



Company Announcement
No. 15/2018

Copenhagen, 30 August 2018

Scandinavian Tobacco Group A/S delivers organic net sales growth of 1.6% and organic EBITDA growth of 3.1% in Q2 2018

Highlights for Q2 2018

- Reported net sales of DKK 1,780 million (DKK 1,673 million) – organic growth 1.6%
- Reported EBITDA of DKK 335 million (DKK 315 million) – organic growth 3.1%
- Net profit of DKK 205 million (DKK 166 million)
- Free cash flow of DKK -176 million (DKK 251 million) including impact from the acquisition of Thompson and Co. of Tampa (Thompson Cigars)
- Closing of the acquisition of Thompson Cigars

Highlights for H1 2018

- Reported net sales of DKK 3,065 million (DKK 3,052 million) – organic growth 2.4%
- Reported EBITDA of DKK 531 million (DKK 515 million) – organic growth 2.4%
- Net profit of DKK 293 million (DKK 241 million)
- Free cash flow of DKK -252 million (DKK 299 million)

For the second quarter of 2018, Scandinavian Tobacco Group A/S delivered net sales of DKK 1,780 million and an adjusted EBITDA of DKK 346 million. Adjusted for currency impact, non-recurring items and acquisition effects, the quarter delivered a 1.6% organic growth in net sales and 3.1% organic growth in EBITDA. Net profit for the quarter increased by 23.3% to DKK 205 million while the free cash flow was negative at DKK -176 million impacted by the acquisition of Thompson Cigars. The performance in the quarter supports our 2018 full year guidance.

For Q2 2018, the handmade cigar category maintained its strong momentum and delivered an organic growth of 6.9% in net sales with the machine-made cigars category delivering a negative organic growth of 2.4%. The pipe tobacco category delivered negative organic growth of 9.4% while fine-cut tobacco reported negative organic growth of 0.9%. The “other” category continued to show growth and delivered a positive organic growth of 5.3%.

CEO Niels Frederiksen says: “We delivered a satisfactory result in the second quarter of 2018. In our biggest category, the handmade cigars, we continue to deliver healthy growth rates - and I’m particularly pleased to see the integration of Thompson Cigars running as planned and to report solid sales growth in Thompson Cigars in the first full quarter after the acquisition. Also, the strong momentum in our “other” category continued while we in the machine-made cigars category still see declining volumes driven by the new excise structures in France”.

Conference Call and Webcast

A conference call and webcast will be held on 30 August 2018 at 10:00 AM CET.

Presentation materials will be available online approximately one hour before the webcast on investor.st-group.com.

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About Scandinavian Tobacco Group

Scandinavian Tobacco Group A/S is a world leading manufacturer of cigars and pipe tobacco with annual production of three billion cigars and 5,000 tonnes of pipe and fine-cut tobacco.

Scandinavian Tobacco Group holds market-leading positions in several categories and has a portfolio of more than 200 brands providing a complementary range of established global brands and local champions.

The Group employs 7,300 people in the Dominican Republic, Honduras, Nicaragua, Indonesia, Europe, New Zealand, Australia, Canada and the US. For more information please visit www.st-group.com

Scandinavian Tobacco Group - Key Figures¹

DKK million	Q2 18	Q2 17	H1 18	H1 17	2017
INCOME STATEMENT					
Net sales	1,780	1,673	3,065	3,052	6,464
Gross profit	853	786	1,466	1,434	3,095
EBITDA	335	315	531	515	1,232
EBIT	258	236	383	353	913
Net financial items ²	1	-23	-14	-45	-77
Profit before tax	264	216	378	314	852
Income taxes	-59	-49	-85	-73	-140
Net profit	205	166	293	241	712
BALANCE SHEET					
Total assets			13,307	13,580	12,990
Equity			8,349	8,554	8,448
Net interest-bearing debt (NIBD)			3,084	2,630	2,247
Investment in property, plant and equipment	30	10	56	26	54
Total capital expenditures	34	21	68	48	109
CASH FLOW STATEMENT					
Cash flow from operating activities	245	270	200	343	1,049
Cash flow from investing activities	-421	-19	-452	-45	-94
Free cash flow	-176	251	-252	299	955
KEY RATIOS					
Net sales growth	6.4%	-1.5%	0.4%	-4.6%	-4.2%
Gross margin	47.9%	47.0%	47.8%	47.0%	47.9%
EBITDA margin	18.8%	18.8%	17.3%	16.9%	19.1%
Effective tax percentage	22.4%	22.9%	22.5%	23.3%	16.4%
Equity ratio			62.7%	63.0%	65.0%
Cash conversion	75.8%	110.6%	69.0%	80.7%	110.2%
Organic net sales growth	1.6%	-1.1%	2.4%	-5.0%	-2.2%
Adjusted gross margin	47.9%	48.5%	47.8%	48.0%	48.5%
Organic EBITDA growth	3.1%	-3.8%	2.4%	-11.8%	-7.4%
Adjusted EBITDA (DKK million)	346	349	544	561	1,283
Adjusted EBITDA margin	19.4%	20.9%	17.8%	18.4%	19.9%
NIBD / Adjusted EBITDA			2.4	2.0	1.8
ROIC					7.9%
ROIC ex. goodwill and trademarks from 2010 merger					14.8%
Basic earnings per share (DKK)	2.1	1.7	2.9	2.4	7.1
Diluted earnings per share (DKK)	2.1	1.7	2.9	2.4	7.1
Number of shares issued ('000)					100,000
Number of treasury shares ('000)					367
Share price at year-end (DKK)					120.0
Dividend per share (DKK)					9.3
Pay-out ratio					130.0%

1. See definition/explanation of financial ratios in note 5.7 in the Annual Report 2017.

2. Excl. share of profit of associated companies.

Financial Developments

Net sales

Net sales increased by 6.4% to DKK 1,780 million (DKK 1,673 million) in Q2 2018 and were DKK 3,065 million (DKK 3,052 million) in H1 2018. The net sales growth came from the handmade cigars and the “other” category, while the machine-made cigars, pipe tobacco and fine-cut tobacco categories all reported lower net sales compared to Q2 2017 and H1 2017.

