32.8	30.4	31.8
Current assets	365.5	323.6	333.1
Non-current liabilities	1.8	1.6	1.6
Current liabilities	75.3	66.2	54.9
% Interest held	20%	20%	20%

The financial information stated above is based on estimates.

DKK Million	2014	2013	2012
Reconciliation of carrying amount			
Scandinavian Tobacco Group's share of Caribbean Cigar Holdings Group's equity	64.2	57.2	61.7
Goodwill concerning Caribbean Cigar Holdings Group	50.6	44.7	46.7
Elimination of internal profit	(5.1)	(4.4)	(3.7)
Carrying amount at 31 December	**109.7**	**97.5**	**104.7**

NOTE 4.5

FINANCIAL INCOME AND COSTS

Accounting policies

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

NOTE 4.5 (Continued)

Financial income

DKK million	2014	2013	2012
Interest on deposits in financial institutions etc.	4.2	2.7	4.1
Exchange gains, net	22.4	0.0	0.0
Other financial income	2.5	3.0	1.3
	29.1	**5.7**	**5.4**

Financial costs

DKK million	2014	2013	2012
Interest to financial institutions etc.	76.7	81.3	85.2
Interest part of pension cost	10.1	9.0	7.5
Exchange losses, net	0.0	11.0	1.9
Other financing costs	10.6	8.8	11.5
	97.4	**110.1**	**106.1**

Interest on debt to financial institutions etc. includes cost of interest rate swaps of DKK 31 million (2013: DKK 35 million and 2012: DKK 37 million).

The Group incurred loan costs of DKK 11.5 million in connection with the establishment of bank loans in 2011. The costs are amortised over five years. In 2014, a cost of DKK 2.3 million (2013: DKK 2.3 million and 2012: DKK 2.3 million) is included in interest on debt to financial institutions, etc.

Other financing costs include discounting effect of provisions of DKK 2.4 million (2013: DKK 3.0 million and 2012: DKK 4.2 million).

NOTE 4.6

SHARE CAPITAL

DKK '000	
Development in share capital:	
2008	125.0
2009	0.0
2010	99,875.0
2011	0.0
2012	0.0
2013	0.0
At the beginning of the year	**100,000.0**
2014	0.0
At the end of the year	**100,000.0**

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

NET CASH DISTRIBUTION TO SHAREHOLDERS

DKK million	2014	2013	2012
Dividends	427.0	382.0	412.0

Retained earnings include proposed dividends of DKK 427.0 million (2013: DKK 382.0 million and 2012: DKK 412.0 million). Proposed dividend per share amounts to DKK 4.3 (2013: DKK 3.8 and 2012: DKK 4.1).

NOTE 4.6 (Continued)

EARNINGS PER SHARE

Accounting policies

Earnings per share is presented as both basic and diluted earnings per share. Basic earnings per share is calculated as net profit divided by the average number of shares outstanding. Diluted earnings per share is calculated as net profit divided by the sum of average number of shares outstanding, including the dilutive effect of outstanding share bonus programme.

DKK million	2014	2013	2012
Net profit for the year	639.8	572.8	618.2
Average number of shares outstanding (in thousands)	100,000	100,000	100,000
Earnings per share (DKK)	6.4	5.7	6.2
Diluted earnings per share (DKK)*	6.4	5.7	6.2

* None of the granted options are exercisable hence diluted earnings per share equals standard earnings per share.

NOTE 4.7

NET INTEREST-BEARING DEBT

DKK million	2014	2013	2012
Interest-bearing liabilities	3,046.1	3,063.3	3,374.8
Pensions	233.0	209.5	217.0
Cash equivalents	(581.0)	(464.3)	(684.2)
	2,698.1	**2,808.5**	**2,907.6**

Capital management

The principal objectives of the Group's capital management are to ensure shareholders a competitive return on their investment and to ensure that the Group will be able to meet all the commitments set out in the loan agreements with the banks. The basis of the Group's capital management is the NIBD/EBITDA ratio. It is the policy of the Group that this ratio should be between 2.0 and 3.0. At 31 December 2014, the ratio was 2.3 (2013: 2.4 and 2012: 2.2).

Section 5

Other disclosures

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

NOTE 5.1

CASH FLOW ADJUSTMENTS

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

DKK million	2014	2013	2012
Financial items	68.3	104.4	100.7
Share of profit of associated companies, net of tax	(6.2)	(5.4)	(11.9)
Depreciation	102.0	128.8	125.0
Amortisation	167.5	271.1	244.9
Income taxes	205.8	102.9	224.4
(Gains)/losses from sale of property, plant and equipment	(28.7)	0.0	0.0
	508.7	**601.8**	**683.1**

NOTE 5.2

CONTINGENT LIABILITIES

Accounting policies

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

Lease obligations

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

DKK million	2014	2013	2012
Lease expenditures charged to the income statement during the year	129.3	96.6	111.2
Future minimum lease payment under operating lease contracts and rent commitments amounts to:			
Within 1 year	115.9	102.4	112.6
Between 1 and 5 years	167.0	127.1	183.5
After 5 years	35.5	71.7	54.1
	318.4	**301.2**	**350.2**

Guarantee obligations

The Group has guarantee obligations totalling DKK 518.8 million (2013: DKK 497.5 million and 2012: 493.9 million), primarily given to local tax authorities in relation to excise and tax stamps.

Lawsuits etc.

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

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

Disclosure regarding change of control

In the event of change of control, the members of the Executive Management receive additional compensation, please refer to note 2.2.

