



Company Announcement  
No. 25/2017  
8 November 2017

## 9M | INTERIM REPORT 1 JANUARY-30 SEPTEMBER 2017

# FINANCIAL PERFORMANCE ON TRACK TO MEET FULL YEAR GUIDANCE - CASH DISTRIBUTION OF DKK 350 MILLION TO SHAREHOLDERS

### HIGHLIGHTS FOR THE THIRD QUARTER OF 2017

- Reported net sales of DKK 1,721 million (DKK 1,740 million) – organic growth positive at 1.9%
- Reported EBITDA of DKK 388 million (DKK 328 million) – organic growth negative at 0.8%
- Net profit of DKK 224 million (DKK 152 million)
- Free cash flow of DKK 342 million (DKK 627 million)

### HIGHLIGHTS FOR THE NINE MONTHS TO 30 SEPTEMBER 2017

- Reported net sales of DKK 4,773 million (DKK 4,938 million) – organic growth negative at 2.6%
- Reported EBITDA of DKK 904 million (DKK 960 million) – organic growth negative at 7.5%
- Net profit of DKK 465 million (DKK 498 million)
- Free cash flow of DKK 640 million (DKK 792 million)

### DISTRIBUTION TO SHAREHOLDERS

The board of directors has decided to distribute DKK 350 million to shareholders (DKK 3.5 per share) as an extraordinary dividend in November with the purpose of adjusting the capital structure.

### FINANCIAL GUIDANCE 2017

FY 2017 guidance unchanged: STG expects slightly negative organic net sales growth and negative organic growth in adjusted EBITDA of 4-8%.



**STATEMENT BY CEO NIELS FREDERIKSEN:**

"I am pleased to see the steady progress in the quarter where we continued to focus on getting Cigars International back on track and on executing our strategy for the branded handmade and machine-made cigars businesses. Our branded handmade business had yet another good quarter and our machine-made cigars delivered a solid performance with full focus on improving the distribution and visibility of the reduced portfolio combined with new launches in several markets.

As part of the strategy for growing our handmade business, I am happy to announce the planned opening in 2018 of two retail stores in Texas, US. These retail stores will complement our online business and provide consumers with both a great shopping and smoking experience.

We continue to deliver a strong cash flow. In order to adjust our capital structure we are now distributing another DKK 350 million on top of the ordinary dividend distributed end of April, bringing the total cash distribution in 2017 to DKK 900 million."

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## Scandinavian Tobacco Group - Key Figures<sup>1</sup>

DKK million	Q3 17	Q3 16	YTD 17	YTD 16	2016
<b>INCOME STATEMENT</b>					
Net sales	1,721	1,740	4,773	4,938	6,746
Gross profit	846	797	2,280	2,375	3,225
EBITDA	388	328	904	960	1,279
EBIT	306	220	660	712	957
Net financial items <sup>2</sup>	-18	-23	-63	-63	-72
Profit before tax	292	200	606	659	895
Income taxes	-68	-48	-141	-161	-213
Net profit	224	152	465	498	681
<b>BALANCE SHEET</b>					
Total assets			13,363	14,046	14,264
Equity			8,613	8,789	9,273
Net interest-bearing debt (NIBD)			2,243	2,768	2,469
Investment in property, plant and equipment	14	22	40	156	190
Total capital expenditures	27	51	75	198	235
<b>CASH FLOW STATEMENT</b>					
Cash flow from operating activities	373	671	716	975	1,358
Cash flow from investing activities	-31	-45	-76	-184	-219
Free cash flow	342	627	640	792	1,139
<b>KEY RATIOS</b>					
Net sales growth	-1.1%	-0.1%	-3.3%	-0.5%	0.2%
Gross margin	49.1%	45.8%	47.8%	48.1%	47.8%
EBITDA margin	22.6%	18.9%	18.9%	19.4%	19.0%
Effective tax percentage	23.3%	23.9%	23.3%	24.4%	23.8%
Equity ratio			64.5%	62.6%	65.0%
Cash conversion	112.6%	175.4%	94.2%	110.0%	122.4%
Organic net sales growth	1.9%	-0.2%	-2.6%	0.0%	0.4%
Adjusted gross margin	49.8%	49.4%	48.7%	49.5%	49.1%
Organic EBITDA growth	-0.8%	4.9%	-7.5%	1.9%	4.0%
Adjusted EBITDA (DKK million)	394	412	955	1,065	1,440
Adjusted EBITDA margin	22.9%	23.7%	20.0%	21.6%	21.4%
NIBD / Adjusted EBITDA			1.7	2.0	1.7
ROIC					7.8%
ROIC ex. goodwill and trademarks from 2010 merger					14.2%
Basic earnings per share (DKK)	2.2	1.5	4.7	5.0	6.8
Diluted earnings per share (DKK)	2.2	1.5	4.7	5.0	6.8
Dividend per share (DKK)					5.5
Pay-out ratio					80.7%

1. See definition/explanation of financial ratios in note 5.7 in the Annual Report 2016.

2. Excl. share of profit of associated companies.

## FINANCIAL HIGHLIGHTS

### THIRD QUARTER 2017

#### NET SALES

STG delivered net sales of DKK 1,721 million (DKK 1,740 million) in the third quarter of 2017, a 1.1% decline versus the same period of last year. Exchange rate developments had a 3% negative effect leading to organic net sales growth of 1.9%.

Net sales breakdown:

DKKm	Q3 2017	Q3 2016	Q3 2017	Q3 2016
Handmade cigars	530	576	31%	33%
Machine-made cigars	665	653	39%	38%
Pipe tobacco	143	138	8%	8%
Fine-cut tobacco	156	168	9%	10%
Other	227	205	13%	12%
<b>Total</b>	<b>1,721</b>	<b>1,740</b>	<b>100%</b>	<b>100%</b>

The performance in STG's handmade cigar category showed improvements in the third quarter as the branded cigar business continued to deliver solid volume growth. Cigars International, STG's internet and catalogue business continued their progress following the IT-related issues earlier this year and are moving in the right direction. They are not yet consistently meeting the 2016 sales level, but Cigars International are still expecting to improve sales on a monthly basis and leave 2017 with a monthly run rate of sales on par with the end of 2016. The IT, warehouse and call centre issues have been stabilized and the key priorities are to raise inventory availability and return to sales growth with the support from targeted win-back campaigns. The handmade cigar category all together delivered a negative organic growth of 2.8%.