STG delivered 1.6% organic net sales growth in Q2 2018 and 2.4% in H1 2018.

Net sales bridge:

DKK million	Q2 2018	Q2 2017	Change in %	H1 2018	H1 2017	Change in %
Reported net sales	1,780	1,673	6.4%	3,065	3,052	0.4%
Reclassification		-32			-69	
Effect from currency development and acquisitions	-112			-9		
Organic net sales	1,668	1,641	1.6%	3,056	2,983	2.4%

Gross profit and gross margin

Reported gross profit for Q2 2018 was DKK 853 million (DKK 786 million), an increase of 8.5%. Adjusted for non-recurring costs, gross profit was up by 5.0%. The improvement was driven by the increased net sales primarily coming from the acquisition of Thompson Cigars.

The adjusted gross margin for Q2 2018 was 47.9%, down by 0.6%-point compared to 48.5% in the same period of last year. Adjusted for the impact of the reclassification of selected import duties and the impact of the acquisition of Thompson Cigars, the margin was slightly up. The increase in margin was primarily driven by a favourable market mix in the quarter.

In H1 2018, reported gross profit was DKK 1,466 million (DKK 1,434 million), an increase of 2.2% and the adjusted gross margin was 47.8% (48.0%).

Operating expenses

Operating expenses (OPEX) for Q2 2018 were DKK 518 million (DKK 472 million), an increase of 9.8% compared to last year mainly driven by acquisition effect and slightly higher non-recurring costs. The organic development in OPEX increased by 1.3% compared to last year which is in line with current inflation.

NON-RECURRING ITEMS

DKKm	Q2 2018			Q2 2017			H1 2018			H1 2017		
	Reported	Non-Recurring Items	Adjusted	Reported	Non-Recurring Items	Adjusted	Reported	Non-Recurring Items	Adjusted	Reported	Non-Recurring Items	Adjusted
Net Sales	1,780	-	1,780	1,673	-	1,673	3,065	-	3,065	3,052	-	3,052
Gross Profit	853	-	853	786	26	812	1,466	-	1,466	1,434	31	1,465
Gross-margin	47.9%		47.9%	47.0%		48.5%	47.8%		47.8%	47.0%		48.0%
OPEX	-518	11	-507	-472	9	-463	-935	14	-922	-919	15	-904
EBITDA	335	11	346	315	35	349	531	14	544	515	46	561
EBITDA-margin	18.8%		19.4%	18.8%		20.9%	17.3%		17.8%	16.9%		18.4%

REPORTED EBITDA

DKKm	Q2 2018	Q2 2017	H1 2018	H1 2017
EBITDA Reported	335	315	531	515
Transaction costs	1	-	4	-
Integration costs	10	-	10	-
TPD related costs	-	14	-	16
FDA related costs	-	3	-	8
Restructuring, optimisation and efficiency programmes	-	17	-	22
EBITDA Adjusted	346	349	545	561

The integration costs primarily comprise of retention bonus accruals.

For H1 2018, OPEX were DKK 935 million (DKK 919 million), an increase of 1.8% compared to last year. Organic development in OPEX was up by 1.1% compared to last year.

EBITDA

Reported EBITDA for Q2 2018 amounted to DKK 335 million (DKK 315 million), an increase of 6.5% which was positively impacted by lower non-recurring costs but higher reported OPEX. Adjusted EBITDA (excluding non-recurring costs) was DKK 346 million (DKK 349 million), a 1.0% decline compared to last year.

Adjusting for currency, non-recurring items and acquisition effects, Q2 2018 EBITDA delivered an organic growth of 3.1%.

EBITDA bridge:

DKK million	Q2 2018	Q2 2017	Change in %	H1 2018	H1 2017	Change in %
Reported EBITDA	335	315	6.5%	531	515	3.0%
Non-recurring costs	11	35		14	46	
Adjusted EBITDA	346	349	-1.0%	544	561	-3.0%
Currency development and acquisitions	14			30		
Organic EBITDA	360	349	3.1%	574	561	2.4%

For H1 2018, EBITDA was DKK 531 million (DKK 515 million), an increase of 3.0% compared to last year. Organic growth in EBITDA was 2.4% compared to last year.

Net profit

Net profit for Q2 2018 was DKK 205 million (DKK 166 million), an 23.3% increase compared to the same quarter of last year, mainly driven by higher earnings, lower non-recurring costs and lower net financial costs.

For H1 2018, net profit was DKK 293 million (DKK 241 million), an increase of 21.6% compared to last year, mainly driven by higher earnings, lower non-recurring costs, lower depreciations and lower net financial costs.

Earnings per share

Earnings per share (EPS) for Q2 2018 were DKK 2.1 (DKK 1.7). Fully diluted EPS were DKK 2.1 (DKK 1.7). For H1 2018, earnings per share (EPS) were DKK 2.9 (DKK 2.4). Fully diluted EPS were DKK 2.9 (DKK 2.4).

Cash flows

DKK million	Q2 2018	Q2 2017	Change in %	H1 2018	H1 2017	Change in %
Cash flow from operating activities	245	270	-9%	200	343	-42%
CAPEX	-34	-21	64%	-68	-48	41%
Acquisitions	-389	0	-	-389	0	-
Dividend from associated companies, etc.	2	2	13%	4	4	11%
Free cash flow	-176	251	-170%	-252	299	-184%
Cash conversion	76%	111%	-35%	69%	81%	-12%

In Q2 2018, STG generated a free cash flow of DKK -176 million. The free cash flow was impacted by a cash outflow of DKK 389 million related to the acquisition of Thompson Cigars. Adjusted for the acquisition, free cash flow was DKK 213 million (DKK 251 million). The free cash flow was impacted by negative development in net working capital, primarily related to movements in payables.