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

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

NOTE 5.3

RELATED-PARTY TRANSACTIONS

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

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

NOTE 5.3 (Continued)

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

DKK million	2014	2013	2012
Skandinavisk Holding A/S (controlled by the Augustinus Foundation)			
Services provided by Scandinavian Tobacco Group	3.2	3.1	2.8
Skandinavisk Holding II A/S (controlled by the Augustinus Foundation)			
Services provided by Scandinavian Tobacco Group	0.0	0.0	0.8
Dagrofa aps (controlled by the Augustinus Foundation until 29 October 2013)			
Sale of products from Scandinavian Tobacco Group (until 29 October 2013)	0.0	74.5	100.1
Tivoli (controlled by the Augustinus Foundation)			
Purchase of products and sponsorship to Scandinavian Tobacco Group	(0.9)	(0.9)	(0.9)
Swedish Match AB (Controlled by Swedish Match Cigars Holding AB)			
Purchase of products by Scandinavian Tobacco Group	(86.7)	(119.1)	(124.8)
Sale of products from Scandinavian Tobacco Group	86.6	82.6	55.5
Caribbean Cigar Holdings Group Co. S.A (Associated company)			
Purchase of products by Scandinavian Tobacco Group	(50.2)	(45.0)	(30.0)
Sale of products from Scandinavian Tobacco Group	2.0	0.7	0.7
At 31 December the Group had the following outstanding balance with related parties receivable/payable (+/-):			
Skandinavisk Holding A/S	1.7	1.6	0.8
Skandinavisk Holding II A/S	0.0	0.0	16.7
Dagrofa aps (until 29.10.13)	0.0	0.0	20.0
Swedish Match AB	(6.0)	(5.4)	(6.4)
Caribbean Cigar Holdings Group Co. S.A	0.3	(1.0)	0.1
Total	**(4.0)**	**(4.8)**	**(31.2)**

For information on remuneration to the Management of Scandinavian Tobacco Group A/S, please refer to note 2.2. For an overview of Group companies, please refer to note 5.6. There have not been and are no loans to key management personnel in 2014, 2013 or 2012.

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

Ownership and Consolidated Financial Statements

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

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

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

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

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

NOTE 5.4

EVENTS AFTER THE REPORTING PERIOD

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

NOTE 5.5

FEE TO STATUTORY AUDITOR

DKK million	2014	2013	2012
Statutory audit	5.2	5.8	4.4
Audit-related services	0.9	0.3	0.6
Tax advisory services	6.4	2.0	4.3
Other services	5.2	2.8	0.2
Total fee to statutory auditors	**17.7**	**10.9**	**9.5**

NOTE 5.6

ENTITIES IN SCANDINAVIAN TOBACCO GROUP

	Country	Ownership	Activity			
Company name			Production	Sale and Marketing	Administration	Finance
Parent company						
Scandinavian Tobacco Group A/S	Denmark	–		●	●	●
Subsidiaries by region						
Europe						
Bogaert Cigars N.V.	Belgium	100%		●		
Scandinavian Tobacco Group Belux N.V.	Belgium	100%		●		
Scandinavian Tobacco Group Lummen N.V.	Belgium	100%	●			
Scandinavian Tobacco Group Belgium Services N.V.	Belgium	100%			●	
Scandinavian Tobacco Group Wuustwezel N.V.	Belgium	100%	●			
Scandinavian Tobacco Group Zagreb d.o.o.	Croatia	100%		●		
Scandinavian Tobacco Group Assens A/S	Denmark	100%	●	●		
Scandinavian Tobacco Group Denmark A/S	Denmark	100%		●		
Scandinavian Tobacco Group Nykøbing ApS	Denmark	100%	●			
STG Finans ApS	Denmark	100%				●
STG Latin Holding ApS	Denmark	100%			●	
Peter Stokkebye Tobaksfabrik A/S	Denmark	100%		●		
Scandinavian Tobacco Group France S.A.S	France	100%		●		
Scandinavian Tobacco Group Deutschland GmbH	Germany	100%		●		
Scandinavian Tobacco Group Italy S.R.L.	Italy	100%		●		
Scandinavian Tobacco Group Norway AS	Norway	100%		●		
Scandinavian Tobacco Group Polska Sp. z o.o.	Poland	100%		●		
STG Portugal S.A.	Portugal	100%		●		
Scandinavian Tobacco Group d.o.o.	Slovenia	100%		●		
Scandinavian Tobacco Group Spain S.A.U.	Spain	100%		●		
Intermatch Sweden AB	Sweden	100%			●	
P.G.C. Hajenius B.V.	The Netherlands	100%		●		
Scandinavian Tobacco Group Eersel B.V.	The Netherlands	100%	●	●	●	
Scandinavian Tobacco Group Nederland B.V.	The Netherlands	100%		●		
Scandinavian Tobacco Group Tobacco Service B.V.	The Netherlands	100%		●		
ST Cigar Group Holding B.V.	The Netherlands	100%			●	
STG Finance B.V.	The Netherlands	100%				●
Scandinavian Tobacco Group Bethlehem Holdings B.V.	The Netherlands	100%			●	
Scandinavian Tobacco Group Bethlehem Sales B.V.	The Netherlands	100%		●	●	
Scandinavian Tobacco Group United Kingdom Limited	United Kingdom	100%		●		
Asia						
Scandinavian Tobacco Group Hong Kong Limited	Hong Kong	100%		●		
PT Scandinavian Tobacco Group Indonesia	Indonesia	100%	●			
Australia and New Zealand						
Scandinavian Tobacco Group Australia Pty Ltd	Australia	100%	●	●		
Scandinavian Tobacco Group New Zealand Ltd	New Zealand	100%		●		
Africa						
Scandinavian Tobacco Nigeria Ltd.	Nigeria	100%			●	

NOTE 5.6 (Continued)

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

Scandinavian Tobacco Group Belgium Services N.V. is a new company in 2013 providing services. Scandinavian Tobacco Group Wuustwezel N.V. (Former Verellen N.V.) was purchased in 2014.

