

Scandinavian Tobacco Group United Kingdom Limited

Annual Report and Financial Statements

For the year ended 31 December 2018

Registered No: 130335



SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

DIRECTORS AND ADVISORS

The Directors of the company who were in office during the year and up to the date of signing the financial statements were:

J Klep
C Sorensen
H Williams
A Williams
M Guldager

Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 10 Bricket Road St Albans Herts AL1 3JX
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Bankers	Danske Bank London Branch 75 King William Street London EC4N 7DT
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Registered Office	1 st Floor, West Wing Davidson House Forbury Square Reading Berkshire RG1 3EU
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SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 December 2018

The directors present their strategic report on the company for the year ended 31 December 2018.

REVIEW OF THE BUSINESS

Principal activities

The Principal activity of the Company is that of importer and distributor of the STG cigar, pipe tobacco and fine cut tobacco portfolio, including brand leaders; Café Crème, Henri Wintermans and Clan, for sale in the UK.

The company's strategy has been to focus tightly on our key mainstream 'Full Margin' brands such as Café Crème and Half Corona, and to develop our share of 'Value for Money' (VFM) miniature cigars via our Moments brand. The company also continues to increase its focus on major key accounts such as mainstream retailers (e.g. Tesco/Sainsbury), where consumers are increasingly sourcing their favourite tobacco brands from.

Scandinavian Tobacco Group United Kingdom Limited (STG UK) has also focussed on diversifying its product base through market share growth in traditional pipe tobacco (up 2.3 share points to 23.1%) and by introducing an innovative lifestyle brand such as Granger to cigarillo category.

The UK market for miniature cigars (STG UK mainstay) continues to be at a lower price point. This is primarily being driven by the growth of VFM brands such as Royal Dutch and our own Moments brand; this trend put significant pressure on margins in 2018. As we approached the end of 2018, data would suggest that this trend is slowing and therefore anticipate lesser margin pressure in 2019.

Net Revenues

Total net revenues have decreased by 0.2% in the year to £27,263,657 from £28,755,212 in 2017. This is compared to a cigar market decline of 2.5% for the same period.

Cigar Volumes

Cigar sales volumes have decreased by 0.6% to 142 million cigars.

Cigar market share

Total cigar market share continues to increase to 53.4% from 52.5% in 2017.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks:

Excise

Tobacco products are subject to substantial excise duty which forms a significant amount of the retail price. Increases in excise may reduce demand for our products and alter the sales mix of our portfolio. Management regularly reviews our brand portfolio to meet our customers changing preferences.

Marketplace

The current economic climate is reducing smoker's disposable income, leading to customers down-trading to value for money brands. This changes our product mix from premium brands to value for money brands. The company has introduced new brands to satisfy customer demand.

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 December 2018 (continued)

Regulation

The tobacco industry operates under restrictive regulations which are likely to increase over the coming years. Higher costs relating to compliance with the changing legislative environment are expected. The progressive denormalisation of smoking engendered within such a negative environment, will increase the downward pressure on volumes. Management therefore, monitor proposals of new measures, identify their impact and actively consults with government via the tobacco industry body.

Key performance indicators ("KPIs")

The main KPI's used in the business for an understanding of the development, performance or position of the business are; net revenue, volume sales and market share.

Results

The profit and loss account is set out on page 11. The profit for the financial year amounted to £3,804,050 (2017: £1,681,076). The net assets at 31st December 2018 were £23,042,758 (2017: £19,238,708).

On behalf of the Board on 28 May 2019

A handwritten signature in black ink, appearing to read 'A Williams', with a horizontal line drawn underneath it.

A Williams
Director

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 December 2018

The directors present their report together with the audited financial statements for the year ended 31 December 2018.

FUTURE DEVELOPMENTS

The Directors' assessments of the future developments of the business are included in the Strategic Report on page 3.

GOING CONCERN

The company meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty over (a) the level of demand for the company's products; and (b) the availability of bank finance for the foreseeable future. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

DIVIDENDS

No dividend was paid in the year (2017: £nil).

FINANCIAL RISK MANAGEMENT

The company's operations expose it to a variety of financial risks that include foreign exchange risk and credit risk.

Foreign exchange risk

The company is exposed to foreign exchange risk when purchasing goods for resale, from outside the UK. To mitigate this risk the company transacts in sterling with other group companies.

Credit risk

Credit risk arises from credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management. The utilisation of credit limits is regularly monitored.

