



SCANDINAVIAN TOBACCO GROUP
INVESTOR PRESENTATION

25 May 2016



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Q1 2016 – HIGHLIGHTS



Overall performance in accordance with our expectations



US Handmade cigars continue strong performance



Cost optimisation and efficiency programme on track



2016 Guidance maintained






TPD implementation affecting production planning and inventory levels



FDA published Deeming Regulation, 10 May 2016



FINANCIAL HIGHLIGHTS Q1 2016

KPI	2016 guidance	Q1 2016 Actual performance
Adjusted Net sales	1-3% organic growth ¹	+1.9% 
Adjusted EBITDA	3-5% organic growth ¹	+4.1% 
Capital expenditures	around DKK 250m	DKK 60m 

¹ Annual organic growth, i.e. excluding currencies, acquisitions and non-recurring items



OPTIMISATION AND EFFICIENCY PROGRAMME - UPDATE

	A Supply Chain Cost Savings	B Working Capital Improvement																														
Description	<ul style="list-style-type: none"> Simplification, Network optimisation, Material cost reduction, Lean transformation, Integrated planning 	<ul style="list-style-type: none"> Primarily inventory reduction 																														
Target 2018 ¹⁾	DKK 140 million	DKK 500 million ²⁾																														
Target 2016	~40% of 2018 target (run rate by year-end)	DKK 250 million ²⁾ (cumulative by year-end)																														
	<table border="1"> <caption>Supply Chain Cost Savings Performance</caption> <thead> <tr> <th>Year</th> <th>Year-end target (%)</th> <th>Actual (%)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>10%</td> <td>10%</td> </tr> <tr> <td>2016</td> <td>40%</td> <td>-</td> </tr> <tr> <td>2017</td> <td>70%</td> <td>-</td> </tr> <tr> <td>2018</td> <td>100%</td> <td>-</td> </tr> </tbody> </table>	Year	Year-end target (%)	Actual (%)	2015	10%	10%	2016	40%	-	2017	70%	-	2018	100%	-	<table border="1"> <caption>Working Capital Improvement Performance</caption> <thead> <tr> <th>Year</th> <th>Year-end target (DKK million)</th> <th>Actual (DKK million)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>100</td> <td>225</td> </tr> <tr> <td>2016</td> <td>250</td> <td>-</td> </tr> <tr> <td>2017</td> <td>400</td> <td>-</td> </tr> <tr> <td>2018</td> <td>500</td> <td>-</td> </tr> </tbody> </table>	Year	Year-end target (DKK million)	Actual (DKK million)	2015	100	225	2016	250	-	2017	400	-	2018	500	-
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2016	250	-																														
2017	400	-																														
2018	500	-																														

¹ Compared to 2014 level

² Inventory reduction on a like-for-like basis at constant currencies

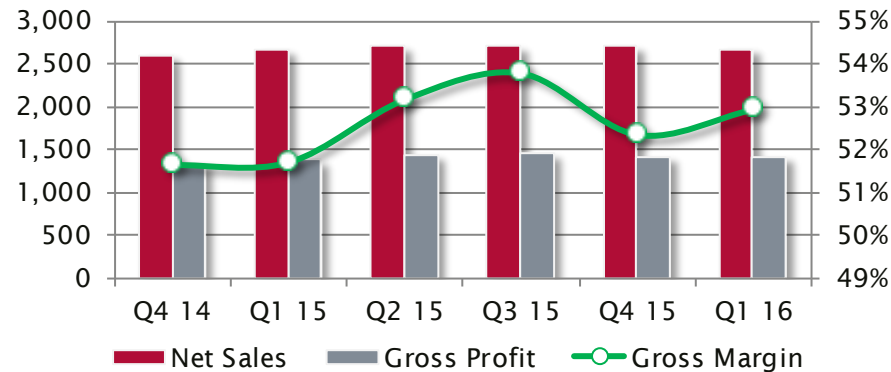


MACHINE-MADE CIGARS

DKKm	2014	2015	LTM ²⁾	Q1 2015	Q1 2016
Net sales	2,595	2,702		629	599
<i>Reported growth</i>	3.3%	4.1%			(4.8%)
Gross profit	1,341	1,372		326	326
<i>Gross margin</i>	51.7%	50.8%		51.9%	54.5%
<i>Adj. gross margin</i>	51.7%	52.2%		52.7%	54.5%
Volume impact	(0.6%)	(5.7%)	(6.1%)		(6.9%)
Price/mix impact	2.8%	3.4%	2.6%		1.7%
Organic growth¹⁾	2.2%	(2.3%)	(3.5%)		(5.2%)



LTM (DKKm)



Q1 2016

- Volume impact negative by 6.9%.
- Positive impact from Captain Black (Russia). Negative impact from market decline in mature markets and timing of shipments in selected EU markets.
- Continued performance issues in some markets
- Pricing remains reasonable
- Gross margin improves as cost optimisation programme progresses