NOTE 5.7

EXPLANATION OF FINANCIAL RATIOS

Gross margin =	Gross profit	/	Net sales
EBITDA margin =	EBITDA	/	Net sales
EBIT margin =	EBIT	/	Net sales
Tax percentage =	Tax	/	Profit before tax
Return on assets =	EBIT	/	Total assets
Equity ratio =	Equity	/	Total assets
Return on equity =	Net profit for the year	/	Average equity
Net interest-bearing debt =	Interest-bearing liabilities and pensions less (-) Cash equivalents and interest-bearing receivables		

ARTICLES OF ASSOCIATION OF SCANDINAVIAN TOBACCO GROUP A/S

1.	**Navn**	**Name**
1.1	Selskabets navn er Scandinavian Tobacco Group A/S.	The company's name is Scandinavian Tobacco Group A/S.
1.2	Selskabet driver tillige virksomhed under binavnet Skandinavisk Tobakskompagni A/S.	The company also carries on business under the secondary name of Skandinavisk Tobakskompagni A/S.
2.	**Formål**	**Objects**
2.1	Selskabets formål er i indland og i udland såvel direkte som gennem datterselskaber at drive fabrikation, distribution og handel og anden dermed i forbindelse stående virksomhed.	The company's objects are to carry on business at home and abroad, directly or through its subsidiaries, by manufacturing, distribution and marketing, and to undertake, perform and carry on all such other things incidental to the attainment of such objects.
3.	**Selskabets kapital**	**Share Capital**
3.1	Selskabets aktiekapital udgør nominelt DKK 100.000.000 fordelt på aktier á DKK 1 eller multipla heraf.	The company's share capital is DKK 100,000,000, divided into shares of DKK 1 or any multiple thereof.
3.2	Aktiekapitalen er fuldt indbetalt.	The share capital has been fully paid up.
3.3	Ved kontant forhøjelse af aktiekapitalen skal selskabets aktionærer have ret til forholdsmæssig tegning af de nye aktier, medmindre generalforsamlingen beslutter at fravige fortegningsretten til fordel for andre.	In connection with any cash capital increase, the company's shareholders are entitled to subscribe for the new shares in proportion to their shareholdings, unless the general meeting resolves to override such pre-emption rights in favour of others.
4.	**Selskabets aktier**	**Shares**
4.1	Selskabets aktier er udstedt på navn og skal noteres på navn i selskabets ejerbog.	The company's shares are issued in the names of the holders and shall be recorded in the names of the holders in the company's register of shareholders.
4.2	Selskabets aktier er omsætningspapirer. Aktierne er frit omsættelige og ikke indløselige, medmindre andet følger af lovgivningen.	The company's shares are negotiable instruments. The shares shall be freely transferable and non-redeemable, unless otherwise provided by statute.
4.3	Selskabets aktier er registreret i værdipapircentralen VP Securities A/S, CVR-nr. 21 59 93 36, og selskabet udsteder således ikke fysiske ejerbeviser. Rettigheder vedrørende selskabets aktier skal anmeldes til VP Securities A/S efter de herom fastsatte regler.	The company's shares are registered with the Danish securities centre VP Securities A/S, Central Business Register (CVR) number 21 59 93 36, and therefore the company shall not issue any physical share certificates. All rights attaching to the shares shall be notified to VP securities A/S in accordance with the applicable rules.
4.4	Ejerbogen føres af Computershare A/S, CVR-nr. 27 08 88 99. Ejerbogen er ikke tilgængelig for aktionærerne.	The register of shareholders shall be kept by Computershare A/S, Central Business Register (CVR) number 27 08 88 99. The register of shareholders shall not be available for inspection by the shareholders.

5.	**Kapitalforhøjelse**	**Increase of the Share Capital**
5.1	Bestyrelsen er i perioden indtil den 31. december 2020 bemyndiget til at forhøje aktiekapitalen ved kontant indskud, apportindskud og/eller gældskonvertering ad en eller flere gange ved tegning af nye aktier med indtil nominelt DKK 10.000.000. Forhøjelsen skal ske til markedskurs.	In the period until 31 December 2020, the board of directors is authorised on one or more occasions to increase the share capital by cash contribution; contribution in kind; and/or conversion of debt by issuance of new shares of no more than nominal DKK 10,000,000. The subscription is to be made at market price.
	De nye aktier skal være omsætningspapirer og skal udstedes på navn samt noteres på navn i selskabets ejerbog. Der skal ikke gælde indskrænkninger i de nye aktiers omsættelighed. De hidtidige aktionærers fortegningsret skal ikke gælde. De nye aktier skal have samme rettigheder som selskabets eksisterende aktier.	The new shares shall be negotiable instruments and shall be issued in the names of the holders and recorded in the names of the holders in the company's register of shareholders. The negotiability of the new shares shall not be subject to restrictions. The pre-emption rights of the existing shareholders shall not apply to the new shares. The new shares shall carry the same rights as the Company's existing shares.
5.2	Bestyrelsen er i perioden indtil den 31. december 2020 bemyndiget til at forhøje aktiekapitalen ad én eller flere gange ved kontant indbetaling med indtil i alt nominelt DKK 1.000.000 aktier ved at tilbyde selskabets eller dettes datterselskabers direktører eller medarbejdere at tegne aktierne til en kurs, der er lavere end markedskursen.	In the period until 31 December 2020, the board of directors is authorised on one or more occasions to increase the share capital by cash contribution by issuance of new shares of no more than nominal DKK 1,000,000 in connection with subscription of shares by the Company's or its subsidiaries' officers employees at a subscription price below market price.
	De nye aktier skal være omsætningspapirer og skal udstedes på navn samt noteres på navn i selskabets ejerbog. Der skal ikke gælde indskrænkninger i de nye aktiers omsættelighed. De hidtidige aktionærers fortegningsret skal ikke gælde. De nye aktier skal have samme rettigheder som selskabets eksisterende aktier.	The new shares shall be negotiable instruments and shall be issued in the names of the holders and recorded in the names of the holders in the company's register of shareholders. The negotiability of the new shares shall not be subject to restrictions. The pre-emption rights of the existing shareholders shall not apply to the new shares. The new shares shall carry the same rights as the Company's existing shares.
6.	**Egne aktier**	**Treasury Shares**
6.1	Bestyrelsen er i perioden indtil 31. december 2020 autoriseret til at lade selskabet erhverve egne aktier for indtil nominelt DKK 10.000.000 til den på erhvervelsestidspunktet gældende børskurs med en afvigelse på op til 10%.	In the period until 31 December 2020 the board of directors is authorised to allow the company to acquire its 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 the acquisition.
7.	**Generalforsamlingen, Kompetence, Sted Og Indkaldelse**	**General Meetings; Powers, Venue And Notice**
7.1	Aktionærernes beslutningskompetence udøves på generalforsamlingen	The shareholders' authority to pass resolutions shall be exercised at the general meeting.
7.2	Generalforsamlingen har den højeste myndighed i alle selskabets anliggender, inden for de i lovgivningen og disse vedtægter fastsatte grænser.	Subject to statute and to these articles of association, the general meeting has the supreme authority in all the company's affairs.
7.3	Selskabets generalforsamlinger skal afholdes på selskabets hjemsted eller i Storkøbenhavn.	General meetings shall be held at the company's registered office or in the Greater Copenhagen area.