DIRECTORS

The Directors who held office during the year and up to the date of signing the financial statements are given below:

J Klep (appointed 1 January 2019)
C Sorensen (resigned 4 December 2018)
H Williams (transferred to HQ 1 November 2018)
A Williams (appointed 1 January 2019)
M Guldager (appointed 1 January 2019)

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 December 2018

(continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

DIRECTORS' CONFIRMATIONS

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 December 2018
(continued)

INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

On behalf of the Board on 28 May 2019

A handwritten signature in black ink, appearing to read 'A. Williams', with a horizontal line drawn underneath it.

A Williams
Director

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Scandinavian Tobacco Group United Kingdom Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the profit and loss account, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED (continued)

Responsibilities for the financial statements and the audit(continued)

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Robert Girdlestone (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
28 May 2019

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2018

	Note	2018 £	2017 £
Gross sales		61,886,166	61,795,900
Duty in sales		(34,622,509)	(33,040,688)
TURNOVER	2	27,263,657	28,755,212
Cost of sales		(19,085,965)	(19,822,028)
GROSS PROFIT		8,177,692	8,933,184
Distribution costs		(3,055,360)	(2,986,021)
Administrative expenses		(450,854)	(3,857,900)
OPERATING PROFIT	3	4,671,478	2,089,263
Interest receivable and similar income	6	31,519	2,061
Interest payable and similar expense	7	-	(6,696)
PROFIT BEFORE TAXATION		4,702,997	2,084,628
Tax on profit	8	(898,947)	(403,552)
PROFIT FOR THE FINANCIAL YEAR		3,804,050	1,681,076

There was no other comprehensive income for 2018 (2017: £nil).

All results derive from continuing operations.

The notes on pages 14 to 22 form part of these financial statements.

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 December 2018

	Notes	2018 £	2017 £
FIXED ASSETS			
Tangible assets	10	116,237	159,866
		116,237	159,866
CURRENT ASSETS			
Inventories	11	2,693,480	3,451,504
Debtors	12	26,304,427	21,454,616
Cash at bank and in hand		7,764	39,796
		29,005,671	24,945,916
CREDITORS – amounts falling due within one year	13	(6,076,980)	(5,861,198)
NET CURRENT ASSETS		22,928,691	19,084,718
TOTAL ASSETS LESS CURRENT LIABILITIES		23,044,928	19,244,584
Provision for liabilities	14	(2,170)	(5,876)
NET ASSETS		23,042,758	19,238,708
CAPITAL AND RESERVES			
Called up share capital	15	7	7
Profit and loss account		23,042,751	19,238,701
TOTAL EQUITY		23,042,758	19,238,708

The notes on pages 14 to 22 form part of these financial statements.

The financial statements on pages 11 to 22 were approved by the board of directors on 28 May 2019 and were signed on its behalf by:



A Williams
Director

Scandinavian Tobacco Group United Kingdom Limited
Registered No: 130335

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Called up Share capital £	Profit and loss account £	Total equity £
Balance as at 1 January 2017	7	17,557,625	17,557,632
Profit for the financial year	-	1,681,076	1,681,076
Dividends	-	-	-
Balance as at 31 December 2017	7	19,238,701	19,238,708
Balance as at 1 January 2018	7	19,238,701	19,238,708
Profit for the financial year	-	3,804,050	3,804,050
Dividends	-	-	-
Balance as at 31 December 2018	7	23,042,751	23,042,758

The notes on pages 14 to 22 form part of these financial statements.

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. General Information

1.1 General information

The company is a private company limited by shares and is incorporated in the United Kingdom and registered in England. The address of its principal place of business is 250 Centennial Park, Centennial Avenue, Elstree, Borehamwood, Hertfordshire.

1.2 Statement of compliance

The financial statements of Scandinavian Tobacco Group United Kingdom Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

1.3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements.

1.4 Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit and loss.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1.13.

1.5 Going concern

The company meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty over (a) the level of demand for the company's products; and (b) the availability of bank finance for the foreseeable future. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

1.6 Foreign currency

The company's functional and presentation currency is the pound Sterling. Transactions arising in currencies other than Sterling are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at rates of exchange ruling at the end of the financial year. All exchange differences are reflected in operating profit in the year in which they arise.

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

1. General Information (continued)

1.7 Turnover

Turnover represents amounts invoiced, less discounts, less rebates, duty and net of value added tax, for goods sold to customers during the period. Turnover is recognised when goods are despatched.

1.8 Pension costs

The company operates a defined contribution pension plan. A defined contribution plan is a personal plan under which the company pays a fixed contribution into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense in the profit and loss account in the period in which they are incurred. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

1.9 Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

1. General Information (continued)

1.10 Tangible assets

The cost of tangible fixed assets represents their purchase price together with any incidental expenses of acquisition. Depreciation is calculated to write off the original cost less the estimated residual value of tangible fixed assets on a straight-line basis over the expected useful lives of the assets concerned. The principal annual rates used for the purposes of depreciation are:

Fixtures and fittings	20%
Computer equipment	33.3%
Leasehold improvements	10%

1.11 Leases

Payments under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

1.12 Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to complete and sell. Inventories are recognised as an expense in the period in which the related revenue is recognised.