¹⁾ Excluding impact of currencies, acquisitions and non-recurring items

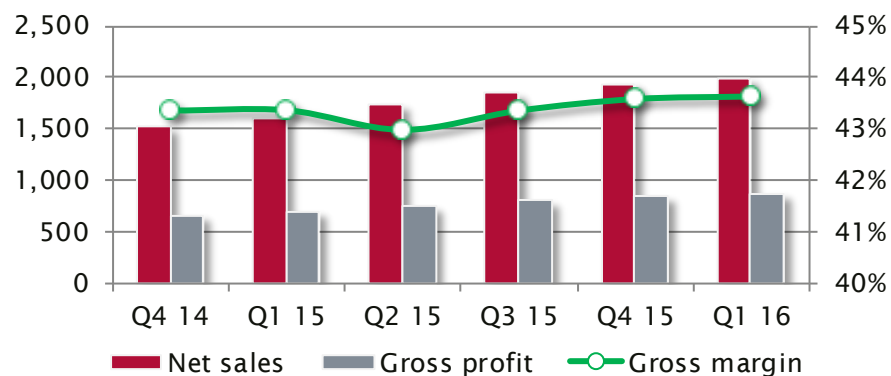
²⁾ LTM = last twelve months



HANDMADE CIGARS

DKKm		2014	2015	LTM ²⁾	Q1 2015	Q1 2016
Net sales		1,514	1,935		372	424
Reported growth		10.6%	27.9%			13.9%
Gross profit		656	843		160	183
Gross margin		43.3%	43.6%		42.9%	43.3%
Volume impact		7.3%	6.6%	8.1%		14.1%
Price/mix impact		2.3%	1.3%	1.1%		0.3%
Organic growth¹⁾		9.6%	7.9%	9.2%		14.4%

LTM (DKKm)



Q1 2016


- Strong volume growth for both Cigars International and General Cigar. The US market has benefitted from strong trading conditions.
- CI continues to gain market share
- Two largest trademarks Macanudo and CAO off to a good start
- Positive pricing held back by adverse mix impact
- Gross margins benefit from continued cost focus and scale
- New management structure supports overall performance

¹⁾ Excluding impact of currencies, acquisitions and non-recurring items

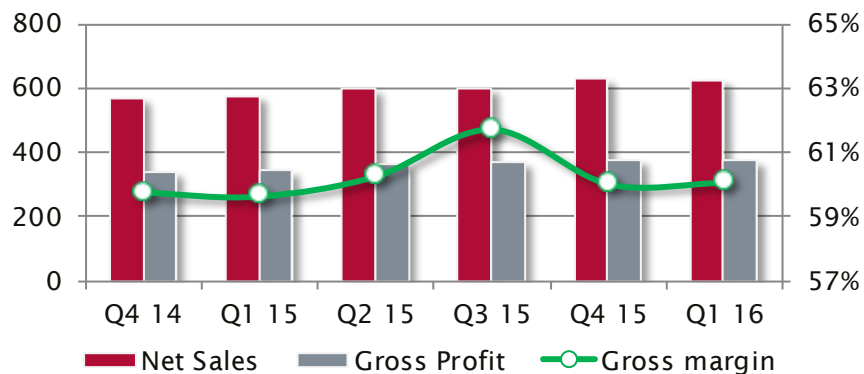
²⁾ LTM = last twelve months



PIPE TOBACCO

DKKm		2014	2015	LTM ²⁾	Q1 2015	Q1 2016
Net sales		569	629		143	138
Reported growth		0.4%	10.6%			(3.2%)
Gross profit		340	378		86	83
Gross margin		59.8%	60.1%		60.3%	60.5%
Volume impact		(3.1%)	(5.1%)	(3.9%)		(4.5%)
Price/mix impact		3.6%	6.7%	6.1%		1.9%
Organic growth ¹⁾		0.5%	1.6%	2.2%		(2.6%)

LTM (DKKm)



Q1 2016


- Volume impact back on structural declining trend, albeit US dual usage is growing
- Price increases in mature markets for traditional pipe tobacco offset by negative mix impact from growth in dual-usage pipe tobacco in the US and adverse trading conditions in Nigeria
- Gross margin remains more or less unchanged

¹⁾ Excluding impact of currencies, acquisitions and non-recurring items

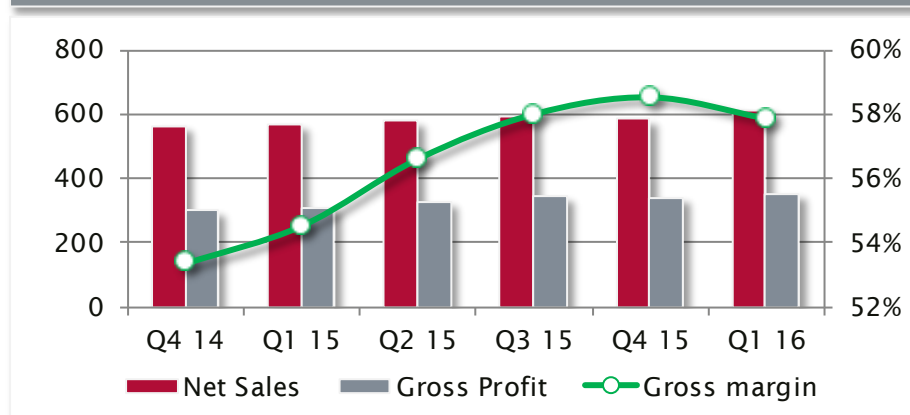
²⁾ LTM = last twelve months



FINE-CUT TOBACCO

DKKm		2014	2015	LTM ²⁾	Q1 2015	Q1 2016
Net sales		562	583		127	152
<i>Reported growth</i>		7.7%	3.9%			19.7%
Gross profit		300	342		76	87
<i>Gross margin</i>		53.4%	58.5%		59.8%	57.0%
Volume impact		1.1%	(6.0%)	(2.2%)		17.4%
Price/mix impact		7.7%	4.7%	6.8%		6.0%
Organic growth¹⁾		8.8%	(1.3%)	4.6%		23.4%