7.4	Den ordinære generalforsamling skal afholdes hvert år i så god tid, at den reviderede og godkendte årsrapport kan modtages i Erhvervsstyrelsen inden udløbet af fristen i årsregnskabsloven.	The annual general meeting shall be held every year in time for the audited and adopted annual report to reach the Danish Business Authority (in Danish: *Erhvervsstyrelsen*) before expiry of the time limit provided by the Danish Financial Statements Act (in Danish: *Årsregnskabsloven*).
7.5	Bestyrelsen skal senest 8 uger før den ordinære generalforsamling offentliggøre den påtænkte dato for generalforsamlingens afholdelse samt datoen for den seneste fremsættelse af krav om optagelse af et bestemt emne på dagsordenen.	No later than eight weeks before the date of the annual general meeting, the board of directors shall announce the scheduled date of the general meeting as well as the latest date for the submission of requests by shareholders to have specific issues included on the agenda.
7.6	Ekstraordinær generalforsamling til behandling af et bestemt angivet emne skal indkaldes senest 2 uger efter, at det skriftligt er begæret af bestyrelsen, revisor eller aktionærer, der tilsammen ejer mindst 5% af aktiekapitalen.	Extraordinary general meetings to consider specific issues shall be convened within two weeks of receipt of a written request to such effect from the board of directors, the auditor, or shareholders holding in aggregate no less than 5% of the share capital.
7.7	Generalforsamlinger indkaldes af bestyrelsen senest 3 uger og tidligst 5 uger før dagen for generalforsamlingen via selskabets hjemmeside og ved e-mail til alle i ejerbogen noterede aktionærer, som har fremsat begæring herom.	General meetings shall be convened by the board of directors no later than three weeks and no earlier than five weeks before the date of the general meeting by publishing a notice on the company's website and, where requested, by e-mail to all shareholders registered in the register of shareholders.
7.8	Selskabets generalforsamlinger er ikke åbne for offentligheden medmindre bestyrelsen i det enkelte tilfælde giver tilladelse hertil. Selskabets generalforsamling er dog altid åben for pressen.	The company's general meetings shall not be open to the public, unless authorised by the board of directors in each individual case. However, the company's general meetings shall always be open to the press.
8.	**Generalforsamlingen, dagsorden**	**General Meeting; Agenda**
8.1	Selskabet skal i en sammenhængende periode på 3 uger begyndende senest 3 uger før generalforsamlingen (inkl. dagen for dennes afholdelse) gøre følgende oplysninger tilgængelige for aktionærerne på selskabets hjemmeside:	For a continuous period of three weeks beginning no later than three weeks before the date of any general meeting (including the date of the meeting), the company shall make the following information available to the shareholders on the company's website:
	1. Indkaldelsen.	1. The notice convening the general meeting.
	2. Det samlede antal aktier og stemmerettigheder på datoen for indkaldelsen.	2. The aggregate number of shares and voting rights at the date of the notice.
	3. De dokumenter, der skal fremlægges på generalforsamlingen, herunder for den ordinære generalforsamlings vedkommende den reviderede årsrapport.	3. The documents to be submitted to the general meeting, including, in the case of the annual general meeting, the audited annual report.
	4. Dagsordenen og de fuldstændige forslag.	4. The agenda of the general meeting and the full text of any proposal to be submitted to the general meeting.
	5. Eventuelle formularer, der skal anvendes ved stemmeafgivelse ved fuldmagt og ved stemmeafgivelse per brev, medmindre disse formularer sendes direkte til aktionærerne.	5. Proxy and postal voting forms, if applicable, unless such forms are sent directly to the shareholders.

8.2 På den ordinære generalforsamling skal dagsordenen indeholde følgende punkter:

The agenda of the annual general meeting shall include the following items:

1. Bestyrelsens beretning om selskabets virksomhed i det forløbne regnskabsår.
2. Godkendelse af den reviderede årsrapport.
3. Godkendelse af bestyrelsens og bestyrelsesudvalgenes honorar.
4. Anvendelse af overskud eller dækning af underskud i henhold til den godkendte årsrapport.
5. Valg af bestyrelsesmedlemmer.
6. Valg af revisor(er).
7. Eventuelle forslag fra bestyrelsen og/eller aktionærerne.

