Company Announcement
No. 10/2018

Copenhagen, 17 May 2018

Scandinavian Tobacco Group delivers organic net sales growth of 3.5% and organic EBITDA growth of 1.2% in the first quarter of 2018.

Highlights for the first quarter of 2018

- Reported net sales of DKK 1,285 million (DKK 1,379 million) – organic growth +3.5%
- Reported EBITDA of DKK 196 million (DKK 201 million) – organic growth +1.2%
- Net profit of DKK 88 million (DKK 75 million)
- Free cash flow of DKK -76 million (DKK 48 million)
- Announcement of acquisition of Thompson and Co. of Tampa

For the first quarter of 2018 Scandinavian Tobacco Group A/S delivered net sales of DKK 1,285 million and an adjusted EBITDA of DKK 199 million. Reported numbers are negatively impacted by an unfavourable currency impact mainly driven by USD. Adjusted for currency impact and non-recurring items the quarter delivered a 3.5% organic growth in net sales and 1.2% organic growth in EBITDA. Net profit for the quarter increased by 18% to DKK 88 million while free cash flow was negative at DKK -76 million (DKK 48 million) in accordance with seasonal development. The Q1 performance supports our 2018 full year guidance.

The handmade cigar category delivered an organic growth of 6.8% in net sales with the machine-made cigars category delivering a negative organic growth of 1.0%. The pipe tobacco category delivered negative organic growth of 2.0% while fine-cut tobacco reported negative organic growth of 8.0%. The “Other” category continued to show strong growth delivering a positive organic growth of 18.6%.

CEO Niels Frederiksen says: “We’re pleased to see continued improvement in our handmade cigars category as the category is returning to healthy growth rates. The first quarter is traditionally our smallest quarter and the machine-made cigars category was impacted by the new excise structures in France, but overall we are on track to deliver on our full year guidance.”

Integration of Thompson and Co. of Tampa (Thompson)

The acquisition of Thompson, a leading online retail cigar business in the US, was announced in Q1 and completed on 2 April 2018 at a total purchase price of USD 65 million including a net working capital adjustment of USD 3 million. The acquisition provides Scandinavian Tobacco Group access to a substantial and attractive customer base and strengthens the company’s position in the online retail cigar channel in the US significantly.

“We are proud to welcome our new colleagues in Florida into the STG family and have immediately started the integration of Thompson into the new combined business with our existing US online retailer Cigars International. I am excited about this transaction that will allow us to deliver an unmatched range of premium cigars at the highest level of service to the US consumers." says Mr. Frederiksen.

Conference Call and Webcast

A conference call and webcast will be held on 17 May 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 Figures[1]

DKK million	Q1 2018	Q1 2017	2017
INCOME STATEMENT			
Net sales	1,285	1,379	6,464
Gross profit	613	648	3,095
EBITDA	196	201	1,232
EBIT	125	117	913
Net financial items[2]	-15	-22	-77
Profit before tax	114	98	852
Income taxes	-26	-24	-140
Net profit	88	75	712
BALANCE SHEET			
Total assets	13,033	14,235	12,990
Equity	8,392	9,297	8,448
Net interest-bearing debt (NIBD)	2,271	2,386	2,247
Investment in property, plant and equipment	26	17	54
Total capital expenditures	33	27	109
CASH FLOW STATEMENT			
Cash flow from operating activities	-45	73	1,049
Cash flow from investing activities	-31	-25	-94
Free cash flow	-76	48	955
KEY RATIOS			
Net sales growth	-6.8%	-8.0%	-4.2%
Gross margin	47.7%	47.0%	47.9%
EBITDA margin	15.2%	14.5%	19.1%
Effective tax percentage	22.8%	24.2%	16.4%
Equity ratio	64.4%	65.3%	65.0%
Cash conversion	56.2%	31.9%	110.2%
Organic net sales growth	3.5%	-9.5%	-2.2%
Adjusted gross margin	47.7%	47.4%	48.5%
Organic EBITDA growth	1.2%	-22.4%	-7.4%
Adjusted EBITDA (DKK million)	199	212	1,283
Adjusted EBITDA margin	15.5%	15.4%	19.9%
NIBD / Adjusted EBITDA	1.8	1.7	1.8
ROIC			7.9%
ROIC ex. goodwill and trademarks from 2010 merger			14.8%
Basic earnings per share (DKK)	0.9	0.7	7.1
Diluted earnings per share (DKK)	0.9	0.7	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 HIGHLIGHTS

FIRST QUARTER 2018

Net sales

STG delivered net sales of DKK 1,285 million (DKK 1,379 million) in the first quarter of 2018, a 6.8% decline versus the same period of last year.