Cost is determined on the first-in, first-out (FIFO) method. Cost includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the inventory to its present location and condition.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the profit and loss account. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the profit and loss account.

1.13 Critical accounting judgements and estimation uncertainty

The company makes estimates and assumptions concerning the future. The directors have reviewed the estimates and assumptions used in the preparation of the financial statements. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(i) Inventory provision

The principal activity of the Company is that of importer and distributor of the STG cigar, pipe tobacco and fine cut tobacco portfolio. This is subject to restrictive and changing regulations. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provision required. When calculating the inventory provision, management considers the condition of the inventory, the anticipated future sales and any enacted future tobacco legislation. See note 11 for the net carrying amount of the inventory and associated provision.

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018 (continued)

1. General Information (continued)

1.13 Critical accounting judgements and estimation uncertainty (continued)

(ii) Impairment of debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor and the credit quality of the customer, taking into account its financial position and past experience. Individual risk limits are set based on internal or external ratings in accordance with limits set by management. The utilisation of credit limits is regularly monitored. See note 12 for the net carrying amount of the debtors and associated impairment provision.

1.14 Exemptions for qualifying entities under FRS 102

The Company is a qualifying entity and has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- paragraph 1.12(b): the requirement to prepare a statement of cash flows as per section 7 and section 3 paragraph 3.17(d);
- paragraph 1.12(c): financial instrument disclosure requirements of section 11 paragraphs 11.39 to 11.48A and section 12 paragraphs 12.26 to 12.29;
- paragraph 1.12(e): the requirements of section 33 Related Party Disclosures paragraph 33.7 (see note 18).

This information is included in the consolidated financial statements of Scandinavian Tobacco Group A/S as at 31 December 2018 and these financial statements may be obtained from Scandinavian Tobacco Group A/S, Sydmarken 42, 2860 Søborg, Denmark. www.st-group.com

2. Turnover

Substantially all turnover arises from sales within the United Kingdom from the principal activity of the company.

3. Operating profit

Operating profit is stated after charging:	2018 £	2017 £
Wages and salaries	1,291,486	1,275,423
Social security costs	175,399	167,452
Other pension costs	71,284	74,513
Staff costs	1,538,169	1,517,388
Depreciation of tangible fixed assets	83,628	88,738
Profit on disposal tangible fixed assets	-	(2,031)
Increase in impairment of trade receivables	-	3,133,000
Services provided by the company's auditors for:		
- The auditing of the company's financial statements	20,000	20,000
- Taxation compliance services	-	-
- All other non-audit services	-	-
Operating lease charges:		
- Plant and machinery	148,688	161,080
- Other	99,432	99,432

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

4. Employees

The average monthly number of employees (including directors) employed during the year was:

	2018 Number	2017 Number
Number of employees		
Selling and distribution	25	25
Administration	6	6
	31	31

5. Directors' remuneration

	2018 £	2017 £
Highest paid director		
Remuneration and other emoluments	135,757	152,663
Company contribution to defined contribution pension scheme	8,234	7,653
	143,991	160,316

Only one director has been remunerated by the company in the year (2017: one director). Retirement benefits are accruing to the highest paid director (2017: one director) under a defined contribution pension scheme.

6. Interest receivable and similar income

	2018 £	2017 £
Intercompany interest	31,044	1,964
Corporation tax interest	475	97
	31,519	2,061

7. Interest payable and similar expenses

	2018 £	2017 £
Intercompany interest	-	6,672
Corporation tax interest	-	24
	-	6,696

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018 (continued)

8. Tax on profit

The tax charge for the year is made up as follows:

	2018 £	2017 £
Current tax:		
UK Corporation tax on profits of the year	902,204	414,851
Adjustment in respect of prior periods	449	(121)
Total current tax	902,653	414,730
Deferred tax:		
Origination and reversal of timing differences	(6,129)	(10,440)
Impact of change in tax rate	646	(859)
Adjustment in respect of prior periods	1,777	121
Total deferred tax	(3,706)	(11,178)
Tax on profit	898,947	403,552

The tax assessed for the year is higher (2017: higher) as the standard rate of corporation tax in the UK for the year ended 31 December 2018 of 19% (2017: 19.25%). The calculations are explained below:

	2018 £	2017 £
Profit before tax	4,702,997	2,084,628
Applying average rate of UK corporation tax at 19% (2017: 19.25%)	893,569	401,291
Effects of:		
Expenses not deductible for tax purposes	2507	2,983
Adjustments in respect of prior years	2,225	-
Effect of change in tax rate	646	(722)
		-
Total UK corporation tax charge	898,947	403,552

Factors affecting current and future tax charges

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which has decreased from 19.25% to 19% from 1 April 2018. Changes to the UK corporation tax rates were substantially enacted as part of the Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have not been measured using these enacted tax rates as their effect is not material and are not included in these statements.