1. The report of the board of directors on the company's activities during the past financial year.
2. Adoption of the audited annual report.
3. Adoption of the remuneration for the board of directors and any board committees
4. Appropriation of profit or loss as recorded in the adopted annual report.
5. Election of directors.
6. Election of auditor(s).
7. Any proposal by the board of directors and/or shareholders.

9. Generalforsamlingen, stemme- og repræsentationsret mv.

General Meetings; Voting Rights and Rights of Representation, etc.

9.1 Hver aktie á nominelt DKK 1 giver én stemme på selskabets generalforsamlinger.

Each share of nominally DKK 1 shall carry one vote at the company's general meetings.

9.2 En aktionær har ret til selv at møde på generalforsamlingen eller ved en fuldmægtig og i begge tilfælde sammen med en rådgiver.

Shareholders may attend general meetings in person or by proxy and may, in both cases, be accompanied by an advisor.

9.3 En fuldmægtig kan udøve stemmeret på aktionærens vegne mod forevisning af skriftlig eller elektronisk og dateret fuldmagt. Selskabet stiller en skriftlig eller elektronisk fuldmagtsblanket til rådighed for enhver aktionær, der er berettiget til at stemme på generalforsamlingen. Dirigenten afgør endeligt ethvert spørgsmål om fuldmagters gyldighed.

Proxies may exercise voting rights on behalf of shareholders subject to presenting a written or electronic and dated instrument of proxy. The company shall make a written or electronic proxy form available to all shareholders entitled to vote at the general meeting. The chairman of the meeting finally decides on any matters relating to the authenticity of any proxies.

9.4 En aktionærs ret til at deltage i en generalforsamling og afgive stemme på sine aktier fastsættes i forhold til de aktier, som aktionæren besidder på registreringsdatoen. Registreringsdatoen er én uge før generalforsamlingens afholdelse.

A shareholder's rights to attend and vote at general meetings shall be determined on the basis of the shares held by the shareholder on the date of registration. The date of registration shall be one week before the date of the general meeting.

9.5 Aktionærers eller disses fuldmægtiges deltagelse i generalforsamlingen skal være anmeldt til selskabet senest 3 dage før generalforsamlingens afholdelse. Tilsvarende gælder for en eventuel rådgiver.

Shareholders shall notify the company of their attendance or their proxy holder's attendance at any general meeting no later than three days before the date of the general meeting. This requirement shall also apply to any advisers.

9.6 En aktionær kan inden for de seneste 3 måneder før generalforsamlingens afholdelse stille skriftlige spørgsmål til selskabets ledelse om forhold, der er af betydning for bedømmelsen af årsrapporten og selskabets stilling i øvrigt eller for forhold, hvorom der skal tages beslutning på generalforsamlingen.

Within the three months immediately preceding the date of any general meeting, a shareholder may submit questions in writing to the company's management about matters of significance to the assessment of the annual report and the general position of the company or of significance to any matter to be resolved at the general meeting.

9.7	Sproget på generalforsamlingen er engelsk uden simultantolkning til og fra dansk. Dokumenter udarbejdet til generalforsamlingens brug i forbindelse med eller efter generalforsamlingen udarbejdes på engelsk.	The language at general meetings shall be English without any simultaneous interpretation to and from Danish. All documents prepared for use by the general meeting at or after the general meeting shall be in English.
10.	**Generalforsamlingen, dirigent, beslutninger og protokol**	**General Meetings; Chairman, Resolutions and Minutes**
10.1	Bestyrelsen udpeger en dirigent, der leder generalforsamlingen og sikrer, at generalforsamlingen afholdes på en forsvarlig og hensigtsmæssig måde. Dirigenten afgør alle spørgsmål vedrørende sagernes behandling og stemmeafgivning.	The board of directors shall appoint a chairman to preside over the general meeting and to ensure that the meeting is held in an orderly and proper manner. The chairman shall decide all matters relating to the transaction of business and voting.
10.2	På generalforsamlingen træffes alle beslutninger ved simpelt flertal, medmindre andet følger af selskabsloven eller af disse vedtægter.	All business transacted by the general meeting shall be decided by a simple majority of votes, unless otherwise provided by the Danish Companies Act (in Danish: *Selskabsloven*) or by these Articles of Association.
10.3	Over forhandlingerne på generalforsamlingen føres en protokol, der underskrives af dirigenten. Protokollen eller en bekræftet udskrift af denne skal senest 2 uger efter generalforsamlingens afholdelse være tilgængelig for aktionærerne på selskabets hjemmeside. Senest 2 uger efter generalforsamlingens afholdelse offentliggøres afstemningsresultaterne for generalforsamlingen på selskabets hjemmeside.	Minutes shall be kept of the proceedings at general meetings, which shall be signed by the chairman of the meeting. The minutes or a certified copy of the minutes shall be available for inspection by the shareholders on the company's website no later than two weeks after the general meeting. No later than two weeks after the general meeting, the results of voting at the meeting shall be announced on the company's website.
11.	**Bestyrelse**	**Board of Directors**
11.1	Selskabet ledes af en bestyrelse på 6-10 medlemmer valgt af generalforsamlingen for tiden indtil næste ordinære generalforsamling. Personer, som på generalforsamlingstidspunktet er fyldt 70 år, kan ikke vælges til bestyrelsen.	The Company is managed by a board of directors consisting of 6 to 10 directors elected by the general meeting to hold office until the next annual general meeting. Any persons that as of the date of the general meeting is 70 years or more cannot be elected to the board of directors.
11.2	Bestyrelsen vælger en formand og en næstformand. En direktør må ikke vælges til formand eller næstformand.	The board of directors elects a chairman and a vice-chairman. No member of the executive management may be elected as chairman or vice-chairman.
11.3	Bestyrelsen er beslutningsdygtig, når over halvdelen af samtlige bestyrelsesmedlemmer er repræsenteret. Bestyrelsens beslutninger træffes ved simpelt flertal. Formandens eller ved dennes forfald næstformandens stemme er afgørende ved stemmelighed.	The board of directors forms a quorum when more than half of all directors are represented. All business transacted by the board of directors shall be decided by a simple majority of votes. In the event of an equality of votes, the chairman or, in the chairman's absence, the vice-chairman shall have a casting vote.
11.4	Bestyrelsen skal vedtage en forretningsorden om udførelsen af sit hverv.	The board of directors shall adopt rules of procedure governing the performance of its duties.
11.5	Referater af bestyrelsesmøder skal underskrives af samtlige tilstedeværende bestyrelsesmedlemmer.	Minutes of board meetings shall be signed by all directors present at the meeting.