We have, in connection with the implementation of IFRS 15 per January 1, 2018, changed our classification of import duties in selected markets affecting reported net sales negatively. For the first quarter of 2018 this change had a negative impact on net sales of DKK 33 million corresponding to 2.5%, and has improved reported gross profit and EBITDA margin by 1.2% and 0.4% respectively. The reclassification has no impact on the reported gross profit and EBITDA.

Exchange rate developments had a negative impact of 7.7% leading to an organic net sales growth of 3.5%.

Net sales breakdown:

DKKm	Q1 2018	Q1 2017	Q1 2018	Q1 2017
Handmade cigars	371	401	29%	29%
Machine-made cigars	472	523	37%	38%
Pipe tobacco	115	131	9%	10%
Fine-cut tobacco	107	126	8%	9%
Other	220	197	17%	14%
Total	**1,285**	**1,379**	**100%**	**100%**

The performance in STG's handmade cigar category showed improvements in the first quarter as the branded cigar business continued to deliver good volume growth, whereas Cigars International, STG's internet and catalogue business delivered a sound volume growth versus the low performance in Q1 2017. The handmade cigar category all together delivered an organic growth of 6.8% in net sales.

The Q1 performance in our machine-made cigars category have been negatively impacted by general stock reductions in the trade and at our distributor in our biggest market France, caused by the announced excise increase. This impact was partly off-set by strong growth in Belux, Sweden and UK leaving the category net performance slightly weaker than expected for the quarter delivering a negative organic growth of 1.0%.

The pipe tobacco category delivered negative organic growth of 2.0% while fine-cut tobacco reported negative organic growth of 8.0% mainly driven by timing of shipments to Norway and to our strategic partner program in the US. The "Other" category continued to show strong growth delivering a positive organic growth of 18.6%, primarily driven by distribution of accessories and contract manufacturing.

Gross profit and gross margin

Reported gross profit was DKK 613 million (DKK 648 million), a decrease of 5.4%. Adjusted for non-recurring costs, gross profit was down DKK 40 million or 6.2%. The development in exchange rates impacted adjusted gross profit negatively by 7.1%, leaving organic growth in gross profit at DKK 6 million or 0.9%. The improvement was driven by the increased net sales.

The adjusted gross margin was 47.7%, down 1.0pp from 48.7% in the same period of last year adjusted for the impact of the reclassification of selected import duties. The drop in margin was primarily driven by an unfavourable market mix in the quarter.

Operating expenses

Operating expenses (OPEX) were DKK 417 million, a decrease of 6.7% or DKK 30 million versus last year mainly driven by currency impact and lower non-recurring costs. The organic development in OPEX was almost flat compared to last year.

NON-RECURRING ITEMS

DKKm	Q1 2018			Q1 2017		
	Reported	Non-Recurring Items	Adjusted	Reported	Non-Recurring Items	Adjusted
Net Sales	1,285	-	1,285	1,379	-	1,379
Gross Profit	613	-	613	648	5	653
Gross-margin	47.7%		47.7%	47.0%		47.4%
EBITDA	196	3	199	201	11	212
EBITDA-margin	15.2%		15.5%	14.5%		15.4%

REPORTED EBITDA

DKKm	Q1 2018	Q1 2017
EBITDA Reported	**196**	**201**
TPD related costs	-	2
FDA related costs	-	4
Restructuring, optimisation and effiency programmes	-	5
Acquisition related costs	3	-
EBITDA Adjusted	**199**	**212**

In the quarter, non-recurring items amounted to DKK 3 million (DKK 11 million) covering transaction related costs from the acquisition of Thompson Cigars.

EBITDA

Reported EBITDA amounted to DKK 196 million (DKK 201 million), a decrease of 2.5% due to lower gross profits, partly off-set by reduced impact from non-recurring costs and lower reported OPEX. Adjusted EBITDA (exclusive of non-recurring costs) was DKK 199 million (DKK 212 million), a 6.3% decline compared to last year.

Adjusting for the negative currency impact EBITDA delivered an organic growth of 1.2%.