LTM (LTM)



Q1 2016

- Strong volume growth driven by timing of sales at Danish/German border and market share gains in Germany
- Price/mix strong in most markets
- Margins reduced from 59.8% to 57.0% due to geographical mix changes

¹⁾ Excluding impact of currencies, acquisitions and non-recurring items

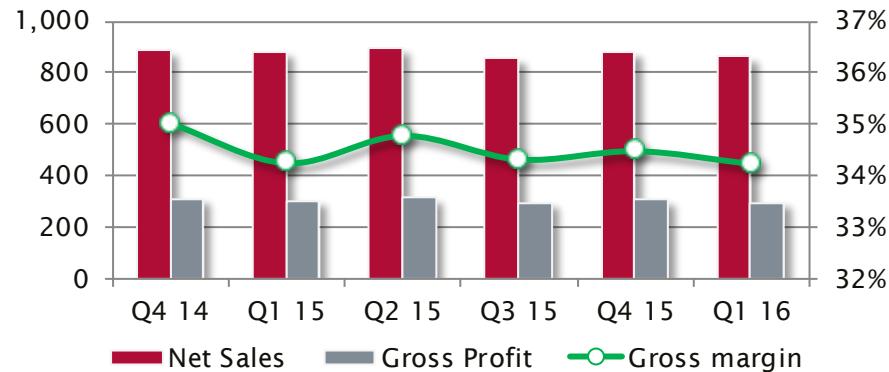
²⁾ LTM = last twelve months



OTHER

DKKm	2014	2015	LTM ²⁾	Q1 2015	Q1 2016
Net sales	886	882		206	187
<i>Reported growth</i>	(7.3%)	(0.5%)			(9.4%)
Gross profit	310	304		69	60
<i>Gross margin</i>	35.0%	34.5%		33.2%	31.9%
Volume impact	n/a	n/a	n/a		n/a
Price/mix impact	n/a	n/a	n/a		n/a
Organic growth¹⁾	(6.6%)	(4.5%)	(4.6%)		(8.5%)

LTM (DKKm)



Q1 2016

- Organic growth negative by 8.5% partly due to reduced contract manufacturing sales to Germany and Norway and to lower sales of fire products and accessories.

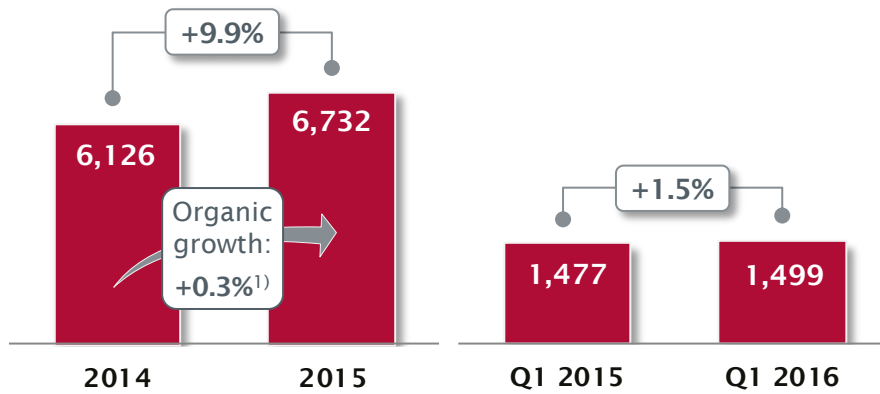
¹⁾ Excluding impact of currencies, acquisitions and non-recurring items