In machine-made cigars, STG improved its performance compared to previous quarters and delivered positive organic growth of 3.5%, mainly driven by new launches and strong growth in France, versus a soft comparison base last year. Pipe tobacco reported positive organic growth of 6.0% while fine-cut tobacco reported negative organic growth of 5.7%. The "Other" category showed positive organic growth of 13.3%, driven by an increase in net sales from accessories and contract manufacturing.

#### GROSS PROFIT AND GROSS MARGIN

Reported gross profit was DKK 846 million (DKK 797 million), an increase of 6.2%. The comparison with last year is impacted by non-recurring costs. Adjusted for non-recurring costs of DKK 11 million (DKK 63 million), gross profit was down 0.3%. Exchange rate developments impacted adjusted gross profit negatively by 3.1%, leaving organic gross profit up by DKK 24 million or 2.8%. Increased net sales and a favourable product mix drove the improvement.

The adjusted gross margin was 49.8%, up 0.4pp from 49.4% in the same period of last year.

#### NON-RECURRING ITEMS

DKKm	Q3 2017			Q3 2016		
	Reported	Non- Recurring Items	Adjusted	Reported	Non- Recurring Items	Adjusted
Net Sales	1,721	-	1,721	1,740	-	1,740
Gross Profit	846	11	857	797	63	860
Gross-margin	49.1%		49.8%	45.8%		49.4%
EBITDA	388	6	394	328	83	412
EBITDA-margin	22.6%		22.9%	18.9%		23.7%

#### REPORTED EBITDA

DKKm	Q3 2017	Q3 2016
<b>EBITDA Reported</b>	<b>388</b>	<b>328</b>
TPD related costs	11	4
FDA related costs	3	0
Restructuring, optimisation and efficiency programmes	2	79
Sale of building	-10	-
<b>EBITDA Adjusted</b>	<b>394</b>	<b>412</b>

In the third quarter, non-recurring items net amounted to DKK 6 million (DKK 83 million). Non-recurring costs relating to the implementation of previously announced restructuring programmes, TPD and FDA were partly offset by a net gain from the sale of a manufacturing facility in Nykøbing, Denmark.

#### EBITDA

Reported EBITDA amounted to DKK 388 million (DKK 328 million), an increase of 18.3%. The improvement was based on positive developments in net sales and in the cost of goods sold, the latter being driven by a reduced impact from non-recurring costs. Operating expenses (OPEX) declined slightly to DKK 466 million (DKK 473 million) due to a positive impact from exchange rate developments of 2.5%.

Adjusted EBITDA (exclusive of non-recurring costs) was DKK 394 million (DKK 412 million), a 4.3% decline compared to last year mainly resulting from higher OPEX. Adjusted OPEX increased by DKK 8 million to DKK 461 million (DKK 453 million) and by DKK 20 million at constant exchange rates. The increase was mainly driven by higher marketing and distribution costs due to timing differences, product launches and increased net sales. In the quarter, organic growth in adjusted EBITDA was negative at 0.8%.

#### NET PROFIT FOR THE QUARTER

Net profit was DKK 224 million (DKK 152 million), a 47% increase compared to the same quarter of last year and mainly driven by lower non-recurring costs and impairment charges.

#### CASH FLOW

In the third quarter, STG generated a free cash flow of DKK 342 million (DKK 627 million). The decline was mainly due to a tough comparison base which was impacted by a non-recurring cash inflow of DKK 151 million from the transfer of selected trade receivables. Adjusted for this inflow, the free cash flow fell by DKK 134 million year on year, primarily due to the slower pace of inventory reductions compared to last year.

Cash flow from investing activities amounted to DKK 31 million (DKK 45 million). Capital expenditure (CAPEX) of DKK 27 million (DKK 51 million) was mainly related to IT and the replacement of manufacturing equipment. The comparison figure for the same period of last year was impacted by TPD-related investments of DKK 10 million.

The cash conversion ratio was 112.6% (175.4%).

## 1 JANUARY-30 SEPTEMBER 2017

### NET SALES

Reported net sales for the first nine months of 2017 amounted to DKK 4,773 million (DKK 4,938 million), a 3.3% decline. Organic net sales were negative at 2.6%.

Net sales breakdown:

DKKm	YTD 2017	YTD 2016	YTD 2017	YTD 2016
Handmade cigars	1,449	1,536	30%	31%
Machine-made cigars	1,823	1,898	38%	38%
Pipe tobacco	408	416	9%	8%
Fine-cut tobacco	430	468	9%	9%
Other	662	620	14%	13%
<b>Total</b>	<b>4,773</b>	<b>4,938</b>	<b>100%</b>	<b>100%</b>

STG's overall performance of the nine-month period was adversely impacted by Cigars International's implementation of new IT infrastructure. As a result, the handmade cigars category reported negative organic growth of 4.6%. Machine-made cigars reported negative organic growth of 3.0%. Pipe tobacco and fine-cut tobacco reported negative organic growth of 1.3% and 7.9%, respectively, while the "Other" category generated positive organic growth of 6.7%.

### GROSS PROFIT AND GROSS MARGIN

Reported gross profit was DKK 2,280 million (DKK 2,375 million), a decline of 4.0% compared to the same period of last year. Gross profit was impacted by the negative sales growth in Cigars International, the exchange rate development and non-recurring costs. Adjusted for non-recurring items of DKK 43 million (DKK 71 million), gross profit was down by 5.0% compared to the same period of last year.

The adjusted gross margin was 48.7%, down 0.8pp from 49.5% in the same period of last year. The adjusted gross margin was adversely affected by the issues mentioned above and by exchange rate developments, which reduced the gross margin by 0.3pp.