Net profit

Net profit was DKK 88 million (DKK 75 million), a 17.8% increase compared to the same quarter of last year and mainly driven by lower impairments and lower financial costs.

Cash flow

In the quarter, STG generated a free cash flow of DKK -76 million (DKK 48 million). The seasonality of the business will normally drive a negative free cash flow in the first quarter, but Q1 2017 was positively impacted by refunds of corporate tax payments related to adjustments of previous years which explain the positive cash flow in the comparisons.

Cash flow from investing activities amounted to DKK -31 million (DKK -25 million) including capital expenditure (CAPEX) of DKK -33 million (DKK -27 million), mainly related to replacement of manufacturing equipment, IT and the retail expansion in the US.

The cash conversion ratio increased to 56% (32%) being positively impacted by the improved development in net working capital.

EARNINGS PER SHARE

Earnings per share (EPS) for the first three months were DKK 0.9 (DKK 0.7). Fully diluted EPS were DKK 0.9 (DKK 0.7).

Capital structure and net interest-bearing debt

At 31 March 2018, STG had net interest-bearing debt of DKK 2,271 million (DKK 2,386 million). The net interest-bearing debt to adjusted EBITDA ratio increased slightly to 1.8x (1.7x at 31 March 2017).

Business Highlights

Acquisition of Thompson and Co. of Tampa (Thompson)

The acquisition of Thompson was completed on 2 April 2018, as from which date the Thompson results will be included in the consolidated financial statement of Scandinavian Tobacco Group. The total purchase price was USD 65 million including a net working capital adjustment of USD 3 million, which was financed through existing cash at hand.

Thompson is a leading online retail cigar business in the US, a market where approximately two thirds of all handmade cigars are sold online. Thompson provides Scandinavian Tobacco Group access to an established and well-recognised retail websites, a substantial and attractive customer base and strengthens STG’s position in the online retail cigar channel in the US.

The integration of Thompson has been commenced with focus on the realisation of the planned synergies as well as the long term strategic value creation. The total financial synergies are expected to fully materialise within two years from the date of completion, where after we expect the combined online business to deliver EBITDA margins on the same level as Cigars International are operating today.

The non-recurring costs related to the acquisition are estimated to a total of approx. DKK 60 million covering up front transaction and advisor fee as well as integration costs during the integration period. DKK 2 million have already occurred in 2017, whereas the remaining part is expected to be charged in 2018 and 2019 respectively on a 50/50 split.

STG’s first quarter result does not include net sales or earnings from the acquisition. On a pro forma basis, if the acquisition had been effective from 1 January 2018 the activity of Thompson would in the quarter have contributed DKK 137 million to net sales and an immaterial impact on EBITDA in Q1.

The acquired net assets from Thompson will be recognised at fair value on the closing date stated in accordance with STG’s accounting policies. The provisional fair values of the acquired assets at the closing date are disclosed in note 4.

Key Data Per Category

	Q1 18	Q1 17	Change	2017
Net sales (DKKm)				
Handmade cigars	371	401	-7.4%	1,921
Machine-made cigars	472	523	-9.7%	2,491
Pipe tobacco	115	131	-12.5%	544
Fine-cut tobacco	107	126	-15.6%	598
Other	220	197	11.6%	909
Group total	**1,285**	**1,379**	**-6.8%**	**6,464**
Gross profit (DKKm)				
Handmade cigars	153	171	-10.7%	795
Machine-made cigars	248	260	-4.4%	1,268
Pipe tobacco	68	79	-14.0%	326
Fine-cut tobacco	58	73	-19.4%	364
Other	85	66	30.1%	342
Group total	**613**	**648**	**-5.4%**	**3,095**
Organic net sales growth (%)				
Handmade cigars	6.8%	-8.6%		-4.0%
Machine-made cigars	-1.0%	-12.5%		-2.4%
Pipe tobacco	-2.0%	-6.4%		-2.6%
Fine-cut tobacco	-8.0%	-18.4%		-7.0%
Other	18.6%	3.4%		6.4%
Group total	**3.5%**	**-9.5%**		**-2.2%**
Volume impact (%)				
Handmade cigars	6.4%	-6.5%		-1.8%
Machine-made cigars	-5.1%	-13.0%		-3.7%
Pipe tobacco	-4.2%	-6.8%		-2.3%
Fine-cut tobacco	-11.7%	-23.7%		-14.0%
Other	-	-		-
Group total	**-**	**-**		**-**
Price/Mix impact (%)				
Handmade cigars	0.3%	-2.2%		-2.3%
Machine-made cigars	4.1%	0.5%		1.3%
Pipe tobacco	2.3%	0.4%		-0.3%
Fine-cut tobacco	3.7%	5.3%		7.0%
Other	-	-		-
Group total	**-**	**-**		**-**
Gross margin (%)				
Handmade cigars	41.2%	42.7%	-1.5%	41.4%
Machine-made cigars	52.6%	49.6%	2.9%	50.9%
Pipe tobacco	59.2%	60.3%	-1.0%	59.9%
Fine-cut tobacco	54.8%	57.4%	-2.6%	60.9%
Other	38.7%	33.2%	5.5%	37.6%
Group total	**47.7%**	**47.0%**	**0.7%**	**47.9%**
Adjusted Gross margin (%)*				
Machine-made cigars	52.6%	50.6%	1.9%	52.4%
Pipe tobacco	59.2%	60.3%	-1.0%	60.1%
Fine-cut tobacco	54.8%	57.4%	-2.6%	61.1%
Group total	**47.7%**	**47.4%**	**0.3%**	**48.5%**