11.6	Selskabets koncernsprog er engelsk.	The company's corporate language shall be English.
12.	**Direktion**	**Executive Management**
12.1	Bestyrelsen ansætter 1-5 direktører til at varetage den daglige ledelse af selskabets virksomhed. Såfremt direktionen består af mere end et medlem, skal et af disse udpeges som administrerende direktør.	The board of directors shall appoint one to five executive officers to be responsible for the day-to-day management of the company's business. If the executive management consists of more than one member, one member shall be appointed as chief executive officer.
13.	**Incitamentsaflønning**	**Incentive Remuneration**
13.1	Selskabet har vedtaget retningslinjer for incitamentsaflønning af ledelsen, jf. selskabslovens § 139, stk. 2. Retningslinjerne, der er godkendt af generalforsamlingen, er tilgængelige på selskabets hjemmeside, www.st-group.com.	Guidelines have been adopted for incentive remuneration for the members of the management, cf. section 139(2) of the Danish Companies Act. The guidelines are published on the company's website, www.st-group.com.
14.	**Elektronisk kommunikation**	**Electronic Communication**
14.1	Selskabet kan anvende elektronisk dokumentudveksling samt elektronisk post (e-mail) i kommunikation mellem selskabet og aktionærerne. Dette omfatter, men er ikke begrænset til, indkaldelse af aktionærerne til ordinær og ekstraordinær generalforsamling, herunder de fuldstændige forslag til vedtægtsændringer, tilsendelse af dagsorden, årsrapport m.v. samt øvrige generelle oplysninger fra selskabet til aktionærerne. Selskabet kan altid benytte almindelig brevpost som alternativ til elektronisk kommunikation. Det er aktionærernes ansvar at sikre, at selskabet er i besiddelse af korrekt elektronisk kontaktoplysning. Aktionærerne kan få oplysninger om kravene til de anvendte systemer og om fremgangsmåden ved elektronisk kommunikation ved henvendelse til selskabet.	The company may use electronic exchange of documents and electronic mails (e-mails) when communicating with its shareholders. This includes, but is not limited to giving notice to shareholders of annual and extraordinary general meetings, including the complete proposals for amendment of the articles of association, forwarding the agenda and the annual report, etc. and providing other general information to the shareholders. The company may always use ordinary mail as an alternative to electronic communication. The shareholders are responsible for ensuring that the company is in possession of the correct electronic contact details. The shareholders may request information on the system requirements and on the procedure to be followed when communicating by electronic means by contacting the company.
15.	**Tegningsregel**	**Power to Bind the Company**
15.1	Selskabet tegnes af formanden for bestyrelsen i forening med en direktør eller et andet bestyrelsesmedlem eller af to direktører i forening eller af den samlede bestyrelse.	The company is bound by the joint signatures of the chairman of the board of directors and another member of the board of directors or a member of the executive management, or by the joint signatures of two members of the executive management, or by the joint signatures of all members of the board of directors.
16.	**Revision**	**Auditing**
16.1	Selskabets årsregnskab revideres af én eller to statsautoriserede revisorer valgt af generalforsamlingen for tiden indtil næste ordinære generalforsamling.	The company's financial statement shall be audited by one or two state-authorised public accountants elected by the general meeting to hold office until the next annual general meeting.
16.2	Selskabets årsrapporter og delårsrapporter skal udarbejdes og aflægges på engelsk.	The company's annual reports and interim financial reports are prepared and presented in English.

17.	**Regnskabsår**	**Financial Year**
17.1	Selskabets regnskabsår er kalenderåret.	The company's financial year shall be the calendar year.
	Således vedtaget på selskabets ekstraordinære generalforsamling den 15. januar 2016.	As adopted at the company's extraordinary general meeting on 15 January 2016.
	Som dirigent:	Chairman of the meeting:
	____________________ Christian Lundgren	____________________ Christian Lundgren

APPLICATION FORM IN ENGLISH

Application form (Only one form per custody account)	**Offering of 35,600,000 Offer Shares of DKK 1 nominal value each**
Application for purchase of Offer Shares in Scandinavian Tobacco Group A/S, CVR-no. 31 08 01 85	
Selling agents:	Nordea Bank Danmark A/S (CVR-no. 13 52 21 97) Strandgade 3 Postboks 850 0900 Copenhagen C
Joint Global Coordinators and Joint Bookrunners: Co-Lead Manager:	J.P. Morgan Securities Ltd., Deutsche Bank AB, London Branch and Nordea Markets (division of Nordea Bank Danmark A/S) (the "**Joint Global Coordinators**") Carnegie Investment Bank, filial af Carnegie Investment Bank AB (publ), Sverige (the "**Co-Lead Manager**") (The Joint Global Coordinators and the Co-Lead Manager are together referred to as the "**Managers**")
Offer Period:	Thursday 28 January to Tuesday 9 February 2016 at 4:00 p.m. (CET) unless the Offering is closed earlier in whole or in part. The Offer Period for order applications up to and including DKK 3 million may be closed before the remainder of the Offering. The Offering will not be closed before 6 February 2016 at 00:01 a.m. (CET).
Offer Price Range:	DKK 93 to DKK 110 per Offer Share
ISIN	Permanent ISIN: DK0060696300

The English Language Prospectus dated 28 January 2016 includes *inter alia* the Articles of Association of Scandinavian Tobacco Group A/S, the consolidated financial statements of Scandinavian Tobacco Group A/S as at and for the years ended 31 December 2014, 2013 and 2012 and the terms and conditions for the purchase of Offer Shares.