**NON-RECURRING ITEMS**

DKKm	YTD 2017			YTD 2016		
	Reported	Non-Recurring Items	Adjusted	Reported	Non-Recurring Items	Adjusted
Net Sales	4,773	-	4,773	4,938	-	4,938
Gross Profit	2,280	43	2,323	2,375	71	2,446
Gross-margin	47.8%		48.7%	48.1%		49.5%
EBITDA	904	52	955	960	105	1,065
EBITDA-margin	18.9%		20.0%	19.4%		21.6%

**REPORTED EBITDA**

DKKm	YTD 2017	YTD 2016
<b>EBITDA Reported</b>	<b>904</b>	<b>960</b>
TPD related costs	27	14
FDA related costs	10	0
Restructuring, optimisation and efficiency programmes	24	80
Cost related to Initial Public Offering (IPO)	-	11
Sale of building	-10	-
<b>EBITDA Adjusted</b>	<b>955</b>	<b>1,065</b>

Amounting to DKK 52 million for the nine-month period, non-recurring items related to the implementation of previously announced restructuring programmes and to TPD- and FDA-related costs. The amount was partly offset by a net gain from the sale of the manufacturing facility in Nykøbing, Denmark.

As previously communicated, STG expects non-recurring items for the full year of 2017 in the level of DKK 50 million.

**EBITDA**

Reported EBITDA was DKK 904 million (DKK 960 million), down 5.9% relative to the same period of last year. Developments in net sales and gross profit had an adverse impact on reported EBITDA, which was partly offset by the DKK 37 million improvement in OPEX to DKK 1,386 million (DKK 1,423 million). Adjusted for non-recurring costs, OPEX amounted to DKK 1,405 million (DKK 1,407 million).

Reported EBITDA margin was 18.9% (19.4%), a 0.5pp decline compared to the same period of last year. Adjusted EBITDA was DKK 955 million (DKK 1,065 million), a 10.3% drop compared to the same period of last year resulting from the lower net sales, lower gross profit as well as a 2.8% negative impact from exchange rate developments. Organic EBITDA fell by 7.5%.

**NET PROFIT FOR THE PERIOD**

Net profit was DKK 465 million (DKK 498 million), a 6.7% drop compared to last year mainly driven by lower gross profit and partly offset by the lower non-recurring costs and impairment charges.

### **EARNINGS PER SHARE**

Earnings per share (EPS) for the first nine months were DKK 4.7 (DKK 5.0). Fully diluted EPS were DKK 4.7 (DKK 5.0).

### **CASH FLOW**

STG generated free cash flow of DKK 640 million (DKK 792 million) in the nine-month period. The decrease was due a non-recurring cash inflow last year of DKK 151 million from the transfer of trade receivables. Adjusted for this inflow, the free cash flow was in line with last year.

Net working capital at 30 September 2017 had improved to 33% of last twelve months (LTM) net sales from 35% at 30 September 2016. Inventory corresponded to 39% of LTM net sales compared to 43% at 30 September 2016. The decrease was mainly due to the continued focus on inventory optimisation.

Cash flow from investing activities amounted to DKK 76 million (DKK 184 million). The CAPEX investments of DKK 75 million (DKK 198 million) were mainly related to IT and the replacement of manufacturing equipment. The comparison figure for the same period of last year is impacted by TPD-related investments of DKK 85 million.

The cash conversion ratio was 94.2% (110.0%).

### **CAPITAL STRUCTURE AND NET INTEREST-BEARING DEBT**

At 30 September 2017, STG had net interest-bearing debt of DKK 2,243 million (DKK 2,768 million). The net interest-bearing debt to adjusted EBITDA ratio declined to 1.7x (2.0x at 30 September 2016).

### **EXTRAORDINARY DIVIDEND**

The board of directors has decided to distribute an extraordinary dividend of DKK 3.5 per share to shareholders (for a total pay-out of DKK 350 million) with the purpose of adjusting the capital structure and at the same time retain strategic and financial flexibility. The extraordinary dividend is expected to be paid on 10 November 2017.



## **BUSINESS HIGHLIGHTS**

### **RETAIL EXPANSION IN THE HANDMADE CATEGORY IN THE US**

As part of the strategy of growing its premium cigar business, STG is expanding its portfolio of retail stores and geographical retail store footprint to the state of Texas. Two new stores are expected to be opened in 2018.

Retail expansion represents an attractive opportunity for STG that is expected to support both the company's growth and earnings ambitions and the general condition of the premium cigar category. As more smoking bans are being implemented, cigar retailers are taking on an increasingly important role as places where cigar smokers can gather and enjoy cigars in a smoker-friendly environment. STG expects retail stores to add value to the overall category.

STG plans to invest up to USD 7 million in 2 new retail stores, whereof USD 1 million will be spent during Q4 2017. The first store opening is planned for mid-2018. The expansion will not influence the financial performance for 2017.

### **OPTIMISATION AND EFFICIENCY PROGRAMMES**

The closure of the Wuustwezel factory at the end of September marks the completion of STG's optimisation and efficiency programmes announced in 2015. Under the programmes, STG reduced its global factory footprint from 14 to 12 sites.

The original programme targets were achieved according to plan. However, the expected cost savings have been diluted by the volume drop in the machine-made cigars business. The programmes will deliver cost savings of DKK 200 million on a 2018 run-rate basis.

In the third quarter, STG recognised a net gain of DKK 10 million in connection with the sale of the closed manufacturing facility in Nykøbing Falster, Denmark and a DKK 7 million in impairment charge. For the first nine months of 2017, STG recognised non-recurring costs of DKK 24 million relating to the restructuring, optimisation and efficiency programmes and DKK 16 million in impairment charges.

The working capital programme which aims to reduce inventories by DKK 500 million on a like-for-like basis versus 2014 remains on track. STG expects to reach the DKK 500 million target by the end of 2017, one year ahead of the original plan.