** Adjusted for non-recurring items*

	Q1 18	Q1 17	Change	2017
Adjusted Gross margin (%) - like for like **				
Handmade cigars	41.2%	42.8%	-1.6%	41.4%
Machine-made cigars	52.6%	53.2%	-0.7%	54.5%
Pipe tobacco	59.2%	62.9%	-3.7%	62.7%
Fine-cut tobacco	54.8%	60.0%	-5.2%	62.7%
Other	38.7%	33.3%	5.4%	37.7%
Group total	**47.7%**	**48.7%**	**-1.0%**	**49.6%**

** *Adjusted for non-recurring items and changed accounting treatment of import duties in selected markets*

Category Update

Handmade Cigars

DKK MILLION	Q1 18	Q1 17	2017
Net sales	371	401	1,921
Reported growth	-7.4%	-5.5%	-7.1%
Organic growth	6.8%	-8.6%	-4.0%
Gross profit	153	171	795
Gross margin, %	41.2%	42.7%	41.4%
Gros margin, % adjusted - like for like *	41.2%	42.8%	41.4%

*Adjusted for non-recurring items and changed accounting treatment of import duties in selected markets

The reported net sales of handmade cigars in the first quarter declined by 7.4% to DKK 371 million (DKK 401 million) and was negatively impacted by the unfavourable currency development in USD. Adjusted for exchange rate developments, the organic net sales growth was positive at 6.8% mainly driven by a positive volume impact of 6.4% and a price/mix impact of 0.3%.

General Cigar (STG's branded cigar business) delivered good volume growth, whereas Cigars International showed a sound volume pick up on the back of last years' volume drop related to the interruption of order processing caused by the IT implementation in February 2017.

The sales outside the US continued to grow at double-digit rates, however from a low base.

The category delivered positive price/mix of 0.3%, as price increases were off-set by unfavourable development in the product mix.

Gross profit was down by DKK 18 million to DKK 153 million (DKK 171 million), primarily driven by the unfavourable exchange rate development.

The gross margin was 41.2% (42.8%) primarily reflecting higher growth in our online/catalogue business versus our branded business as well as somewhat lower margins in Cigars International versus the same period last year.

We are currently preparing to be FDA-compliant in regard to the listing of our US product portfolio and ingredients as well as having warning labels on our own products. The level of direct related costs is still cause for some uncertainty depending on the final ruling on the legality of FDA-mandated warning labels.

Machine-made Cigars

DKK MILLION	Q1 18	Q1 17	2017
Net sales	472	523	2,491
Reported growth	-9.7%	-12.6%	-3.9%
Organic growth	-1.0%	-12.5%	-2.4%
Gross profit	248	260	1,268
Gross margin, %	52.6%	49.6%	50.9%
Gross margin, % adjusted *	52.6%	50.6%	52.4%
Gros margin, % adjusted - like for like **	52.6%	53.2%	54.5%

* Adjusted for non-recurring items

* *Adjusted for non-recurring items and changed accounting treatment of import duties in selected markets

Reported net sales of machine-made cigars delivered a negative development of 9.7% to DKK 472 million (DKK 523 million). Adjusted for reclassification of import duties in selected markets and exchange rate developments, organic growth was negative at 1.0%. The price/mix impact was positive at 4.1% whereas the volume impact was negative at 5.1% mainly driven by the impact from the de-stocking in France together with general total market volume declines being partly off-set by proper growth in Belux, UK and Canada.