Both binding order applications and expressions of interest can be submitted with specification of a maximum price. If the Offer Price is determined at a higher level than the stated maximum price no Offer Shares will be allocated to the purchaser.

For binding orders up to and including DKK 3 million the application form is submitted to the purchaser's own account holding institution duly filled in and signed.

The application form shall be submitted in due time for the account holding institution to process and forward the application form for order to the application form to reach Nordea Bank Danmark A/S, Corporate Actions no later than 9 February 2016 at 16:00 CET or such earlier time as the Offering may be closed in whole or in part.

Expressions of interest to purchase Offer Shares for more than DKK 3 million shall be submitted to one of the Managers (e.g. by using this application form).

On the terms and conditions stated in the English Language Prospectus dated 28 January 2016 including in "*Risk Factors*" and "*Selling Restrictions*", I/we hereby submit an order application to purchase Offer Shares in Scandinavian Tobacco Group A/S and simultaneously declare to have received a copy of the English Language Prospectus and that I/we have solely based my/our investment decision on the contents of the English Language Prospectus. The Offer Price will be fixed upon closing of the Offering through a bookbuilding process. See the "*Terms and Conditions of the Offering*". Only one application form per custody account with VP Securities A/S (VP) will be accepted.

Application submitted as a binding application (for orders up to and including DKK 3 million)

I/we accept that the Managers may demand information about my/our name(s), address(es) and application and are entitled to pass on such information to the Selling Shareholders, Scandinavian Tobacco Group A/S and the Managers. I/we undertake to pay the equivalent of the Offer Shares allocated at the offer price fixed.

Field (1) or (2) only should be completed

(1) For Danish kroner (DKK):	(2) Number of Offer Shares:	(3) Maximum price per Offer Share if any

Expression of interest submitted pursuant to the book-building process (for orders above DKK 3 million)

I/we accept that the application form and information about my/our name(s) and address(es) are entitled to be passed on to the Selling Shareholders, Scandinavian Tobacco Group A/S and the Managers. I/we accept that I/we during the Offer Period can amend or revoke this expression of interest but that this expression of interest automatically will be converted into a binding purchase order upon expiry of the Offer Period.

Field (1) or (2) only should be completed

(1) For Danish kroner (DKK):	(2) Number of Offer Shares:	(3) Maximum price per Offer Share if any

If the aggregate applications to purchase and expressions of interest exceeds the total number of Offer Shares, a reduction will be completed as further described in the English Language Prospectus (see "*Plan of Distribution*"). Neither submission of application orders nor submission of expressions of interest entitles to any Offer Shares. Settlement of the Offering will be effected by way of registration of the allocated number of Offer Shares on your custody account with VP Securities A/S (VP) against payment in DKK, which is expected to take place on or before 12 February 2016.

Information and signature

Name:	VP custody account no.:
Address:	Settlement account no:
Postal code and city:	Custodian bank:
Tel.:	
Date:	*This application form was submitted to (to be completed by account-holding institution):* *Reg. No.:* *Participant ID-no. (CD-ident.):* *Date:* *Tel.:*

Signature

Company stamp and signature

Please complete the form overleaf when opening a new VP custody account.

Opening of new VP custody account **(This box should be filled in when opening a new VP custody account and any related settlement account)**
Civil registration (CPR) no./company registration (CVR) no.:
Name:
Address:
Postal code and city:
Tel.:
Position:
Existing account no. for settlement, if any:

ORDREBLANKET

Ordreblanket (Kun én blanket pr. depot)	**Udbud af 35.600.000 stk. Udbudte Aktier à nominelt DKK 1**
Ordre om køb af Udbudte Aktier i Scandinavian Tobacco Group A/S, CVR-nr. 31 08 01 85	
Salgssteder:	Nordea Bank Danmark A/S (CVR-nr. 13 52 21 97) Strandgade 3 Postboks 850 0900 København C
Joint Global Coordinators og Joint Bookrunners: Co-Lead Manager:	J.P. Morgan Securities Ltd., Deutsche Bank AB, London Branch og Nordea Markets (division af Nordea Bank Danmark A/S) ("**Joint Global Coordinators**") Carnegie Investment Bank, filial af Carnegie Investment Bank AB (publ), Sverige ("**Co-Lead Manager**") (Joint Global Coordinators og Co-Lead Manager benævnes under ét "**Emissionsbankerne**")
Udbudsperiode:	Torsdag den 28. januar til tirsdag den 9. februar 2016 kl. 16:00 (dansk tid), medmindre Udbuddet helt eller delvist lukkes tidligere. Udbudsperioden for ordrer til og med DKK 3 mio. kan lukkes før resten af Udbuddet. Udbuddet vil tidligst blive lukket den 6. februar 2016 kl. 00:01 (dansk tid).
Udbudskursinterval:	DKK 93 – DKK 110 pr. Udbudt Aktie
ISIN-kode	Permanent ISIN-kode: DK0060696300

Det Engelsksprogede Prospekt dateret den 28. januar 2016 indeholder bl.a. vedtægter for Scandinavian Tobacco Group A/S, koncernregnskabet for Scandinavian Tobacco Group A/S for regnskabsårene 2014, 2013 og 2012 samt vilkårene for køb af Udbudte Aktier.