For H1 2018, free cash flow was DKK -252 million (DKK 299 million), mainly driven by negative development in net working capital, acquisitions and higher tax payments.

The cash conversion ratio dropped in Q2 2018 to 76% (111%) being negatively impacted by the development in net working capital, whereas last year was positively impacted by the inventory reduction programme. For H1 2018, the cash conversion ratio dropped to 69% (81%).

Capital structure and net interest-bearing debt

At 30 June 2018, STG had net interest-bearing debt of DKK 3,084 million (DKK 2,630 million). The net interest-bearing debt to adjusted EBITDA ratio increased to 2.4x (2.0x at 30 June 2017).

Category update

Handmade Cigars

Key data (DKK million)	Q2 18	Q2 17	Change	H1 18	H1 17	Change	2017
Net sales	661	519	27%	1,032	920	12%	1,921
Gross profit	268	216	24%	421	387	9%	795
Adjusted gross profit *	268	216	24%	421	387	9%	795

Key ratios (%)	Q2 18	Q2 17	Change	H1 18	H1 17	Change	2017
Organic net sales growth	6.9%			6.8%			
- Volume impact	1.3%			3.2%			
- Price/mix impact	5.6%			3.6%			
Gross margin	40.6%	41.6%	-1.0%	40.8%	42.1%	-1.3%	41.4%
Adjusted gross margin *	40.6%	41.6%	-1.0%	40.8%	42.1%	-1.3%	41.4%

*Adjusted for non-recurring items

Financial performance

In Q2 2018, the reported net sales of handmade cigars increased by 27% to DKK 661 million (DKK 519 million) primarily due to the impact of the acquisition of Thompson Cigars. The organic net sales growth was up by 6.9% after adjusting for the acquisition effect and a negative exchange rate impact of almost 6%. The organic growth was driven by a volume impact of 1.3% and a price/mix impact of 5.6%.

Both Cigars International and Thompson Cigars delivered organic volume growth, whereas General Cigar experienced lower volume growth than in previous quarters due to inventory reduction in some sales channels. The sales of premium cigars outside the US experienced a small decline caused by the excise increase in France.

The positive price/mix for the category was driven by healthy price developments across all our businesses as well as reduced promotional activities in our online business.

Gross profit in Q2 2018 increased by DKK 52 million to DKK 268 million (DKK 216 million) driven by the impact of Thompson Cigars, increased net sales and underlying margin improvements. The adjusted gross margin was 40.6% (41.6%) reflecting lower margins from Thompson Cigars. The gross margin improved by more than 1%-point compared to Q2 2017 when excluding the effect from Thompson Cigars.

Reported net sales for H1 2018 were DKK 1,032 million (DKK 920 million) and the organic growth was 6.8%. Gross profit for H1 2018 was DKK 421 million (DKK 387 million) and the adjusted gross margin was 40.8% (42.1%).

Business update

Cigars International has during Q2 2018 continued to regain momentum with good organic growth rates. The key performance indicators are improving as our focus to restore our high quality customer service is progressing well.

During Q2 2018, Thompson Cigars delivered positive organic growth compared to Q2 2017. The category gross margins have – as expected – been somewhat diluted by the relatively lower margins coming from Thompson Cigars. The process of improving gross margins and reducing the level of operating expenses in Thompson Cigars has commenced and follows the plans. We expect the full integration of Thompson Cigars to be completed by the end of 2019.

Cigars International expects to open its first cigar super store in Texas in Q4 2018. The opening of the second super store in Texas has been postponed to mid-2019.

Machine-made Cigars

Key data (DKK million)	Q2 18	Q2 17	Change	H1 18	H1 17	Change	2017
Net sales	618	635	-3%	1,090	1,158	-6%	2,491
Gross profit	333	303	10%	582	563	3%	1,268
Adjusted gross profit *	333	328	2%	582	593	-2%	1,305

Key ratios (%)	Q2 18	Q2 17	Change	H1 18	H1 17	Change	2017
Organic net sales growth	-2.4%			-1.8%			
- Volume impact	-3.8%			-4.4%			
- Price/mix impact	1.3%			2.6%			
Gross margin	53.9%	47.8%	6.2%	53.3%	48.6%	4.7%	50.9%
Adjusted gross margin *	53.9%	51.6%	2.3%	53.3%	51.2%	2.2%	52.4%

*Adjusted for non-recurring items

Financial performance

In Q2 2018, reported net sales of machine-made cigars declined by 3% to DKK 618 million (DKK 635 million). Adjusted for the previously announced reclassification of import duties in selected markets, acquisition effects and exchange rate developments, organic growth was negative by 2.4%. Volume impact was negative by 3.8% and the price/mix impact was 1.3%.

The volume decline was primarily driven by the development in France and Belgium. Price/mix for the category was driven by solid underlying price increases in most markets.

Gross profit in Q2 2018 increased by 10% to DKK 333 million (DKK 303 million), primarily due to lower non-recurring costs than in Q2 2017. The adjusted gross margin was 53.9% (51.6%). Adjusted for the announced reclassification of import duties in selected markets and acquisition effects, the Q2 2018 adjusted margin was up versus Q2 2017. The "like-for-like" improvement of the margin was mainly driven by the efficiency programmes that were completed by the end of 2017.

Reported net sales for H1 2018 were DKK 1,090 million (DKK 1,158 million) and the organic growth was negative at 1.8%. Gross profit for H1 2018 was DKK 582 million (DKK 563 million) and the adjusted gross margin was 53.3% (51.2%).

Business update

In France, the market continued to be negatively impacted by the excise increase and the final consumer reaction still remains uncertain. However, the decline rate in volumes has improved compared to Q1 2018. In the market segments, where we have the strongest positions, the impact has been relatively large, but through an ongoing strengthening of our product portfolio, we expect to minimise the long-term impact on our market shares.