²⁾ LTM = last twelve months

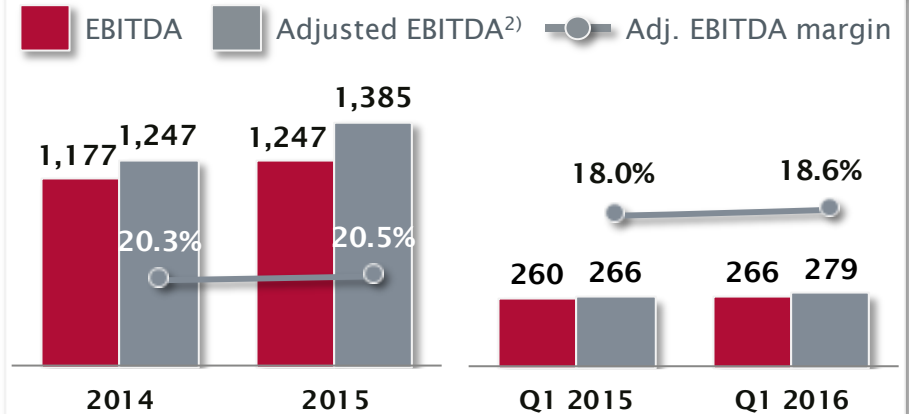


FINANCIAL OVERVIEW

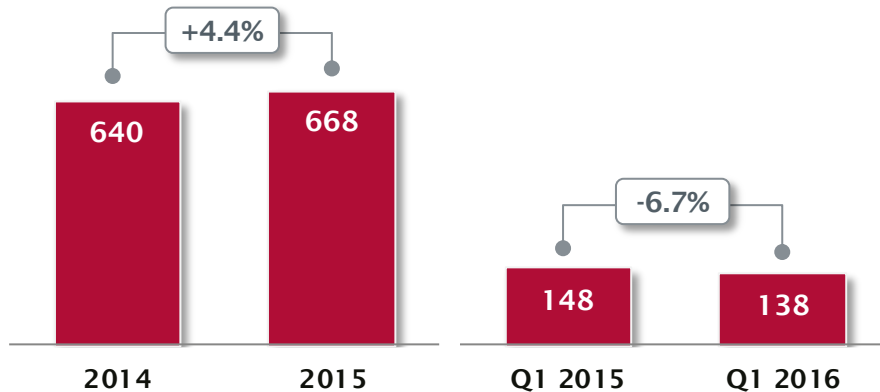
Net sales (DKK m)



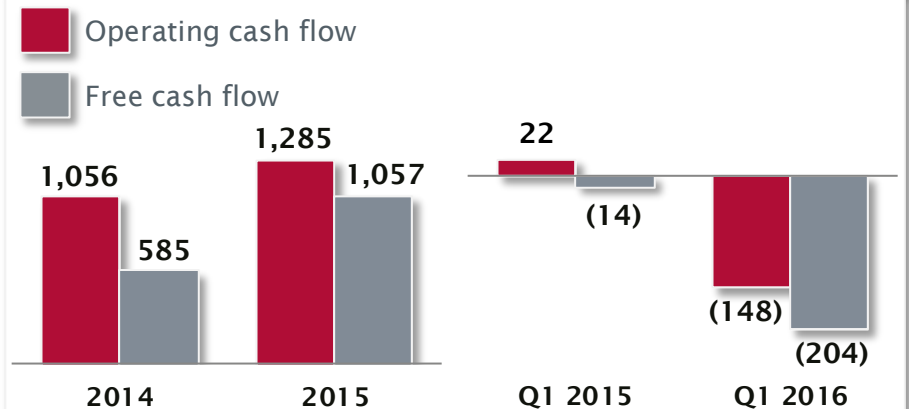
EBITDA (DKK m)



Net profit (DKK m)



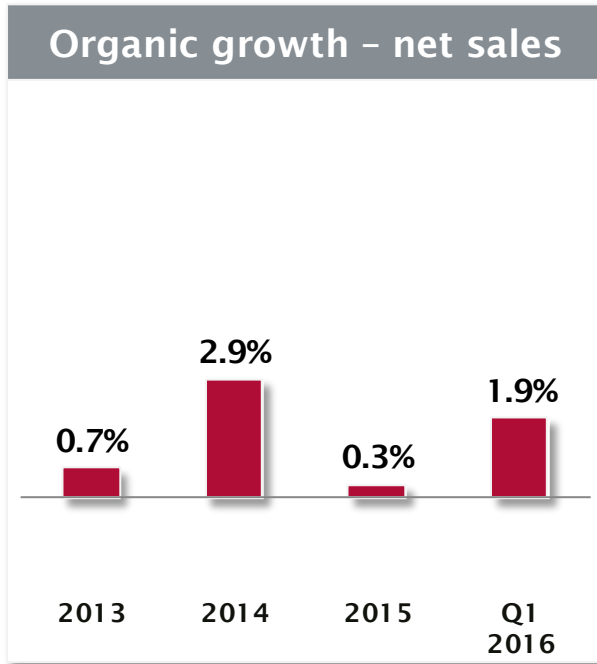
Cash flow (DKK m)



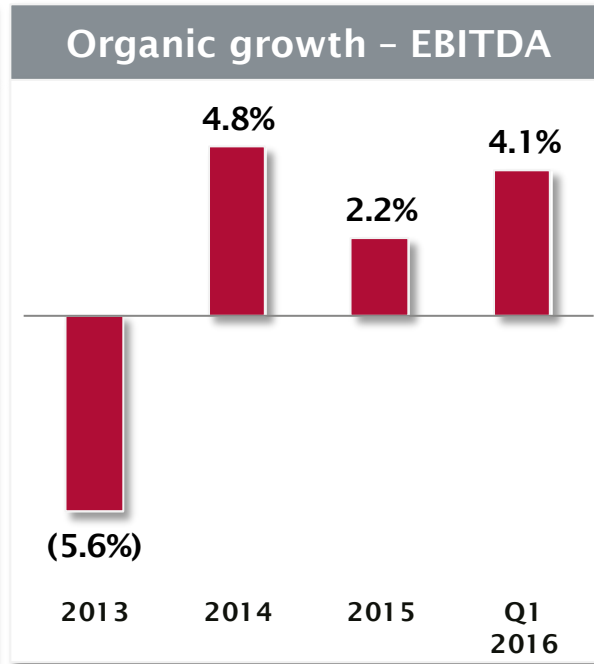
¹⁾ Adjusted for currencies, acquisitions and non-recurring items
²⁾ Adjusted for non-recurring items