Både bindende ordrer og interessetilkendegivelser kan afgives med angivelse af en eventuel maksimumkurs. Fastsættes Udbudskursen højere end den anførte maksimumkurs, vil ordregiver ikke blive tildelt nogen Udbudte Aktier.

For bindende ordrer til og med DKK 3 mio. indleveres ordreblanketten til ordregivers eget kontoførende institut i udfyldt og underskrevet stand.

Ordreblanketten skal indleveres i så god tid, at det kontoførende institut har mulighed for at behandle og videresende ordren, således at den er Nordea Bank Danmark A/S, Corporate Actions, i hænde senest den 9. februar 2016 kl. 16:00 dansk tid eller et sådant tidligere tidspunkt, hvor Udbuddet måtte blive lukket helt eller delvist.

Interessetilkendegivelser om at købe Udbudte Aktier for mere end DKK 3 mio. skal afgives til en af Emissionsbankerne (f.eks. ved brug af denne ordreblanket).

På vilkår som anført i det Engelsksprogede Prospekt dateret den 28. januar 2016, herunder afsnittene "*Risikofaktorer*" og "*Salgsbegrænsninger*", afgiver jeg/vi hermed ordre om køb af Udbudte Aktier i Scandinavian Tobacco Group A/S og bekræfter samtidig at have fået udleveret et eksemplar af det Engelsksprogede Prospekt, og at jeg/vi alene har baseret min/vores investeringsbeslutning på indholdet af det Engelsksprogede Prospekt. Udbudskursen fastsættes efter lukning af Udbuddet via bookbuilding-metoden, jf. afsnittet "*Udbudsbetingelser*". Der kan kun afgives én ordreblanket pr. depot hos VP Securities A/S (VP).

Ordre afgivet som bindende ordre (for ordrebeløb til og med DKK 3 mio.)

Jeg/vi accepterer, at Emissionsbankerne kan kræve oplysninger om mit/vores navn, adresse og ordre og er berettiget til at videregive disse oplysninger til de Sælgende Aktionærer, Scandinavian Tobacco Group A/S og Emissionsbankerne. Jeg/vi forpligter mig/os hermed til at betale modværdien af de Udbudte Aktier tildelt til den fastsatte udbudskurs.

Felt (1) eller (2) skal udfyldes

(1) For kroner (DKK):	(2) Antal Udbudte Aktier:	(3) Eventuel maksimumkurs pr. Udbudt Aktie

Interessetilkendegivelse afgivet efter bookbuilding-metoden (for ordrebeløb større end DKK 3 mio.)

Jeg/vi accepterer, at ordreblanketten samt oplysninger om mit/vores navn og adresse videregives til de Sælgende Aktionærer, Scandinavian Tobacco Group A/S og Emissionsbankerne. Jeg/vi accepterer, at jeg/vi kan ændre eller tilbagekalde interessetilkendegivelsen i løbet af Udbudsperioden, men at interessetilkendegivelsen bliver til en bindende ordre ved Udbudsperiodens udløb.

Felt (1) eller (2) skal udfyldes

(1) For kroner (DKK):	(2) Antal Udbudte Aktier:	(3) Eventuel maksimumkurs pr. Udbudt Aktie

Overstiger de samlede ordrer og interessetilkendegivelser det samlede antal Udbudte Aktier, vil der ske reduktion som anført i det Engelsksprogede Prospekt (jf. afsnittet "*Fordelingsplan*"). Afgivelse af ordrer eller interessetilkendegivelser berettiger ikke til tildeling af Udbudte Aktier. Afvikling af Udbuddet sker ved registrering af antal tildelte Udbudte Aktier på Deres depot i VP Securities A/S (VP) mod betaling i DKK, hvilket forventes at finde sted senest den 12. februar 2016.

Oplysninger og underskrift

Navn:	VP-depotnr.:
Adresse:	Kontonr. til afregning:
Postnr. og by:	Kontoførende institut:
Telefon:	
Dato:	

Ordren er indleveret til (udfyldes af kontoførende institut):
Reg.nr.: *CD-ident.:*
Dato: *Telefon:*

Underskrift

Firmastempel og underskrift

Udfyld nedenfor ved oprettelse af et nyt VP-depot.

Oprettelse af nyt VP-depot **(Denne rubrik udfyldes i forbindelse med oprettelse af nyt VP-depot og evt. tilhørende afregningskonto)**
CPR-nr./CVR-nr.:
Navn:
Adresse:
Postnr. og by:
Telefon:
Stilling:
Evt. eksisterende kontonr. til afregning:

THE COMPANY

Scandinavian Tobacco Group A/S
Sydmarken 42
DK-2860 Søborg
Denmark

MANAGERS

Joint Global Coordinators and Joint Bookrunners

J.P. Morgan Securities Ltd.
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

Nordea Markets (division of Nordea Bank Danmark A/S)
Strandgade 3, PO Box 850
DK-0900 Copenhagen C
Denmark

Co-Lead Manager

Carnegie Investment Bank, filial af Carnegie Investment Bank AB (publ), Sverige
Overgaden neden Vandet 9B
DK-1414 Copenhagen K
Denmark

LEGAL ADVISERS

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As to Danish Law

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To the Managers:

As to United States and English Law

Latham & Watkins (London) LLP
99 Bishopsgate
London EC2M 3XF
United Kingdom

As to Danish Law

Plesner
Amerika Plads 37
DK-2100 Copenhagen
Denmark

AUDITORS TO THE COMPANY

PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup
Denmark

SCANDINAVIAN TOBACCO GROUP

Merrill Corporation Ltd, London
15ZDC46601