In the UK, we continue to gain market share driven by our value for money brand Moments. In Belgium, we maintain our market share, although the market was somewhat down in Q2 2018 compared to a strong Q2 2017. For H1 2018 total volumes in Belgium were slightly up. Canada has also maintained a good underlying momentum in net sales.

Pipe Tobacco

Key data (DKK million)	Q2 18	Q2 17	Change	H1 18	H1 17	Change	2017
Net sales	113	134	-16%	228	266	-14%	544
Gross profit	66	84	-21%	134	163	-18%	326
Adjusted gross profit *	66	85	-22%	134	164	-18%	327

Key ratios (%)	Q2 18	Q2 17	Change	H1 18	H1 17	Change	2017
Organic net sales growth	-9.4%			-5.8%			
- Volume impact	-18.0%			-11.2%			
- Price/mix impact	8.6%			5.5%			
Gross margin	58.6%	62.4%	-3.8%	58.9%	61.4%	-2.4%	59.9%
Adjusted gross margin *	58.6%	63.0%	-4.4%	58.9%	61.7%	-2.8%	60.1%

*Adjusted for non-recurring items

Financial performance

In Q2 2018, reported net sales declined by 16% to DKK 113 million (DKK 134 million). Adjusted for the previously announced reclassification of import duties in selected markets and exchange rate developments, organic growth was negative at 9.4%. Volume impact was negative at 18.0% and the price/mix impact was 8.6%.

The negative volume development was driven by the structural market development, lower shipments to the Middle East and Africa as well as a weak development in our US business. Price/mix for the category was driven by a positive mix impact and healthy price increases in most key markets.

Gross profit in Q2 2018 was down by 21% to DKK 66 million (DKK 84 million) driven by the net sales development. The adjusted gross margin was 58.6% (63.0%). Adjusted for the announced reclassification of import duties in selected markets, the Q2 2017 adjusted margin was 66.2%. The decline in the "like-for-like" adjusted gross margin was driven by lower production volumes despite a healthy price/mix.

Reported net sales for H1 2018 were DKK 228 million (DKK 266 million) and the organic growth was negative at 5.8%. Gross profit for H1 2018 was DKK 134 million (DKK 163 million) and the adjusted gross margin was 58.9% (61.7%).

Business update

In the Middle East, consumption of pipe tobacco continues to decline and in Nigeria, although the consumption of pipe tobacco is stable, the volumes have been impacted by a reduction of inventories at our distributor in the market.

Fine-cut Tobacco

Key data (DKK million)	Q2 18	Q2 17	Change	H1 18	H1 17	Change	2017
Net sales	141	148	-5%	247	274	-10%	598
Gross profit	83	88	-7%	141	161	-12%	364
Adjusted gross profit *	83	89	-7%	141	162	-13%	365

Key ratios (%)	Q2 18	Q2 17	Change	H1 18	H1 17	Change	2017
Organic net sales growth	-0.9%			-4.2%			
- Volume impact	-2.6%			-6.8%			
- Price/mix impact	1.7%			2.6%			
Gross margin	58.7%	59.9%	-1.2%	57.0%	58.7%	-1.7%	60.9%
Adjusted gross margin *	58.7%	60.3%	-1.6%	57.0%	59.0%	-1.9%	61.1%

*Adjusted for non-recurring items

Financial performance

In Q2 2018, reported net sales declined by 5% to DKK 141 million (DKK 148 million). Adjusted for the previously announced reclassification of import duties in selected markets and exchange rate developments, organic growth was negative at 0.9%. Volume impact was negative at 2.6% and the price/mix impact was 1.7%.

The volume development was negative as a positive contribution from Norway could not compensate for a negative impact from the US. Price/mix was strong for most important markets with the exception of Germany.

Gross profit in Q2 2018 was down by DKK 5 million to DKK 83 million (DKK 88 million), primarily driven by the decline in net sales. The adjusted gross margin was 58.7% (60.3%). Adjusted for the reclassification of import duties in selected markets, the Q2 2017 adjusted margin was 61.6%. The decline in the "like-for-like" adjusted gross margin was primarily driven by Germany.

Reported net sales for H1 2018 were DKK 247 million (DKK 274 million) and the organic growth was negative at 4.2%. Gross profit for H1 2018 was DKK 141 million (DKK 161 million) and the adjusted gross margin was 57.0% (59.0%).

Business update

The shipments to Norway have - as expected - recovered during the past months following the temporary drop in shipments in Q1 2018. We are gaining market shares in a total market that continues to decline. The impact following the introduction of plain packaging remains uncertain.

In Germany an increased level of price competition and promotional activities have had a short-term adverse impact on the category price/mix, but we expect to see a gradual normalisation going forward.

Other

Key data (DKK million)	Q2 18	Q2 17	Change	H1 18	H1 17	Change	2017
Net sales	248	237	4%	468	434	8%	909
Gross profit	103	95	9%	188	160	17%	342
Adjusted gross profit *	103	95	9%	188	160	17%	342

Key ratios (%)	Q2 18	Q2 17	Change	H1 18	H1 17	Change	2017
Organic net sales growth	5.3%			11.3%			
Gross margin	41.5%	40.0%	1.6%	40.2%	36.9%	3.3%	37.6%
Adjusted gross margin *	41.5%	40.0%	1.6%	40.2%	36.9%	3.3%	37.6%

*Adjusted for non-recurring items

Financial performance

In Q2 2018, reported net sales increased by 4% to DKK 248 million (DKK 237 million). Adjusted for the exchange rate developments, organic growth was 5.3%.

Organic net sales growth was driven by our sales of accessories and other tobacco products, whereas we experienced a decline in contract manufacturing and distribution.

Gross profit in Q2 2018 increased by DKK 8 million to DKK 103 million (DKK 95 million) driven by the increase in net sales. The adjusted gross margin was 41.5% (40.0%) reflecting favourable mix changes.