Total market developments are more or less unchanged from the previous quarters, with the exception of France. The announced excise tax increases in France 1 March 2018 has caused some disturbance in the market leaving the category performance slightly weaker than expected for the quarter influenced by destocking in the trade and at the distributor. The decline rates in the UK and Belgium seem to have eased versus last year. We see good momentum across most of our important markets in alignment with our machine-made cigars strategy, however with some uncertainty in France, where we are still awaiting the consumer reaction on the back of the excise increase.

Price increases remain sound in most major markets, including Canada. The strong price/mix of 4.1% is partly driven by a temporary positive impact from price management in France ahead of the excise tax increase 1 March.

Reported gross profit decreased by 4% to DKK 248 million (DKK 260 million). Reported gross margin was 52.6% (49.6%). Exclusive of non-recurring costs and adjusted for the reclassification of selected import duties, the adjusted “like-for-like” gross margin was 52.6% (53.2%). The positive impact from completed cost optimisation and efficiency programmes was off-set by unfavourable geographical mix.

Pipe Tobacco

DKK MILLION	Q1 18	Q1 17	2017
Net sales	115	131	544
Reported growth	-12.5%	-4.8%	-4.4%
Organic growth	-2.0%	-6.4%	-2.6%
Gross profit	68	79	326
Gross margin, %	59.2%	60.3%	59.9%
Gross margin, % adjusted *	59.2%	60.3%	60.1%
Gros margin, % adjusted - like for like **	59.2%	62.9%	62.7%

* Adjusted for non-recurring items

* *Adjusted for non-recurring items and changed accounting treatment of import duties in selected markets

For the first quarter reported net sales declined by 12.5% to DKK 115 million (DKK 131 million). Adjusted for reclassification of import duties in selected markets and exchange rate developments, organic growth was negative by 2.0%. The price/mix impact was positive at 2.3% and the volume impact was negative at 4.2%.

Shipments to the Middle East/Africa continued to recover from the impact of macro-economic developments in Nigeria last year, although the market conditions remain challenging. The structural volume decline for traditional pipe tobacco in mature markets continues at mid-single digits rates.

Price/mix impact for the category was slightly positive despite an unfavourable geographical mix development and lower pricing in selected emerging markets. The effective pricing across most traditional pipe tobacco markets remains strong.

Gross profit declined by DKK 11 million to DKK 68 million (DKK 79 million). The reported gross margin was 59.2% (60.3%) and the adjusted “like-for-like” gross margin was 59.2% (62.9%). The decline in margins relates to the change in geographical mix and lower pricing in Nigeria.

Fine-cut Tobacco

DKK MILLION	Q1 18	Q1 17	2017
Net sales	107	126	598
Reported growth	-15.6%	-16.8%	-8.3%
Organic growth	-8.0%	-18.4%	-7.0%
Gross profit	58	73	364
Gross margin, %	54.8%	57.4%	60.9%
Gross margin, % adjusted *	54.8%	57.4%	61.1%
Gros margin, % adjusted - like for like **	54.8%	60.0%	62.7%

* Adjusted for non-recurring items

* *Adjusted for non-recurring items and changed accounting treatment of import duties in selected markets

For the first quarter reported net sales declined by 15.6% to DKK 107 million (DKK 126 million). Adjusted for reclassification of import duties in selected markets and exchange rate developments, the organic growth was negative at 8.0%. The price/mix impact was positive at 3.7%, while the volume impact was negative at 11.7%.

Volumes were down compared to the first quarter last year primarily due to timing of shipments in relation to the introduction of plain packaging in Norway and an adjustment of a partner programme in the US. Germany continues to show positive volume growth.

Pricing is a key priority in the fine-cut tobacco category. The price/mix was held back by Norway and Germany, whereas the other key markets reported healthy price/mix improvements.

Gross profit declined by DKK 15 million to DKK 58 million (DKK 73 million). Reported gross margin was 54.8% (57.4%) and the adjusted “like-for-like” gross margin was 54.8% (60.0%). Profitability decreased due to the change in geographical mix.