### Key Data Per Category

	Q3 17	Q3 16	Change	YTD 17	YTD 16	Change	2016
<b>Net sales (DKKm)</b>							
Handmade cigars	530	576	-8.1%	1,449	1,536	-5.6%	2,067
Machine-made cigars	665	653	1.8%	1,823	1,898	-4.0%	2,593
Pipe tobacco	143	138	3.4%	408	416	-1.7%	569
Fine-cut tobacco	156	168	-7.1%	430	468	-8.1%	652
Other	227	205	11.2%	662	620	6.7%	864
<b>Group total</b>	<b>1,721</b>	<b>1,740</b>	<b>-1.1%</b>	<b>4,773</b>	<b>4,938</b>	<b>-3.3%</b>	<b>6,746</b>
<b>Gross profit (DKKm)</b>							
Handmade cigars	227	253	-10.2%	614	677	-9.3%	903
Machine-made cigars	345	277	24.3%	907	941	-3.6%	1,280
Pipe tobacco	84	87	-3.7%	247	257	-4.0%	346
Fine-cut tobacco	98	99	-1.0%	259	271	-4.3%	378
Other	92	80	14.8%	253	229	10.2%	318
<b>Group total</b>	<b>846</b>	<b>797</b>	<b>6.2%</b>	<b>2,280</b>	<b>2,375</b>	<b>-4.0%</b>	<b>3,225</b>
<b>Organic net sales growth (%)</b>							
Handmade cigars	-2.8%	4.1%		-4.6%	7.6%		7.2%
Machine-made cigars	3.5%	-4.1%		-3.0%	-4.2%		-3.9%
Pipe tobacco	6.0%	-7.6%		-1.3%	-8.6%		-8.9%
Fine-cut tobacco	-5.7%	11.9%		-7.9%	8.9%		13.3%
Other	13.3%	-2.3%		6.7%	-4.2%		-3.6%
<b>Group total</b>	<b>1.9%</b>	<b>-0.2%</b>		<b>-2.6%</b>	<b>0.0%</b>		<b>0.4%</b>
<b>Volume impact (%)</b>							
Handmade cigars	-1.9%	2.0%		-2.6%	7.7%		7.4%
Machine-made cigars	2.6%	-7.0%		-4.2%	-6.4%		-6.0%
Pipe tobacco	8.8%	-9.7%		-0.9%	-10.1%		-10.6%
Fine-cut tobacco	-12.8%	6.6%		-14.3%	2.9%		7.1%
Other	-	-		-	-		-
<b>Group total</b>	<b>-</b>	<b>-</b>		<b>-</b>	<b>-</b>		<b>-</b>
<b>Price/Mix impact (%)</b>							
Handmade cigars	-1.0%	2.0%		-2.0%	-0.1%		-0.2%
Machine-made cigars	0.9%	2.8%		1.1%	2.2%		2.2%
Pipe tobacco	-2.9%	2.2%		-0.4%	1.5%		1.7%
Fine-cut tobacco	7.1%	5.3%		6.4%	6.0%		6.2%
Other	-	-		-	-		-
<b>Group total</b>	<b>-</b>	<b>-</b>		<b>-</b>	<b>-</b>		<b>-</b>
<b>Gross margin (%)</b>							
Handmade cigars	42.8%	43.8%	-1.0%	42.3%	44.1%	-1.7%	43.7%
Machine-made cigars	51.8%	42.5%	9.4%	49.8%	49.6%	0.2%	49.3%
Pipe tobacco	58.9%	63.3%	-4.4%	60.5%	61.9%	-1.4%	60.8%
Fine-cut tobacco	62.9%	59.0%	3.9%	60.3%	57.8%	2.4%	57.9%
Other	40.5%	39.2%	1.3%	38.2%	36.9%	1.2%	36.8%
<b>Group total</b>	<b>49.1%</b>	<b>45.8%</b>	<b>3.4%</b>	<b>47.8%</b>	<b>48.1%</b>	<b>-0.3%</b>	<b>47.8%</b>
<b>Adjusted Gross margin (%)*</b>							
Machine-made cigars	53.5%	52.1%	1.4%	52.0%	53.2%	-1.2%	52.6%
Pipe tobacco	59.0%	63.3%	-4.3%	60.8%	62.0%	-1.3%	61.2%
Fine-cut tobacco	63.1%	59.1%	3.9%	60.5%	57.9%	2.5%	58.3%
<b>Group total</b>	<b>49.8%</b>	<b>49.4%</b>	<b>0.4%</b>	<b>48.7%</b>	<b>49.5%</b>	<b>-0.9%</b>	<b>49.1%</b>

\* Adjusted for non-recurring items

## CATEGORY UPDATE

### HANDMADE CIGARS

<b>Handmade cigars</b>					
DKK MILLION	Q3 17	Q3 16	YTD 17	YTD 16	2016
Net sales	530	576	1,449	1,536	2,067
Reported growth	-8.1%	3.8%	-5.6%	6.8%	6.8%
Organic growth	-2.8%	4.1%	-4.6%	7.6%	7.2%
Gross profit	227	253	614	677	903
Gross margin, %	42.8%	43.8%	42.3%	44.1%	43.7%

Reported net sales for the third quarter declined by 8.1% to DKK 530 million (DKK 576 million). Adjusted for exchange rate developments, organic growth was negative at 2.8%. The price/mix impact was negative at 1.0% and the volume impact was negative at 1.9%.

General Cigar (STG's branded cigars business) continued to deliver solid volume growth driven by its focus on sales execution, keystone pricing and product launches.

Cigars International's operational performance was still constrained by the IT implementation issues that evolved in the first half of the year with volumes down year on year in the third quarter. However, the business is moving slowly but steadily towards restoring its market position. The IT, warehouse and call centre issues have been stabilized, whereby the customer service is improving and the focus is now on customer acquisitions, win-back campaigns, inventory availability and increased productivity.

The sales outside the US continue to grow at double-digit rates.

The negative price/mix of 1.0% for the category was driven by both General Cigar as well as Cigars International. Price increases in the branded business were not enough to compensate for mix changes, and special discounts and promotional activities in Cigars International continued to dilute the price/mix impact for the category, although to a smaller extent than in the previous quarters.

Gross profit was down by DKK 26 million to DKK 227 million, primarily driven by discounts and direct costs such as free shipping related to promotional activities in Cigars International. Furthermore, the expected efficiency gains from the new system is not yet fully realised and we still see operating costs above historical levels. Exchange rate developments also lowered the gross profit measured in DKK. The gross margin was 42.8% (43.8%) primarily reflecting discounts and higher direct costs.

#### **1 JANUARY-30 SEPTEMBER 2017**

Reported net sales for the first nine months of 2017 declined by 5.6% to DKK 1,449 million (DKK 1,536 million). Adjusted for exchange rate developments, organic growth was negative at 4.6%. The price/mix impact was negative at 2.0% and the volume impact was negative at 2.6%.

The branded cigars business delivered positive organic growth for the nine-month period, whereas the online and catalogue business delivered negative growth due to the effects of the implementation of a new IT infrastructure as from the middle of the first quarter.