Reported net sales for H1 2018 were DKK 466 million (DKK 434 million) and the organic growth was 11.3%. Gross profit for H1 2018 was DKK 188 million (DKK 160 million) and the adjusted gross margin was 40.2% (36.9%).

Business update

The category comprises of four sub-categories: Contract manufacturing of cigars, pipe tobacco and fine-cut tobacco products to third parties, sales of tobacco related accessories and fire lighting products, distribution of lighters, matches, sale of chewing tobacco to third parties in Australia, Canada and certain EU-countries as well as licensing income from STG brands to third parties. Contract manufacturing accounts for approximately 30% and sales of accessories and fire lighting products for approximately 40% of the category's net sales.

Europe accounts for about 40%, Americas for about 35% and rest of world (primarily Australia) for about 25% of net sales.

Organic growth in net sales in the category is driven by the successful expansion of third party production of tobacco products and sales of accessories and fire products. Net sales can fluctuate a lot quarter-by-quarter. The improved profitability in recent years has been driven by mix changes between the sub-categories, contract pruning and generally improved pricing.

Key Data Per Category

	Q2 18	Q2 17	Change	H1 18	H1 17	Change	2017
Net sales (DKK m)							
Handmade cigars	661	519	27.3%	1,032	920	12.2%	1,921
Machine-made cigars	618	635	-2.7%	1,090	1,158	-5.9%	2,491
Pipe tobacco	113	134	-16.1%	228	266	-14.3%	544
Fine-cut tobacco	141	148	-4.7%	247	274	-9.7%	598
Other	248	237	4.5%	468	434	7.7%	909
Group total	1,780	1,673	6.4%	3,065	3,052	0.4%	6,464
Gross profit (DKK m)							
Handmade cigars	268	216	24.2%	421	387	8.8%	795
Machine-made cigars	333	303	9.9%	582	563	3.3%	1,268
Pipe tobacco	66	84	-21.2%	134	163	-17.7%	326
Fine-cut tobacco	83	88	-6.5%	141	161	-12.3%	364
Other	103	95	8.5%	188	160	17.3%	342
Group total	853	786	8.5%	1,466	1,434	2.2%	3,095
Organic net sales growth (%)							
Handmade cigars	6.9%	-3.2%		6.8%	-5.6%		-4.0%
Machine-made cigars	-2.4%	-0.8%		-1.8%	-6.4%		-2.4%
Pipe tobacco	-9.4%	-3.4%		-5.8%	-4.9%		-2.6%
Fine-cut tobacco	-0.9%	0.2%		-4.2%	-9.2%		-7.0%
Other	5.3%	3.5%		11.3%	3.5%		6.4%
Group total	1.6%	-1.1%		2.4%	-5.0%		-2.2%
Volume impact (%)							
Handmade cigars	1.3%	-0.3%		3.2%	-3.0%		-1.8%
Machine-made cigars	-3.8%	-2.7%		-4.4%	-7.7%		-3.7%
Pipe tobacco	-18.0%	-4.6%		-11.2%	-5.7%		-2.3%
Fine-cut tobacco	-2.6%	-6.4%		-6.8%	-15.2%		-14.0%
Other	-	-		-	-		-
Group total	-	-		-	-		-
Price/Mix impact (%)							
Handmade cigars	5.6%	-2.9%		3.6%	-2.6%		-2.3%
Machine-made cigars	1.3%	2.0%		2.6%	1.3%		1.3%
Pipe tobacco	8.6%	1.1%		5.5%	0.8%		-0.3%
Fine-cut tobacco	1.7%	6.6%		2.6%	5.9%		7.0%
Other	-	-		-	-		-
Group total	-	-		-	-		-
Gross margin (%)							
Handmade cigars	40.6%	41.6%	-1.0%	40.8%	42.1%	-1.3%	41.4%
Machine-made cigars	53.9%	47.8%	6.2%	53.3%	48.6%	4.7%	50.9%
Pipe tobacco	58.6%	62.4%	-3.8%	58.9%	61.4%	-2.4%	59.9%
Fine-cut tobacco	58.7%	59.9%	-1.2%	57.0%	58.7%	-1.7%	60.9%
Other	41.5%	40.0%	1.6%	40.2%	36.9%	3.3%	37.6%
Group total	47.9%	47.0%	0.9%	47.8%	47.0%	0.8%	47.9%
Adjusted Gross margin (%)*							
Machine-made cigars	53.9%	51.6%	2.3%	53.3%	51.2%	2.2%	52.4%
Pipe tobacco	58.6%	63.0%	-4.4%	58.9%	61.7%	-2.8%	60.1%
Fine-cut tobacco	58.7%	60.3%	-1.6%	57.0%	59.0%	-1.9%	61.1%
Group total	47.9%	48.5%	-0.6%	47.8%	48.0%	-0.2%	48.5%

* Adjusted for non-recurring items

Events after the reporting period

In July, we acquired Peterson Pipe Tobacco, a small Irish pipe tobacco business. Among the Peterson's products are premium brands like Sherlock Holmes, Old Dublin and Connoisseur's Choice. The expected impact on 2018 performance is immaterial.

No events which are expected to have material impact on the financial position of the Group have occurred after 30 June 2018.

Financial guidance for 2018

We maintain our full-year guidance for 2018

- Organic net sales growth flat to slightly positive
- Organic EBITDA growth >3%
- Ordinary dividend for 2018 > 2017 (DKK 575 million)

Other financial expectations are:

- Financial expenses, exclusive of currency gains/losses, are expected to be in the range of DKK 80-90 million
- The effective tax rate is expected to be in the range of 22-23%
- Capital expenditure is expected to be in the level of DKK 175 million (previously DKK 215 million)

Organic growth in EBITDA is expected to be impacted by a strong comparison base in the third quarter of last year whereas the fourth quarter has a less difficult comparison base.

New Group CFO

On June 29, 2018, we announced that Marianne Rørslev Bock will assume responsibility as Chief Financial Officer (CFO) of Scandinavian Tobacco Group A/S no later than 1 January 2019.