Other

DKK MILLION	Q1 18	Q1 17	2017
Net sales	220	197	909
Reported growth	11.6%	5.5%	5.2%
Organic growth	18.6%	3.4%	6.4%
Gross profit	85	66	342
Gross margin, %	38.7%	33.2%	37.6%
Gros margin, % adjusted - like for like *	38.7%	33.3%	37.7%

*Adjusted for non-recurring items and changed accounting treatment of import duties in selected markets

For the first quarter reported net sales increased by 11.6% to DKK 220 million (DKK 197 million). Adjusted for exchange rate developments the category delivered organic net sales growth of 18.6%.

Growth was driven by other accessories and chewing tobacco as well as increased contract manufacturing of handmade cigars.

Gross profit increased by DKK 19 million to DKK 85 million (DKK 66 million) and the “like-for-like” gross margin increased to 38.7% (33.3%). The increase in profitability was primarily driven by mix changes as well as underlying margin improvements in most segments.

EVENTS AFTER THE REPORTING PERIOD

On 2 April 2018, the Group completed the acquisition of Thompson and Co. of Tampa. The purchase price amounted to USD 65 million including a net working capital adjustment of USD 3 million which was financed by existing cash at hand.

No other events have occurred after 31 March 2018 which is expected to have material impact on the financial position of the Group.

FINANCIAL GUIDANCE 2018

The consolidated full-year guidance for 2018 is maintained

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

Other financial expectations are unchanged:

- 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 215 million, whereof DKK 65 million relates to special investments in retail and track & trace functionality

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 – 31 March 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 31 March 2018 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 31 March 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, 17 May 2018

EXECUTIVE MANAGEMENT

Niels Frederiksen CEO	Sisse Fjelsted Rasmussen CFO

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 - 31 MARCH

CONSOLIDATED INCOME STATEMENT

DKK million	Note	Q1 2018	Q1 2017
Net sales	**2**	**1,285.1**	**1,378.9**
Cost of goods sold	2	-672.3	-730.9
Gross profit	**2**	**612.8**	**648.0**
Other external costs		-227.3	-248.8
Staff costs		-190.0	-198.6
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**195.5**	**200.6**
Depreciation and impairment		-29.1	-41.4
Earnings before interest, tax and amortisation (EBITA)		**166.4**	**159.2**
Amortisation		-41.7	-41.9
Earnings before interest and tax (EBIT)		**124.7**	**117.3**
Share of profit of associated companies, net of tax		4.3	2.6
Financial income		13.6	5.5
Financial costs		-28.7	-27.0
Profit before tax		**113.9**	**98.4**
Income taxes		-26.0	-23.8
Net profit for the period		**87.9**	**74.6**
Earnings per share			
Basic earnings per share (DKK)		0.9	0.7
Diluted earnings per share (DKK)		0.9	0.7
OTHER COMPREHENSIVE INCOME			
Items that will not be recycled subsequently to the Consolidated Income Statement:			
Actuarial gains and losses on pension obligations		0.0	-1.6
Tax of actuarial gains and losses on pension obligations		0.0	0.5
Items that will be recycled subsequently to the Consolidated Income Statement, when specific conditions are met:			
Cash flow hedges, deferred gains/(losses) incurred during the period		21.0	14.9
Tax of hedging instruments		-4.6	-4.6
Foreign exchange rate adjustments		-161.7	-62.7
Other comprehensive income for the period, net of tax		**-145.3**	**-53.5**
Total comprehensive income for the period		**-57.4**	**21.1**

CONSOLIDATED BALANCE SHEET

ASSETS

DKK million	31 Mar 2018	31 Mar 2017	31 Dec 2017
Goodwill	4,176.1	4,553.5	4,255.8
Trademarks	2,963.4	3,216.5	3,013.9
IT software	96.4	96.7	99.4
Other intangible assets	175.9	198.1	181.9
Total intangible assets	**7,411.8**	**8,064.8**	**7,551.0**
Property, plant and equipment	1,204.9	1,317.2	1,217.3
Investments in associated companies	126.1	137.4	127.7
Deferred income tax assets	99.8	132.2	96.0
Other financial fixed assets	31.5	13.6	20.6
Total non-current assets	**8,874.1**	**9,665.2**	**9,012.6**
Inventories	2,500.7	3,010.1	2,421.0
Trade receivables	653.7	625.3	712.8
Other receivables	84.5	53.9	78.7
Corporate tax	165.8	162.3	76.9
Prepayments	82.6	100.0	83.2
Cash and cash equivalents	671.2	617.9	605.2
Total current assets	**4,158.5**	**4,569.5**	**3,977.8**
Total assets	**13,032.6**	**14,234.7**	**12,990.4**