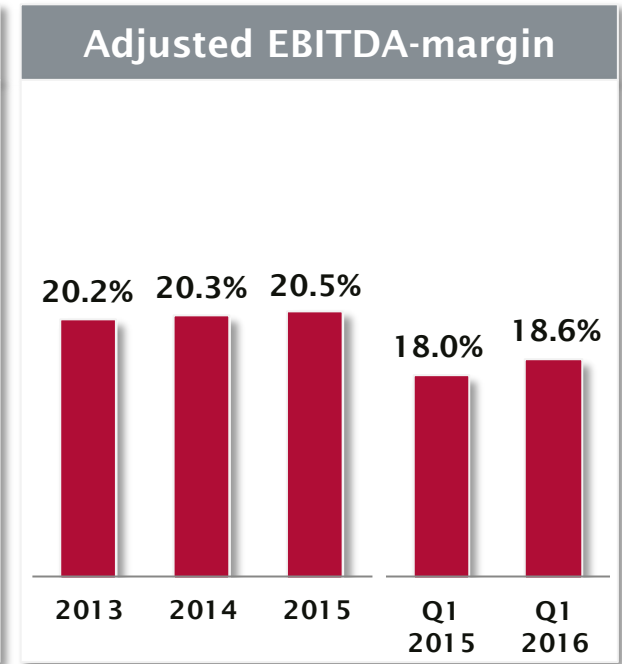
OPERATING PERFORMANCE DRIVERS



Medium-term outlook
+1-3%
through the cycle



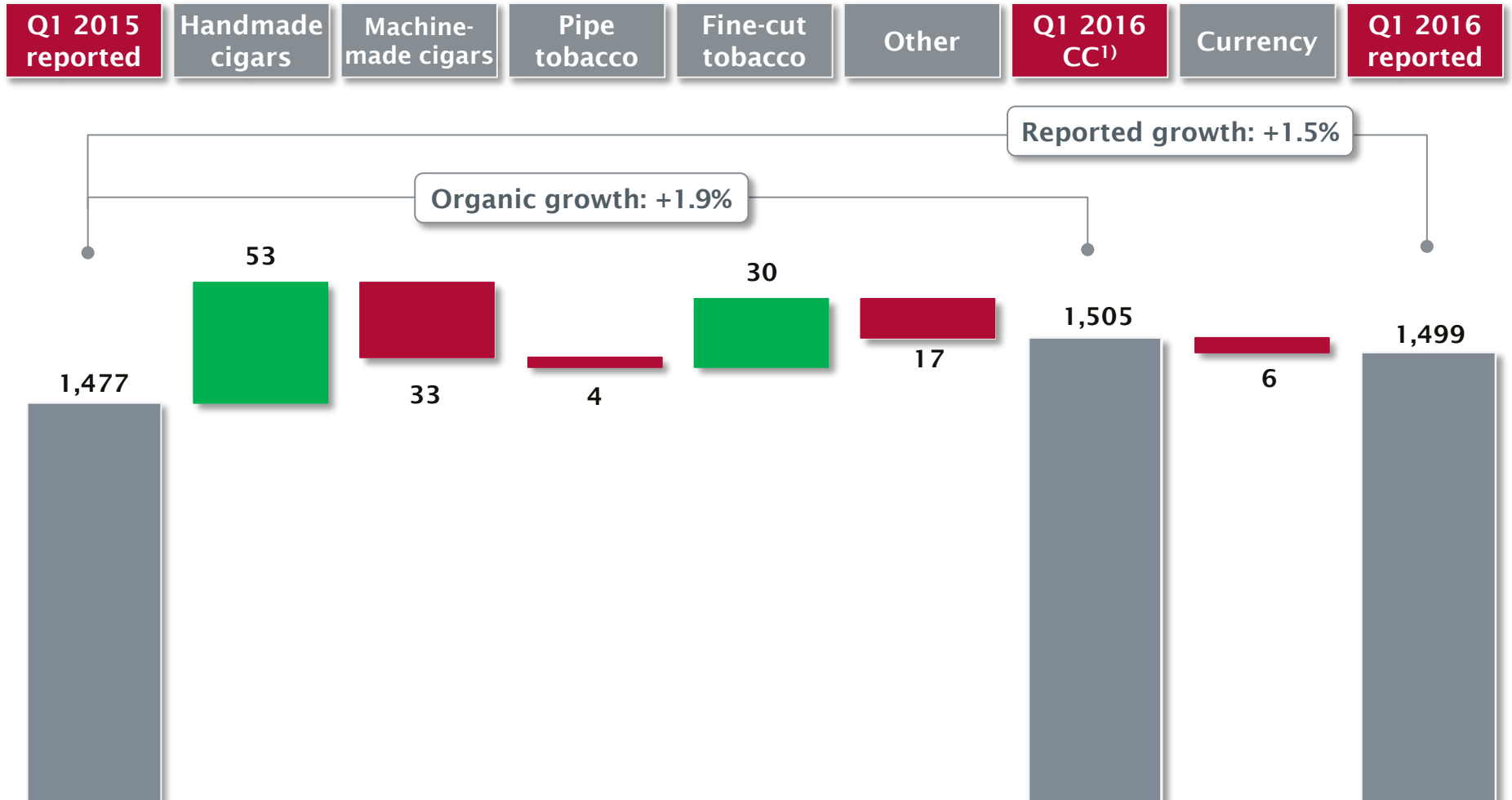
Medium-term outlook
+3-5%
through the cycle