Finance calendar for 2018

The announcement of the Q3 2018 Interim Report has been moved forward to November 8, 2018 (previously November 9, 2018).

Forward-looking Statements

This report contains forward-looking statements. Such statements are subject to risk and uncertainties as various factors, many of which are beyond Scandinavian Tobacco Group's control, may cause actual developments and results to differ materially from the expectations set out in this report.

MANAGEMENT STATEMENT

The Board of Directors and the Executive Management have today considered and approved the interim report of Scandinavian Tobacco Group A/S for the period 1 January – 30 June 2018.

The interim consolidated financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting” as adopted by the EU and additional Danish disclosure requirements for listed companies. The interim report has not been reviewed or audited.

In our opinion, the interim consolidated financial statements give a true and fair view of the Group's assets, liabilities and financial position at 30 June 2018 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 30 June 2018.

Furthermore, in our opinion the Management Review gives a fair review of the development and performance of the Group's activities and of the Group's results for the period and financial position taken as a whole, together with a description of the most significant risks and uncertainties that the Group may face.

Søborg, 30 August 2018

EXECUTIVE MANAGEMENT

Niels Frederiksen
CEO

BOARD OF DIRECTORS

Nigel Northridge
CHAIRMAN

Henrik Brandt
VICE-CHAIRMAN

Søren Bjerre-Nielsen

Dianne Neal Blixt

Anders Obel

Luc Missorten

Hanne Malling

Lindy Larsen

Kurt Asmussen

Mogens Olsen

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY - 30 JUNE

CONSOLIDATED INCOME STATEMENT

DKK million	Note	Q2 2018	Q2 2017	H1 2018	H1 2017
Net sales	2	1,779.8	1,673.2	3,064.9	3,052.1
Cost of goods sold	2	-926.8	-886.9	-1,599.1	-1,617.8
Gross profit	2	853.0	786.3	1,465.8	1,434.3
Other external costs		-311.5	-292.1	-538.8	-540.9
Staff costs		-206.5	-179.6	-396.5	-378.2
Earnings before interest, tax, depreciation and amortisation (EBITDA)		335.0	314.6	530.5	515.2
Depreciation and impairment		-29.2	-35.5	-58.3	-76.9
Earnings before interest, tax and amortisation (EBITA)		305.8	279.1	472.2	438.3
Amortisation		-47.7	-43.1	-89.4	-85.0
Earnings before interest and tax (EBIT)		258.1	236.0	382.8	353.3
Share of profit of associated companies, net of tax		5.4	3.1	9.7	5.7
Financial income		21.4	1.6	35.0	7.1
Financial costs		-20.4	-24.8	-49.1	-51.8
Profit before tax		264.5	215.9	378.4	314.3
Income taxes		-59.2	-49.4	-85.2	-73.2
Net profit for the period		205.3	166.5	293.2	241.1
Earnings per share					
Basic earnings per share (DKK)		2.2	1.7	2.9	2.4
Diluted earnings per share (DKK)		2.2	1.7	2.9	2.4
OTHER COMPREHENSIVE INCOME					
<i>Items that will not be recycled subsequently to the Consolidated Income Statement:</i>					
Actuarial gains and losses on pension obligations		0.0	0.0	0.0	-1.6
Tax of actuarial gains and losses on pension obligations		0.0	0.0	0.0	0.5
<i>Items that will be recycled subsequently to the Consolidated Income Statement, when specific conditions are met:</i>					
Cash flow hedges, deferred gains/(losses) incurred during the period		-1.4	2.2	19.6	17.1
Tax of hedging instruments		0.2	1.2	-4.4	-3.4
Foreign exchange rate adjustments		323.5	-366.7	161.8	-429.4
Other comprehensive income for the period, net of tax		322.3	-363.3	177.0	-416.8
Total comprehensive income for the period		527.6	-196.8	470.2	-175.7

CONSOLIDATED BALANCE SHEET**ASSETS**

DKK million	30 Jun 2018	30 Jun 2017	31 Dec 2017
Goodwill	4,497.5	4,374.8	4,255.8
Trademarks	2,987.3	3,118.6	3,013.9
IT software	94.3	94.8	99.4
Other intangible assets	321.0	191.4	181.9
Total intangible assets	7,900.1	7,779.6	7,551.0
Property, plant and equipment	1,228.7	1,271.1	1,217.3
Investments in associated companies	137.9	133.0	127.7
Deferred income tax assets	103.9	128.3	96.0
Other financial fixed assets	33.0	9.1	20.6
Total non-current assets	9,403.6	9,321.1	9,012.6
Inventories	2,715.8	2,740.5	2,421.0
Trade receivables	700.1	684.5	712.8
Other receivables	84.8	49.2	78.7
Corporate tax	161.2	158.1	76.9
Prepayments	88.8	84.1	83.2
Cash and cash equivalents	154.7	542.0	605.2
Total current assets	3,905.4	4,258.4	3,977.8
Total assets	13,309.0	13,579.5	12,990.4

CONSOLIDATED BALANCE SHEET

EQUITY AND LIABILITIES

DKK million	30 Jun 2018	30 Jun 2017	31 Dec 2017
Share capital	100.0	100.0	100.0
Reserve for hedging	19.2	-13.8	4.0
Reserve for currency translation	642.2	731.3	480.4
Treasury shares	-40.5	-40.5	-40.5
Retained earnings	7,628.3	7,776.7	7,904.3
Total equity	8,349.2	8,553.7	8,448.2
Bank loans	3,008.3	2,873.8	2,606.3
Deferred income tax liabilities	596.5	666.1	571.5
Pension obligations	245.5	260.2	237.8
Other provisions	29.1	50.2	33.7
Other liabilities	22.2	24.1	22.4
Total non-current liabilities	3,901.6	3,874.4	3,471.7
Trade payables	377.3	324.9	365.4
Corporate tax	171.7	176.2	170.5
Other provisions	11.5	67.2	27.4
Other liabilities	497.7	583.1	507.2
Total current liabilities	1,058.2	1,151.4	1,070.5
Total liabilities	4,959.8	5,025.8	4,542.2
Total equity and liabilities	13,309.0	13,579.5	12,990.4