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018 (continued)

9. Dividends

	2018 £	2017 £
Ordinary shares:		
Final paid (2018): nil per £1 share (2017: nil per £1 share)	-	-

No dividend was paid in the year (2017: £ nil).

10. Tangible assets

	Fixtures and fittings £	Computer equipment £	Leasehold improvements £	Total £
Cost				
At 1 January 2018	142,260	241,294	314,497	698,051
Additions	40,000	-	-	40,000
At 31 December 2018	182,260	241,294	314,497	738,051
Accumulated depreciation				
At 1 January 2018	139,336	171,376	227,474	538,185
Charge for the year	5,920	56,096	21,613	83,628
At 31 December 2018	145,255	227,472	249,087	621,813
Net book amount				
At 31 December 2018	37,005	13,822	65,410	116,237
At 31 December 2017	2,923	69,918	87,025	159,866

11. Inventories

	2018 £	2017 £
Finished goods and goods for resale	2,693,480	3,451,504

There is no significant difference between the replacement cost of finished goods and goods for resale and their carrying cost. Stocks are stated after provisions for impairment of £nil. (2017: £2,147).

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

12. Debtors:

	2018	2017
	£	£
Trade debtors	11,092,376	11,354,347
Amounts owed by group undertakings	15,023,124	9,807,842
Other debtors	86,610	190,787
Prepayments and accrued income	102,317	101,640
	<u>26,304,427</u>	<u>21,454,616</u>

Invoice amounts owed by group undertakings are unsecured, interest free and are repayable on demand. Cash advances owed by group undertakings are unsecured and bear interest at 0.1% and are repayable on demand.

13. Creditors: amounts falling due within one year

	2018	2017
	£	£
Trade creditors	1,520,710	971,818
Amounts owed to group undertakings	1,157,638	1,935,592
Taxation and social security	2,786,920	2,150,283
Accruals and deferred income	611,712	803,505
	<u>6,076,980</u>	<u>5,861,198</u>

Invoice amounts owed to group undertakings are unsecured, interest free and are repayable on demand. Cash advances owed to group undertakings are unsecured and bear interest at 1.7% and are repayable on demand.

14. Provisions for liabilities

Deferred tax liability:		£
At 1 January 2018		(5,876)
Deferred tax prior year adjustment		(1,777)
Charge for the year-through the P&L account		6,129
Impact of change in tax rate		(646)
		<u>(2,170)</u>
At 31 December 2018		(2,170)
	2018	2017
	£	£
The elements of deferred taxation are as follows:		
Differences between capital allowances and depreciation	(13,078)	(17,374)
Other timing differences	10,908	11,498
	<u>(2,170)</u>	<u>(5,876)</u>

At 31 December 2018 there is an unrecognised deferred taxation asset of nil (2017: nil).

SCANDINAVIAN TOBACCO GROUP UNITED KINGDOM LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 (continued)

15. Called up share capital

	2018	2017
	£	£
Allotted and fully paid		
7 (2017: 7) ordinary shares of £1 each	7	7

16. Pension costs

The company operates a defined contribution pension scheme in respect of the directors and employees. Independent managers administer the scheme and its assets. The pension charge represents contributions due from the company and amounted to £71,284 (2017: £74,513). There are no amounts outstanding at the year end (2017: nil).

17. Financial commitments

The company had the following minimum lease payments under non-cancellable operating leases for each of the following periods:

	2018	2017
	£	£
Not later than one year	217,555	220,291
Later than one year and not later than five years	474,514	466,497
Later than five years	223,722	323,154

18. Ultimate controlling party

The ultimate parent undertaking and controlling party is Scandinavian Tobacco Group A/S, a company incorporated in Denmark.

The Company's immediate parent undertaking is ST Cigar Group Holding B.V., incorporated in Eersel, The Netherlands which in turn is a 100% subsidiary of the Danish company Scandinavian Tobacco Group A/S.

The smallest group which consolidates the results of Scandinavian Tobacco Group United Kingdom Limited is ST Cigar Group Holding B.V. The largest group which consolidates the results of Scandinavian Tobacco Group United Kingdom Limited is Scandinavian Tobacco Group A/S. Copies of these groups' financial statements may be obtained from:

Scandinavian Tobacco Group A/S, Sydmarken 42, 2860 Søborg, Denmark. www.st-group.com