CONSOLIDATED BALANCE SHEET

EQUITY AND LIABILITIES

DKK million	31 Mar 2018	31 Mar 2017	31 Dec 2017
Share capital	100.0	100.0	100.0
Reserve for hedging	20.4	-17.2	4.0
Reserve for currency translation	318.7	1,098.0	480.4
Treasury shares	-40.5	-45.5	-40.5
Retained earnings	7,993.2	8,161.2	7,904.3
Total equity	**8,391.8**	**9,296.5**	**8,448.2**
Bank loans	2,727.1	2,717.1	2,606.3
Deferred income tax liabilities	580.1	653.2	571.5
Pension obligations	238.0	265.1	237.8
Other provisions	32.1	46.9	33.7
Other liabilities	21.1	29.7	22.4
Total non-current liabilities	**3,598.4**	**3,712.0**	**3,471.7**
Trade payables	409.4	381.7	365.4
Corporate tax	170.1	177.0	170.5
Other provisions	15.6	98.4	27.4
Other liabilities	447.3	569.1	507.2
Total current liabilities	**1,042.4**	**1,226.2**	**1,070.5**
Total liabilities	**4,640.8**	**4,938.2**	**4,542.2**
Total equity and liabilities	**13,032.6**	**14,234.7**	**12,990.4**

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY - 31 MARCH

DKK million	Q1 2018	Q1 2017
Net profit for the period	87.9	74.6
Adjustments	102.5	135.7
Changes in working capital	-68.0	-126.0
Non-recurring costs, paid	-11.5	-17.8
Cash flow from operating activities before financial items	**110.9**	**66.5**
Financial income received	13.6	5.5
Financial costs paid	-52.4	-33.7
Cash flow from operating activities before tax	**72.1**	**38.3**
Tax payments	-117.3	34.4
Cash flow from operating activities	**-45.2**	**72.7**
Investment in intangible assets	-6.9	-10.5
Investment in property, plant and equipment	-26.4	-16.6
Sale of property, plant and equipment	0.2	0.0
Dividend from associated companies	2.0	2.0
Cash flow from investing activities	**-31.1**	**-25.1**
Free cash flow	**-76.3**	**47.6**
Revolving credit facility	148.8	0.0
Cash flow from financing activities	**148.8**	**0.0**
Net cash flow for the period	**72.5**	**47.6**
Cash and cash equivalents, net at 1 January	605.2	570.3
Exchange gains/(losses) on cash and cash equivalents	-6.5	0.0
Net cash flow for the period	72.5	47.6
Cash and cash equivalents, net at 31 March	**671.2**	**617.9**

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 31 MARCH 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**
Comprehensive income for the period						
Net profit for the period	**0.0**	**0.0**	**0.0**	**0.0**	**87.9**	**87.9**
Other comprehensive income						
Cash flow hedges	-	21.0	-	-	-	**21.0**
Tax of cash flow hedges	-	-4.6	-	-	-	**-4.6**
Foreign exchange adjustments on net investments in foreign operations	-	-	-161.7	-	-	**-161.7**
Total other comprehensive income	**0.0**	**16.4**	**-161.7**	**0.0**	**0.0**	**-145.3**
Total comprehensive income for the period	**0.0**	**16.4**	**-161.7**	**0.0**	**87.9**	**-57.4**
Transactions with shareholders						
Share-based payments	-	-	-	-	1.0	**1.0**
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**0.0**	**1.0**	**1.0**
Equity at 31 March 2018	**100.0**	**20.4**	**318.7**	**-40.5**	**7,993.2**	**8,391.8**