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY - 30 JUNE

DKK million	Q2 2018	Q2 2017	H1 2018	H1 2017
Net profit for the period	205.3	166.5	293.2	241.1
Adjustments	129.3	150.9	231.8	286.6
Changes in working capital	-78.5	85.9	-146.5	-40.1
Non-recurring costs, paid	-10.0	-41.2	-21.5	-59.0
Cash flow from operating activities before financial items	246.1	362.1	357.0	428.6
Financial income received	54.4	1.6	68.0	7.1
Financial costs paid	-16.7	-59.3	-69.1	-93.0
Cash flow from operating activities before tax	283.8	304.4	355.9	342.7
Tax payments	-38.6	-34.1	-155.9	0.3
Cash flow from operating activities	245.2	270.3	200.0	343.0
Acquisitions	-388.6	0.0	-388.6	0.0
Investment in intangible assets	-4.2	-11.2	-11.1	-21.7
Investment in property, plant and equipment	-30.0	-9.7	-56.4	-26.3
Sale of property, plant and equipment	0.2	0.0	0.4	0.0
Dividend from associated companies	1.5	1.5	3.5	3.5
Cash flow from investing activities	-421.1	-19.4	-452.2	-44.5
Free cash flow	-175.8	250.9	-252.1	298.5
Revolving credit facility	223.5	223.2	372.3	223.2
Dividend payment	-572.9	-550.0	-572.9	-550.0
Cash flow from financing activities	-349.4	-326.8	-200.6	-326.8
Net cash flow for the period	-525.2	-75.9	-452.7	-28.3
Cash and cash equivalents, net at 1 January	671.2	617.9	605.2	570.3
Exchange gains/(losses) on cash and cash equivalents	8.7	0.0	2.3	0.0
Net cash flow for the period	-525.2	-75.9	-452.7	-28.3
Cash and cash equivalents, net at 30 June	154.7	542.0	154.7	542.0

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY – 30 JUNE 2018

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
Equity at 1 January 2018	100.0	4.0	480.4	-40.5	7,904.3	8,448.2
<i>Comprehensive income for the period</i>						
Net profit for the period	0.0	0.0	0.0	0.0	293.2	293.2
<i>Other comprehensive income</i>						
Cash flow hedges	-	19.6	-	-	-	19.6
Tax of cash flow hedges	-	-4.4	-	-	-	-4.4
Foreign exchange adjustments on net investments in foreign operations	-	-	161.8	-	-	161.8
Total other comprehensive income	0.0	15.2	161.8	0.0	0.0	177.0
Total comprehensive income for the period	0.0	15.2	161.8	0.0	293.2	470.2
<i>Transactions with shareholders</i>						
Share-based payments	-	-	-	-	3.7	3.7
Dividend paid to shareholders	-	-	-	-	-575.0	-575.0
Dividend, treasury shares	-	-	-	-	2.1	2.1
Total transactions with shareholders	0.0	0.0	0.0	0.0	-569.2	-569.2
Equity at 30 June 2018	100.0	19.2	642.2	-40.5	7,628.3	8,349.2

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 30 JUNE 2017

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
Equity at 1 January 2017	100.0	-27.5	1,160.7	-45.5	8,085.2	9,272.9
<i>Comprehensive income for the period</i>						
Net profit for the period	0.0	0.0	0.0	0.0	241.1	241.1
<i>Other comprehensive income</i>						
Cash flow hedges	-	17.1	-	-	-	17.1
Tax of cash flow hedges	-	-3.4	-	-	-	-3.4
Foreign exchange adjustments on net investments in foreign operations	-	-	-429.4	-	-	-429.4
Actuarial gains and losses on pension obligations	-	-	-	-	-1.6	-1.6
Tax of actuarial gains and losses on pension obligations	-	-	-	-	0.5	0.5
Total other comprehensive income	0.0	13.7	-429.4	0.0	-1.1	-416.8
Total comprehensive income for the period	0.0	13.7	-429.4	0.0	240.0	-175.7
<i>Transactions with shareholders</i>						
Share-based payments	-	-	-	-	6.5	6.5
Settlement of vested PSUs	-	-	-	5.0	-5.0	0.0
Dividend paid	-	-	-	-	-550.0	-550.0
Total transactions with shareholders	0.0	0.0	0.0	5.0	-548.5	-543.5
Equity at 30 June 2017	100.0	-13.8	731.3	-40.5	7,776.7	8,553.7

NOTES

NOTE 1

BASIS OF PREPARATION

The unaudited interim report has been prepared in accordance with IAS 34 and additional Danish disclosure requirements for listed companies.

Significant accounting estimates

The estimates made by STG 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 the Annual Report for 2017.

Accounting policies

The interim report has been prepared in accordance with the accounting policies set out in the Annual Report for 2017 and with the implementation of IFRS 15 'revenue from contracts with customers' as also described in the Annual Report for 2017, note 1.2. IFRS 15 replaces the current standards on revenue (IAS 11 'Construction Contracts' and IAS 18 'Revenue').

The implementation of IFRS 15 has not resulted in any changes to the Group's accounting policies, but only a change to the classification of import duty in selected markets since it is perceived equal to normal excise but previously recognised in both net sales and cost of goods sold. From 1 January 2018 net sales have been recognised exclusive this "excise like" import duty.

The modified retrospective method has been applied at implementation where comparison numbers have not been restated. The impact on the Consolidated Financial Statements for H1 2018 is a reduction of both net sales and COGS of DKK 59.4 million, a reported gross margin improvement of 0.9%-point and an EBITDA margin improvement of 0.3%-point. The reclassification has no impact on reported or adjusted gross profit or EBITDA.