Improving



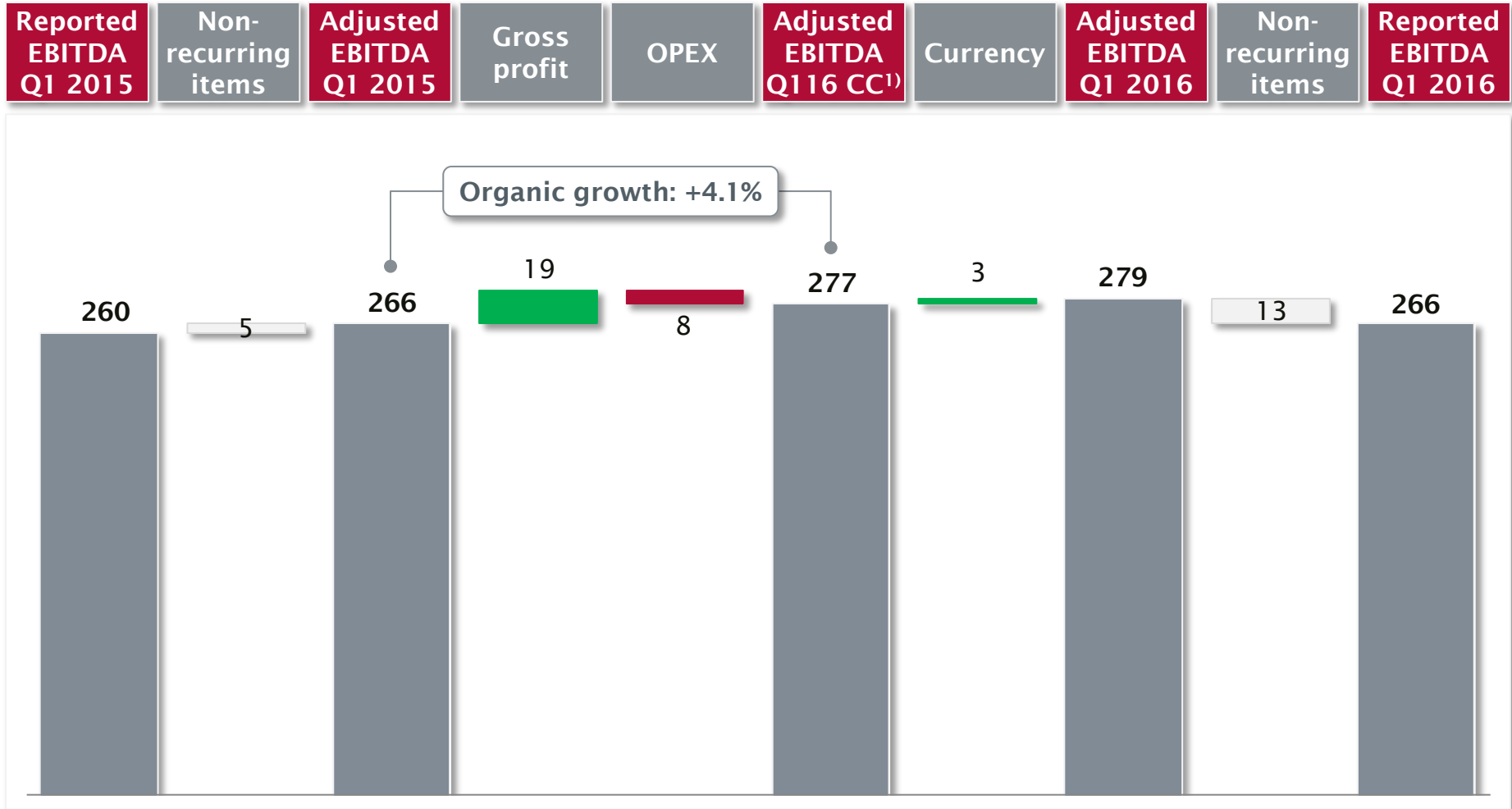
NET SALES BRIDGE Q1 2015 VS Q1 2016 (DKKM)