Gross profit declined by 9.3% to DKK 614 million (DKK 677 million) for a gross margin of 42.3% (44.1%).

## MACHINE-MADE CIGARS

<b>Machine-made cigars</b>					
DKK MILLION	Q3 17	Q3 16	YTD 17	YTD 16	2016
Net sales	665	653	1,823	1,898	2,593
Reported growth	1.8%	-3.9%	-4.0%	-4.7%	-4.0%
Organic growth *	3.5%	-4.1%	-3.0%	-4.2%	-3.9%
Gross profit	345	277	907	941	1,280
Gross margin, %	51.8%	42.5%	49.8%	49.6%	49.3%
Gross margin, % adjusted *	53.5%	52.1%	52.0%	53.2%	52.6%

\* Adjusted for non-recurring items

Reported net sales for the third quarter were up by 1.8% to DKK 665 million (DKK 653 million). Adjusted for exchange rate developments, organic growth was positive at 3.5%. The price/mix impact was positive at 0.9% and the volume impact was positive at 2.6%.

Total market developments are more or less unchanged from the previous quarters. The performance of the European business has continued to improve as the transition effects from the European Tobacco Products Directive, TPD, are fading and market share positions stabilising. However, the strong improvement in volume impact in the third quarter was mainly driven by temporarily strong deliveries and a soft comparison base in France. An intensified focus on key markets, brands and product launches constitute an important pillar of the strategy for the machine-made cigars category.

Price increases remain sound in most major markets. Mix changes, especially in Canada, have diluted the combined price/mix impact for the category.

Reported gross profit increased by almost 25% to DKK 345 million (DKK 277 million). Reported gross margin was 51.8% (42.5%). Exclusive of non-recurring costs, the increase in adjusted gross profit was 5% and the adjusted gross margin was 53.5% (52.1%). The cost optimisation and efficiency programme continues to deliver the expected cost reductions and stronger production volumes also contributed to improving profitability in the category.

### 1 JANUARY-30 SEPTEMBER 2017

Reported net sales for the first nine months of 2017 declined by 4.0% to DKK 1,823 million (DKK 1,898 million). Adjusted for exchange rate developments, organic growth was negative at 3.0%. The price/mix impact was positive at 1.1% and the volume impact was negative at 4.2%.

The volume impact has fluctuated somewhat in recent quarters due to the transition effects from TPD, but with the implementation now completed in most markets, these effects are expected to fade going forward.

Reported gross profit declined by 3.6% to DKK 907 million (DKK 941 million) for a gross margin at 49.8% (49.6%). Exclusive of non-recurring items, the adjusted gross profit declined by 6.2% and the adjusted gross margin was 52.0% (53.2%).

## PIPE TOBACCO

<b>Pipe tobacco</b>					
DKK MILLION	Q3 17	Q3 16	YTD 17	YTD 16	2016
Net sales	143	138	408	416	569
Reported growth	3.4%	-8.0%	-1.7%	-9.5%	-9.5%
Organic growth	6.0%	-7.6%	-1.3%	-8.6%	-8.9%
Gross profit	84	87	247	257	346
Gross margin, %	58.9%	63.3%	60.5%	61.9%	60.8%
Gross margin, % adjusted *	59.0%	63.3%	60.8%	62.0%	61.2%

\* Adjusted for non-recurring items

Reported net sales for the third quarter increased by 3.4% to DKK 143 million (DKK 138 million). Adjusted for exchange rate developments, organic growth was 6.0%. The price/mix impact was negative at 2.9% and the volume impact was positive at 8.8%.

As expected, shipments to the Middle East/Africa have begun to normalise following the adverse impact from the macro-economic developments in Nigeria last year. Shipments to Asia have also contributed to the positive volume developments. The structural volume decline for traditional pipe tobacco in mature markets continues.

Price/mix impact for the category was negative due to the geographical mix and lower pricing in selected markets, whereas the effective pricing across most traditional pipe tobacco markets remains sound.

Gross profit declined by 3.7% to DKK 84 million (DKK 87 million). The gross margin was 58.9% (63.3%) and the adjusted gross margin was 59.0% (63.3%). The decline in margins relates to the change in geographical mix.

### 1 JANUARY-30 SEPTEMBER 2017

Reported net sales for the first nine months of 2017 declined by 1.7% to DKK 408 million (DKK 416 million). Adjusted for exchange rate developments, organic growth was negative at 1.3%. The price/mix impact was negative at 0.4% and the volume impact was negative at 0.9%.

At the beginning of the reporting period, volumes were impacted by the disruption of shipments to the Middle East/Africa, which began in the first half of 2016. As sales to the region now have resumed, the year-on-year volume developments have recovered accordingly, but at a somewhat lower price level.

Gross profit declined by 4.0% to DKK 247 million (DKK 257 million) for a gross margin of 60.5% (61.9%). The adjusted gross margin was 60.8% (62.0%).

## FINE-CUT TOBACCO

<b>Fine-cut tobacco</b>					
DKK MILLION	Q3 17	Q3 16	YTD 17	YTD 16	2016
Net sales	156	168	430	468	652
Reported growth	-7.1%	10.9%	-8.1%	6.7%	11.8%
Organic growth	-5.7%	11.9%	-7.9%	8.9%	13.3%
Gross profit	98	99	259	271	378
Gross margin, %	62.9%	59.0%	60.3%	57.8%	57.9%
Gross margin, % adjusted *	63.1%	59.1%	60.5%	57.9%	58.3%

\* Adjusted for non-recurring items

Reported net sales for the third quarter declined by 7.1% to DKK 156 million (DKK 168 million). Adjusted for exchange rate developments, organic growth was negative at 5.7%. The price/mix impact was positive at 7.1%, while the volume impact was negative at 12.8%.

Volumes were down compared to last year primarily due to strong demand in the US in 2016. Germany continues to report positive volume growth.

Pricing is a key priority in the fine-cut tobacco category. With the exception of the US, most of STG's larger markets contributed to the price/mix improvement in the third quarter.

Gross profit declined by 1.0% to DKK 98 million (DKK 99 million). Reported gross margin was 62.9% (59.0%) and the adjusted gross margin was 63.1% (59.1%). Profitability improved due to the change in geographical mix and as the effect of stronger pricing and cost savings more than offset the effects of the lower volumes.