NOTE 2

SEGMENT INFORMATION

YTD 2018 DKK million	Hand- made cigars	Machine- made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allo- cated	Total
Net sales	1,031.6	1,090.5	227.7	247.4	467.7	0.0	3,064.9
Cost of goods sold	-610.7	-508.8	-93.5	-106.3	-279.8	0.0	-1,599.1
Gross profit	420.9	581.7	134.2	141.1	187.9	0.0	1,465.8
Other external costs						-538.8	-538.8
Staff costs						-396.5	-396.5
EBITDA						-935.3	530.5
Depreciation and impairment						-58.3	-58.3
Amortisation						-89.4	-89.4
EBIT						-1,083.0	382.8
Share of profit of associated companies, net of tax						9.7	9.7
Financial income						35.0	35.0
Financial costs						-49.1	-49.1
Profit before tax						-1,087.4	378.4

NOTE 2

SEGMENT INFORMATION (continued)

YTD 2017 DKK million	Hand- made cigars	Machine- made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allo- cated	Total
Net sales	919.8	1,158.3	265.7	274.1	434.2	0.0	3,052.1
Cost of goods sold	-532.8	-595.3	-102.6	-113.1	-274.0	0.0	-1,617.8
Gross profit	387.0	563.0	163.1	161.0	160.2	0.0	1,434.3
Other external costs						-540.9	-540.9
Staff costs						-378.2	-378.2
EBITDA						-919.1	515.2
Depreciation and impairment						-76.9	-76.9
Amortisation						-85.0	-85.0
EBIT						-1,081.0	353.3
Share of profit of associated companies, net of tax						5.7	5.7
Financial income						7.1	7.1
Financial costs						-51.8	-51.8
Profit before tax						-1,120.0	314.3

Geographic information

In the table below, sales to external customers are attributed to the country of the customers' domicile.

External sales are distributed by geographic region and segment as follows:

Net sales YTD 2018 DKK million	Hand- made cigars	Machine- made cigars	Pipe tobacco	Fine-cut tobacco	Other	Total
Americas	1,002.0	212.4	92.6	56.4	167.1	1,530.5
Europe	22.4	790.7	108.3	168.1	186.5	1,276.0
Rest of World	7.2	87.4	26.8	22.9	114.1	258.4
Total	1,031.6	1,090.5	227.7	247.4	467.7	3,064.9

Licence income and other sales of DKK 14.8 million are included in the 'other' segment. DKK 9.4 million in Americas and DKK 5.4 million in Europe.

NOTE 2**SEGMENT INFORMATION (continued)**

Net sales YTD 2017	Hand- made cigars	Machine- made cigars	Pipe tobacco	Fine-cut tobacco	Other	Total
DKK million						
Americas	890.5	196.8	106.8	70.6	145.3	1,410.0
Europe	24.7	837.1	110.0	169.5	176.6	1,317.9
Rest of World	4.6	124.4	48.9	34.0	112.3	324.2
Total	919.8	1,158.3	265.7	274.1	434.2	3,052.1

Licence income and other sales of DKK 15.6 million are included in the 'other' segment. DKK 8.1 million in Americas and DKK 7.5 million in Europe.

NOTE 3**FINANCIAL INSTRUMENTS**

The fair value of financial instruments included in the balance sheet as per 30 June 2018 amounts to a net receivable of DKK 15.2 million (net liability of DKK 7.9 million on 31 December 2017).

NOTE 4**BUSINESS COMBINATIONS**

With effect from 2 April 2018, STG acquired, in an asset deal, the business of Thompson and Co. of Tampa, a leading US Online Cigar Retailer. The total consideration transferred is paid in cash. Final net working capital statement may result in an adjustment to the consideration transferred. The accounting for the business combination is considered provisional as the acquisition was only completed on 2 April 2018.

Thompson and Co. of Tampa

Thompson is a leading online retail cigar business in the US, a market where approximately two thirds of all handmade cigars are sold online. A family-owned business, Thompson was founded in 1915 and is based in Tampa, Florida. It has annual net sales of around DKK 600 million and 185 employees. Thompson provides STG access to established, recognised and appreciated auction and retail websites, a substantial and attractive customer base, as well as a retail store and a call centre facility in Tampa and strengthens STG position in the online retail cigar channel in the US.

Fair value of acquired net assets and recognised goodwill

Net assets and goodwill are provisional and may be adjusted and off-balance sheet items may be recorded within the 12 months period of the acquisition date in compliance with IFRS 3. Net assets have been adjusted to comply with STG's accounting policies and financial reporting requirements.

The provisional calculated goodwill relates to synergies from merging the business into the existing internet and catalogue business in the US including optimisations within sales, marketing and procurement, workforce and business expertise.

Impact on Consolidated Income Statement

Q2 2018 Interim Report includes net sales of DKK 188 million with a net profit of DKK 0 million from the acquisition. On a proforma basis, if the acquisition had been effective from 1 January 2018 the business of Thompson would to H1 2018 have contributed DKK 325 million to net sales (gross DKK 335 million offset by STG's sales to Thompson in Q1 2018) and an immaterial impact on net profit.

Transaction costs

Total transaction costs related to the acquisition amounts to DKK 6 million, of which DKK 2 million was recognised in 2017 Financial Statements and DKK 3 million in Q1 2018 Interim Report and DKK 1 million in Q2 2018 Interim Report. Transaction costs are recognised in 'Other External costs'.

NOTE 4**BUSINESS COMBINATIONS (continued)**

	Provisional fair value at date of acquisition
DKK million	
Intangible assets	142.6
Property, plant and equipment	6.3
Inventories	125.1
Trade receivables	21.1
Other receivables	1.4
Cash	1.9
Total assets	298.4
Other provisions	21.8
Trade payables	47.3
Other liabilities	1.7
Total liabilities	70.8
Acquired net assets	227.6
Consideration transferred	388.6
Goodwill from acquisition	161.0

The recognised goodwill is tax deductible.