¹ Excluding currency impact



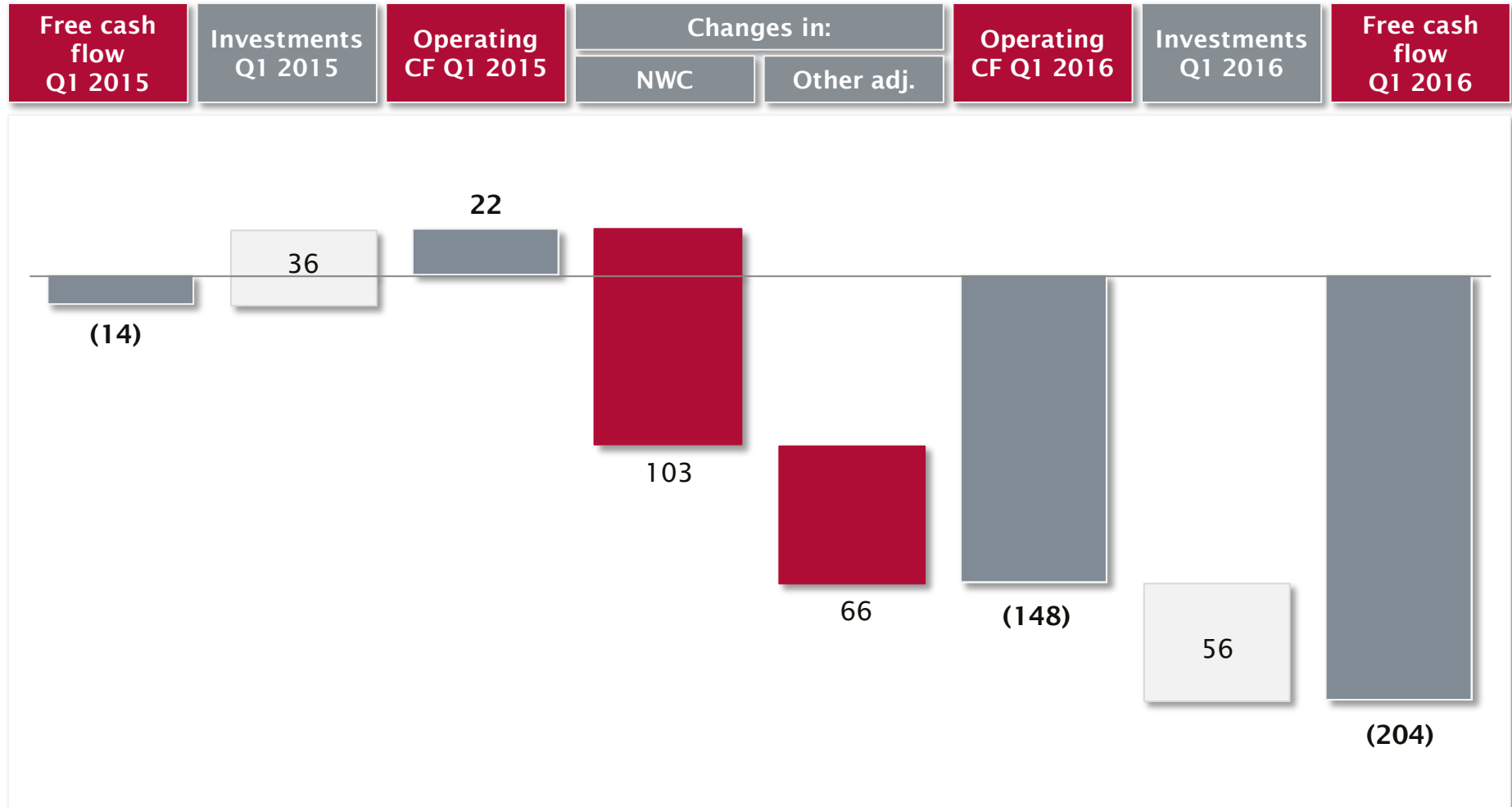
ADJUSTED EBITDA BRIDGE Q1 2015 VS Q1 2016 (DKKM)