**1 JANUARY-30 SEPTEMBER 2017**

Reported net sales for the first nine months of 2017 declined by 8.1% to DKK 430 million (DKK 468 million). Adjusted for exchange rate developments, organic growth was negative at 7.9%. The price/mix impact was positive at 6.4% and volume impact was negative at 14.3%.

Timing differences in shipments to Norway and to the Danish-German border trade as well as the above-mentioned strong deliveries in the US last year had a combined adverse year-on-year effect in the nine-month period.

Gross profit declined by 4.3% to DKK 259 million (DKK 271 million) for a gross margin of 60.3% (57.8%). The adjusted gross margin was 60.5% (57.9%).

**OTHER**

<b>Other</b> DKK MILLION	<b>Q3 17</b>	<b>Q3 16</b>	<b>YTD 17</b>	<b>YTD 16</b>	<b>2016</b>
Net sales	227	205	662	620	864
Reported growth	11.2%	0.0%	6.7%	-2.6%	-2.0%
Organic growth	13.3%	-2.3%	6.7%	-4.2%	-3.6%
Gross profit	92	80	253	229	318
Gross margin, %	40.5%	39.2%	38.2%	36.9%	36.8%

Reported net sales for the third quarter increased by 11.2% to DKK 227 million (DKK 205 million). Adjusted for exchange rate developments, organic growth was up by 13.3%.

Growth was driven by accessories and an increase in contract manufacturing.

Gross profit increased by 14.8% to DKK 92 million (DKK 80 million) and the gross margin increased to 40.5% (39.2%). The increase in profitability was primarily driven by mix changes.

**1 JANUARY-30 SEPTEMBER 2017**

Reported net sales for the first nine months of 2017 were up by 6.7% to DKK 662 million (DKK 620 million). Adjusted for exchange rate developments, organic growth was positive at 6.7%.

Gross profit increased by 10.2% to DKK 253 million (DKK 229 million), while the gross margin increased to 38.2% (36.9%).

## **EVENTS AFTER THE REPORTING PERIOD**

No events have occurred since 30 September 2017 which are expected to have any material impact on the financial position of the Group.

## **FINANCIAL GUIDANCE 2017**

STG maintain its FY 2017 guidance of slightly negative organic net sales growth and negative organic growth of 4-8% in adjusted EBITDA.

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 23-24%
- Maintenance CAPEX is expected to be approx. DKK 125 million (previously DKK 150 million)
- Non-recurring costs from the ongoing cost optimisation and efficiency programmes are expected to be in the range of DKK 50 million

## **ADDITIONAL INFORMATION**

### **FINANCE CALENDAR FOR 2018**

Annual Report 2017:	8 March, 2018
Annual General Meeting:	26 April, 2018
Interim report Q1 2018:	17 May, 2018
Interim report Q2 2018:	30 August, 2018
Interim report Q3 2018:	9 November 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 September 2017.

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 September 2017 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 30 September 2017.

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, 8 November 2017

## EXECUTIVE MANAGEMENT

Niels Frederiksen  
CEO

Sisse Fjelsted Rasmussen  
CFO

Christian Hother Sørensen  
EXECUTIVE VICE PRESIDENT,  
SALES & MARKETING

Vincent Crepy  
EXECUTIVE VICE PRESIDENT,  
SUPPLY CHAIN

## BOARD OF DIRECTORS

Nigel Northridge  
CHAIRMAN

Henrik Brandt  
VICE-CHAIRMAN

Søren Bjerre-Nielsen

Dianne Neal Blixt

Conny Karlsson

Luc Missorten

Henning Kruse Petersen

Kurt Asmussen

Lindy Larsen

Hanne Malling

Mogens Olsen



## CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY - 30 SEPTEMBER

### CONSOLIDATED INCOME STATEMENT

DKK million	Note	Q3 2017	Q3 2016	YTD 2017	YTD 2016
<b>Net sales</b>	2	<b>1,720.9</b>	<b>1,739.7</b>	<b>4,773.0</b>	<b>4,938.4</b>
Cost of goods sold	2	-875.3	-943.1	-2,493.1	-2,563.1
<b>Gross profit</b>	2	<b>845.6</b>	<b>796.6</b>	<b>2,279.9</b>	<b>2,375.3</b>
Other external costs		-295.5	-287.1	-836.4	-856.1
Staff costs		-170.9	-185.9	-549.1	-566.8
Other income		9.2	4.7	9.2	7.9
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>		<b>388.4</b>	<b>328.3</b>	<b>903.6</b>	<b>960.3</b>
Depreciation and impairment		-39.5	-65.2	-116.4	-120.8
<b>Earnings before interest, tax and amortisation (EBITA)</b>		<b>348.9</b>	<b>263.1</b>	<b>787.2</b>	<b>839.5</b>
Amortisation		-42.5	-43.5	-127.5	-127.1
<b>Earnings before interest and tax (EBIT)</b>		<b>306.4</b>	<b>219.6</b>	<b>659.7</b>	<b>712.4</b>
Share of profit of associated companies, net of tax		3.5	3.5	9.2	8.8
Financial income		8.1	1.5	15.2	17.4
Financial costs		-26.2	-24.5	-78.0	-79.9
<b>Profit before tax</b>		<b>291.8</b>	<b>200.1</b>	<b>606.1</b>	<b>658.7</b>
Income taxes		-68.0	-47.9	-141.2	-160.6
<b>Net profit for the period</b>		<b>223.8</b>	<b>152.2</b>	<b>464.9</b>	<b>498.1</b>
<b>Earnings per share</b>					
Basic earnings per share (DKK)		2.2	1.5	4.7	5.0
Diluted earnings per share (DKK)		2.2	1.5	4.7	5.0
<b>OTHER COMPREHENSIVE INCOME</b>					
<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	-1.6	0.0
Tax of actuarial gains and losses on pension obligations		0.0	0.0	0.5	0.0
<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		6.5	8.0	23.6	-44.7
Tax of hedging instruments		-1.5	-1.8	-4.9	9.8
Foreign exchange rate adjustments		-168.2	-10.0	-597.6	-130.7
<b>Other comprehensive income for the period, net of tax</b>		<b>-163.2</b>	<b>-3.8</b>	<b>-580.0</b>	<b>-165.6</b>
<b>Total comprehensive income for the period</b>		<b>60.6</b>	<b>148.4</b>	<b>-115.1</b>	<b>332.5</b>