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 31 MARCH 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**
Comprehensive income for the period						
Net profit for the period	**0.0**	**0.0**	**0.0**	**0.0**	**74.6**	**74.6**
Other comprehensive income						
Cash flow hedges	-	14.9	-	-	**-**	**14.9**
Tax of cash flow hedges	-	-4.6	-	-	**-**	**-4.6**
Foreign exchange adjustments on net investments in foreign operations	-	-	-62.7	-	**-**	**-62.7**
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**	**10.3**	**-62.7**	**0.0**	**-1.1**	**-53.5**
Total comprehensive income for the period	**0.0**	**10.3**	**-62.7**	**0.0**	**73.5**	**21.1**
Transactions with shareholders						
Share-based payments	-	-	-	**-**	2.5	**2.5**
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**0.0**	**2.5**	**2.5**
Equity at 31 March 2017	**100.0**	**-17.2**	**1,098.0**	**-45.5**	**8,161.2**	**9,296.5**

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 Q1 2018 is a reduction of both net sales and COGS of DKK 33.2 million, a reported gross margin improvement of 1.2%-point and an EBITDA margin improvement of 0.4%-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 allocated**	**Total**
Net sales	371.0	472.3	114.9	106.7	220.2	0.0	1,285.1
Cost of goods sold	-218.2	-224.1	-46.8	-48.2	-135.0	0.0	-672.3
Gross profit	**152.8**	**248.2**	**68.1**	**58.5**	**85.2**	**0.0**	**612.8**
Other external costs						-227.3	-227.3
Staff costs						-190.0	-190.0
EBITDA						**-417.3**	**195.5**
Depreciation and impairment						-29.1	-29.1
Amortisation						-41.7	-41.7
EBIT						**-488.1**	**124.7**
Share of profit of associated companies, net of tax						4.3	4.3
Financial income						13.6	13.6
Financial costs						-28.7	-28.7
Profit before tax						**-498.9**	**113.9**

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	400.7	523.1	131.3	126.5	197.3	0.0	1,378.9
Cost of goods sold	-229.6	-263.4	-52.2	-53.9	-131.8	0.0	-730.9
Gross profit	**171.1**	**259.7**	**79.1**	**72.6**	**65.5**	**0.0**	**648.0**
Other external costs						-248.8	-248.8
Staff costs						-198.6	-198.6
EBITDA						**-447.4**	**200.6**
Depreciation and impairment						-41.4	-41.4
Amortisation						-41.9	-41.9
EBIT						**-530.7**	**117.3**
Share of profit of associated companies, net of tax						2.6	2.6
Financial income						5.5	5.5
Financial costs						-27.0	-27.0
Profit before tax						**-549.6**	**98.4**

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	356.3	85.7	46.7	25.6	72.7	**587.1**
Europe	10.6	338.0	51.0	67.9	95.9	**563.4**
Rest of World	4.1	48.6	17.2	13.3	51.5	**134.7**
Total	**371.0**	**472.3**	**114.9**	**106.7**	**220.2**	**1,285.1**

Licence income and other sales of DKK 5.2 million are included in the 'other' segment. DKK 3.6 million in Americas and DKK 1.6 in Europe.

NOTE 2

SEGMENT INFORMATION (continued)

Net sales YTD 2017 DKK million	**Hand-made cigars**	**Machine-made cigars**	**Pipe tobacco**	**Fine-cut tobacco**	**Other**	**Total**
Americas	389.5	95.4	55.3	35.4	64.9	**640.4**
Europe	9.3	369.9	51.5	76.6	87.1	**594.4**
Rest of World	2.0	57.8	24.4	14.5	45.4	**144.1**
Total	**400.7**	**523.1**	**131.3**	**126.5**	**197.3**	**1,378.9**

Licence income and other sales of DKK 6.3 million are included in the ‘other’ segment. DKK 4.3 million in Americas and DKK 2.0 in Europe.

NOTE 3

FINANCIAL INSTRUMENTS

The fair value of financial instruments included in the balance sheet as per 31 March 2018 amounts to a net receivable of DKK 22.9 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
Q1 2018 Interim Report does not include net sales or earnings from the acquisition. On a proforma basis, if the acquisition had been effective from 1 January 2018 the business of Thompson would have contributed DKK 137 million to net sales (gross DKK 147 million offset by STG's sales to Thompson in Q1 2018) and an immaterial impact on EBITDA.

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. DKK 1 million will be recognised in Q2 2018 Interim Report. Transaction costs are recognised in 'Other External costs'.

NOTE 4

BUSINESS COMBINATIONS (continued)

DKK million	Provisional fair value at date of acquisition
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.