¹ Excluding currencies, acquisitions and non-recurring items

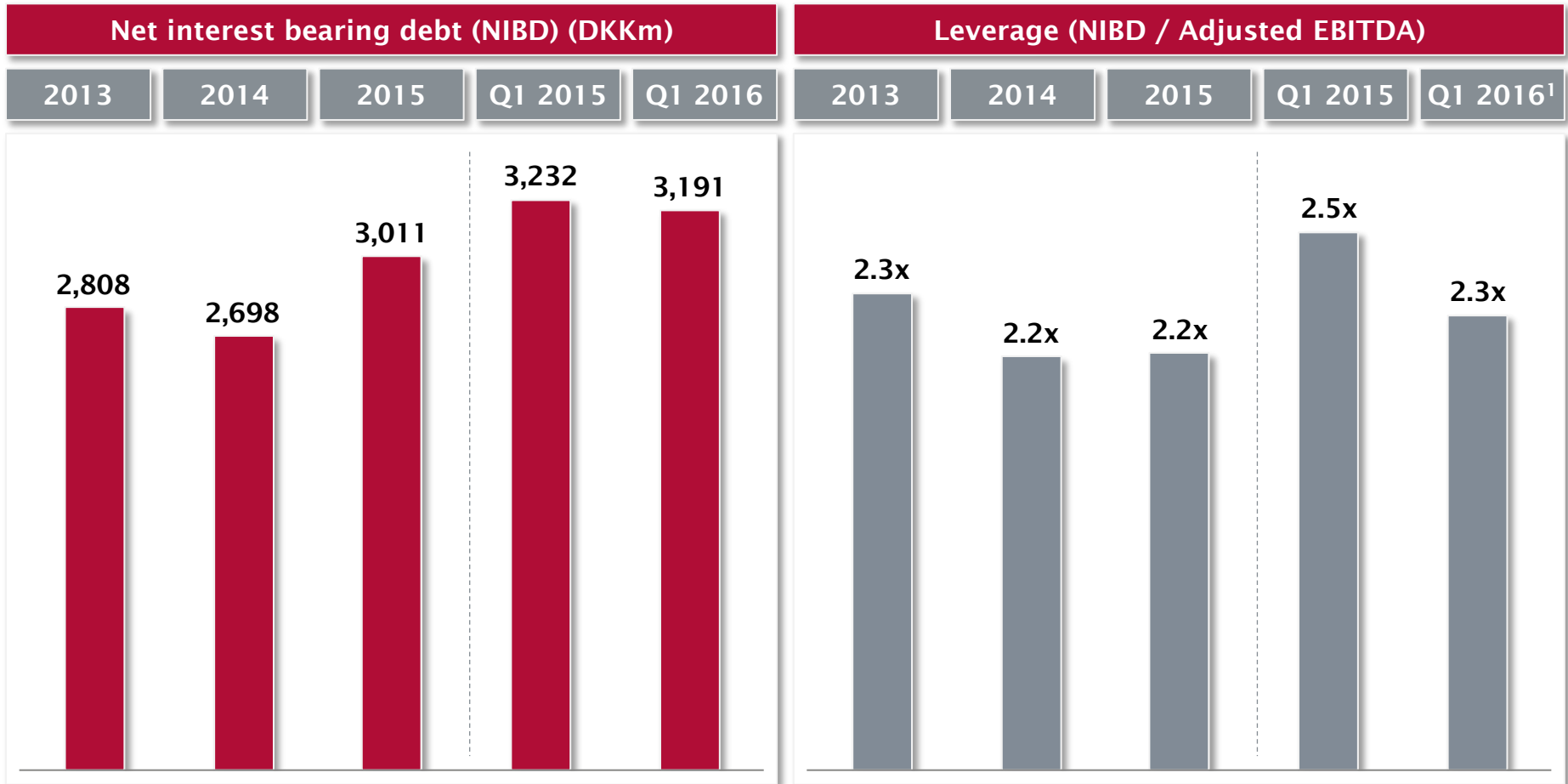


OPERATING AND FREE CASH FLOW (DKKM)





NET DEBT AND LEVERAGE



¹ Leverage Q1 2016 including the DKK 500 million paid dividend in April 2016 had been 2.7x.



GUIDANCE AND MEDIUM-TERM OUTLOOK

	2016 guidance	Medium-term outlook
A Adjusted net sales	1% - 3% organic growth ¹	1% - 3% organic growth ¹ (through the cycle)
B Adjusted EBITDA	3% - 5% organic growth ¹	3% - 5% organic growth ¹ (through the cycle)
C Capital expenditures	Around DKK 250m	c. DKK 150m (maintenance)

¹ Annual organic growth, i.e. excluding currencies, acquisitions and non-recurring items



EU TOBACCO PRODUCTS DIRECTIVE (TPD) - UPDATE



	Update
Time line	<ul style="list-style-type: none">✓ Effective as of 20 May, 2016✓ Late adoption of national legislation✓ Non-TPD compliant products produced before 20 May 2016 can generally be sold until 20 May, 2017
TPD	<ul style="list-style-type: none">✓ Increased number and size of warning labels✓ Expanded reporting requirements✓ Other measures
Our position	<ul style="list-style-type: none">✓ We have prepared well✓ We have aimed to create a competitive advantage✓ Consumer reactions yet to be seen✓ Implementation affecting production planning and inventory levels



FDA REGULATION (1/2)

Key elements

- ✓ Premarket approval/product authorisation, health warnings, no free samples a.o.
- ✓ Catalogue and internet sales of cigars and pipe tobacco continue to be permitted
- ✓ Window for product launches without prior FDA authorisation closes Aug 8, 2016
- ✓ Manufacturer costs will increase. Economies of scale become important

STG position

- ✓ STG has experience with FDA applications through its fine-cut business
- ✓ Resources allocated for
 - compliance, application procedures, legal and commercial aspects
- ✓ Price management has historically protected our margins despite cost inflation



FDA REGULATION (2/2)

Several uncertainties

- ✓ The long-term impact on total market volume
- ✓ Will the competitive landscape change?
- ✓ Will FDA-regulation have any impact on the access of Cuban cigars?
- ✓ Outcome of potential legal proceedings
- ✓ STGs adaptation to new rules has started
- ✓ STG assesses its ability to potentially challenge the 2007 Grandfather Date



FINANCIAL CALENDAR 2016

Event	Date	Silent period starts
Second Quarter (Q2 2016)	August 31	August 3
Third Quarter (Q3 2016)	November 3	October 6



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