## CONSOLIDATED BALANCE SHEET

### ASSETS

DKK million	30 Sep 2017	30 Sep 2016	31 Dec 2016
<b>NON-CURRENT ASSETS</b>			
<b>INTANGIBLE ASSETS</b>			
Goodwill	4,294.6	4,440.9	4,592.0
Trademarks	3,064.3	3,238.2	3,259.6
IT software	94.9	89.2	85.5
Other intangible assets	188.0	209.7	204.5
<b>Total intangible assets</b>	<b>7,641.8</b>	<b>7,978.0</b>	<b>8,141.6</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>			
Land and buildings	594.3	624.3	622.1
Plant and machinery	498.5	370.5	555.6
Equipment, tools and fixtures	78.7	83.2	83.5
Leasehold improvements	41.3	45.2	46.7
Construction in progress	19.8	218.2	48.5
<b>Total property, plant and equipment</b>	<b>1,232.6</b>	<b>1,341.4</b>	<b>1,356.4</b>
<b>OTHER NON-CURRENT ASSETS</b>			
Investments in associated companies	124.2	128.0	134.6
Deferred income tax assets	129.6	128.4	137.2
Other financial fixed assets	12.2	0.6	0.0
<b>Total other non-current assets</b>	<b>266.0</b>	<b>257.0</b>	<b>271.8</b>
<b>Total non-current assets</b>	<b>9,140.4</b>	<b>9,576.4</b>	<b>9,769.8</b>
<b>CURRENT ASSETS</b>			
<b>Inventories</b>	<b>2,593.9</b>	<b>2,893.0</b>	<b>2,824.1</b>
<b>RECEIVABLES</b>			
Trade receivables	755.4	662.0	700.4
Other receivables	60.3	104.0	116.9
Corporate tax	79.3	111.5	210.4
Prepayments	73.0	67.8	71.8
<b>Total receivables</b>	<b>968.0</b>	<b>945.3</b>	<b>1,099.5</b>
<b>Cash and cash equivalents</b>	<b>660.5</b>	<b>631.6</b>	<b>570.3</b>
<b>Total current assets</b>	<b>4,222.4</b>	<b>4,469.9</b>	<b>4,493.9</b>
<b>Total assets</b>	<b>13,362.8</b>	<b>14,046.3</b>	<b>14,263.7</b>

## CONSOLIDATED BALANCE SHEET

### EQUITY AND LIABILITIES

DKK million	30 Sep 2017	30 Sep 2016	31 Dec 2016
Share capital	100.0	100.0	100.0
Reserve for hedging	-8.8	-65.2	-27.5
Reserve for currency translation	563.1	880.7	1,160.7
Treasury shares	-40.5	-45.5	-45.5
Retained earnings	7,999.3	7,918.8	8,085.2
<b>Total equity</b>	<b>8,613.1</b>	<b>8,788.8</b>	<b>9,272.9</b>
Bank loans	2,620.1	3,087.8	2,730.7
Deferred income tax liabilities	665.3	603.1	637.1
Pension obligations	259.7	229.0	263.8
Other provisions	48.3	43.7	36.3
Other liabilities	27.1	92.2	64.8
<b>Total non-current liabilities</b>	<b>3,620.5</b>	<b>4,055.8</b>	<b>3,732.7</b>
Trade payables	347.6	371.0	385.5
Corporate tax	169.0	195.2	183.0
Other provisions	41.5	76.3	113.9
Other liabilities	571.1	559.2	575.7
<b>Total current liabilities</b>	<b>1,129.2</b>	<b>1,201.7</b>	<b>1,258.1</b>
<b>Total liabilities</b>	<b>4,749.7</b>	<b>5,257.5</b>	<b>4,990.8</b>
<b>Total equity and liabilities</b>	<b>13,362.8</b>	<b>14,046.3</b>	<b>14,263.7</b>

## CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY - 30 SEPTEMBER

DKK million	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Net profit for the period	223.8	152.2	464.9	498.1
Adjustments	161.8	242.8	407.2	520.1
Changes in working capital	47.8	320.2	7.7	175.7
Non-recurring costs, paid	-42.3	-31.0	-101.3	-110.6
<b>Cash flow from operating activities before financial items</b>	<b>391.1</b>	<b>684.2</b>	<b>778.5</b>	<b>1,083.3</b>
Financial income received	8.1	1.5	15.2	17.4
Financial costs paid	-26.2	-24.5	-78.0	-79.9
<b>Cash flow from operating activities before tax</b>	<b>373.0</b>	<b>661.2</b>	<b>715.7</b>	<b>1,020.8</b>
Tax payments	0.1	9.9	0.4	-45.6
<b>Cash flow from operating activities</b>	<b>373.1</b>	<b>671.1</b>	<b>716.1</b>	<b>975.2</b>
Acquisitions	-7.9	0.0	-7.9	0.0
Investment in intangible assets	-12.6	-28.5	-34.3	-42.6
Investment in property, plant and equipment	-14.1	-22.1	-40.4	-155.6
Sale of property, plant and equipment	1.5	4.5	1.5	9.8
Dividend from associated companies	1.7	1.6	5.2	4.7
<b>Cash flow from investing activities</b>	<b>-31.4</b>	<b>-44.5</b>	<b>-75.9</b>	<b>-183.7</b>
<b>Free cash flow</b>	<b>341.7</b>	<b>626.6</b>	<b>640.2</b>	<b>791.5</b>
Revolving credit facility	-223.2	-335.2	0.0	-223.2
Dividend payment	0.0	0.0	-550.0	-500.0
Purchase of treasury shares	0.0	-23.5	0.0	-45.5
<b>Cash flow from financing activities</b>	<b>-223.2</b>	<b>-358.7</b>	<b>-550.0</b>	<b>-768.7</b>
<b>Net cash flow for the period</b>	<b>118.5</b>	<b>267.9</b>	<b>90.2</b>	<b>22.8</b>
Cash and cash equivalents, net at 1 July / 1 January	542.0	363.7	570.3	608.8
Net cash flow for the period	118.5	267.9	90.2	22.8
<b>Cash and cash equivalents, net at 30 September</b>	<b>660.5</b>	<b>631.6</b>	<b>660.5</b>	<b>631.6</b>

## STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 30 SEPTEMBER 2017

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
<b>Equity at 1 January 2017</b>	<b>100.0</b>	<b>-27.5</b>	<b>1,160.7</b>	<b>-45.5</b>	<b>8,085.2</b>	<b>9,272.9</b>
<i>Comprehensive income for the period</i>						
<b>Net profit for the period</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>464.9</b>	<b>464.9</b>
<i>Other comprehensive income</i>						
Cash flow hedges		23.6				<b>23.6</b>
Tax of cash flow hedges		-4.9				<b>-4.9</b>
Foreign exchange adjustments on net investments in foreign operations			-597.6			<b>-597.6</b>
Actuarial gains and losses on pension obligations					-1.6	<b>-1.6</b>
Tax of actuarial gains and losses on pension obligations					0.5	<b>0.5</b>
<b>Total other comprehensive income</b>	<b>0.0</b>	<b>18.7</b>	<b>-597.6</b>	<b>0.0</b>	<b>-1.1</b>	<b>-580.0</b>
<b>Total comprehensive income for the period</b>	<b>0.0</b>	<b>18.7</b>	<b>-597.6</b>	<b>0.0</b>	<b>463.8</b>	<b>-115.1</b>
<i>Transactions with shareholders</i>						
Purchase of treasury shares				0.0		<b>0.0</b>
Share-based payments					5.3	<b>5.3</b>
Settlement of vested PSUs				5.0	-5.0	<b>0.0</b>
Dividends paid to shareholders					-550.0	<b>-550.0</b>
<b>Total transactions with shareholders</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>5.0</b>	<b>-549.7</b>	<b>-544.7</b>
<b>Equity at 30 September 2017</b>	<b>100.0</b>	<b>-8.8</b>	<b>563.1</b>	<b>-40.5</b>	<b>7,999.3</b>	<b>8,613.1</b>

## STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 30 SEPTEMBER 2016

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
<b>Equity at 1 January 2016</b>	<b>100.0</b>	<b>-30.3</b>	<b>1,011.4</b>	<b>0.0</b>	<b>7,916.8</b>	<b>8,997.9</b>
<i>Comprehensive income for the period</i>						
<b>Net profit for the period</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>498.1</b>	<b>498.1</b>
<i>Other comprehensive income</i>						
Cash flow hedges		-44.7				-44.7
Tax of cash flow hedges		9.8				9.8
Foreign exchange adjustments on net investments in foreign operations			-130.7			-130.7
Actuarial gains and losses on pension obligations					0.0	0.0
Tax of actuarial gains and losses on pension obligations					0.0	0.0
<b>Total other comprehensive income</b>	<b>0.0</b>	<b>-34.9</b>	<b>-130.7</b>	<b>0.0</b>	<b>0.0</b>	<b>-165.6</b>
<b>Total comprehensive income for the period</b>	<b>0.0</b>	<b>-34.9</b>	<b>-130.7</b>	<b>0.0</b>	<b>498.1</b>	<b>332.5</b>
<i>Transactions with shareholders</i>						
Purchase of treasury shares				-45.5		-45.5
Share-based payments					3.9	3.9
Dividend paid					-500.0	-500.0
<b>Total transactions with shareholders</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-45.5</b>	<b>-496.1</b>	<b>-541.6</b>
<b>Equity at 30 September 2016</b>	<b>100.0</b>	<b>-65.2</b>	<b>880.7</b>	<b>-45.5</b>	<b>7,918.8</b>	<b>8,788.8</b>

## **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 2016.

#### **Accounting policies**

The interim report has been prepared in accordance with the accounting policies set out in the Annual Report for 2016, with the additions described in the Q1 2017 report concerning the implementation of IFRS 9 'Financial Instruments'.

**NOTE 2**  
**SEGMENT INFORMATION**

YTD 2017 DKK million	Hand- made cigars	Machine- made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allocated	Total
Net sales	1,449.4	1,823.1	408.4	430.4	661.7	0.0	4,773.0
Cost of goods sold	-835.8	-915.7	-161.3	-171.1	-409.2	0.0	-2,493.1
<b>Gross profit</b>	<b>613.6</b>	<b>907.4</b>	<b>247.1</b>	<b>259.3</b>	<b>252.5</b>	<b>0.0</b>	<b>2,279.9</b>
Other external costs						-836.4	-836.4
Staff costs						-549.1	-549.1
Other income						9.2	9.2
<b>EBITDA</b>						<b>-1,376.3</b>	<b>903.6</b>
Depreciation and impairment						-116.4	-116.4
Amortisation						-127.5	-127.5
<b>EBIT</b>						<b>-1,620.2</b>	<b>659.7</b>
Share of profit of associated companies, net of tax						9.2	9.2
Financial income						15.2	15.2
Financial costs						-78.0	-78.0
<b>Profit before tax</b>						<b>-1,673.8</b>	<b>606.1</b>



**NOTE 2**  
**SEGMENT INFORMATION (continued)**

YTD 2016 DKK million	Hand- made cigars	Machine- made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allo- cated	Total
Net sales	1,535.8	1,898.4	415.7	468.3	620.2	0.0	4,938.4
Cost of goods sold	-858.9	-957.4	-158.4	-197.4	-391.0	0.0	-2,563.1
<b>Gross profit</b>	<b>676.9</b>	<b>941.0</b>	<b>257.3</b>	<b>270.9</b>	<b>229.2</b>	<b>0.0</b>	<b>2,375.3</b>
Other external costs						-856.1	-856.1
Staff costs						-566.8	-566.8
Other income						7.9	7.9
<b>EBITDA</b>						<b>-1,415.0</b>	<b>960.3</b>
Depreciation						-120.8	-120.8
Amortisation						-127.1	-127.1
<b>EBIT</b>						<b>-1,662.9</b>	<b>712.4</b>
Share of profit of associated companies, net of tax						8.8	8.8
Financial income						17.4	17.4
Financial costs						-79.9	-79.9
<b>Profit before tax</b>						<b>-1,716.6</b>	<b>658.7</b>

**NOTE 3**  
**FINANCIAL INSTRUMENTS**

The fair value of financial instruments included in the balance sheet as per 30 September 2017 amounts to a net liability of DKK 23.3 million (DKK 45.0 million on 31 December 2016).