Company Announcement
No.12 2019

Copenhagen,14 November 2019

Scandinavian Tobacco Group A/S - Interim report, 1 January-30 September 2019

Scandinavian Tobacco Group delivers organic EBITDA growth of 5.4% and strong cash flow in the third quarter of 2019

Q3 2019 Highlights

- Net sales of DKK 1,846 million (DKK 1,887 million). Organic growth -4.5%
- EBITDA before special items of DKK 446 million (DKK 398 million). Organic growth 5.4%
- EBITDA margin before special items was 24.2% (21.1%). Excluding IFRS 16, the margin improved by 1.9% points
- Free cash flow before acquisitions of DKK 503 million (DKK 327 million)
- Earnings Per Share (EPS) of DKK 1.7 (DKK 2.2). EPS adjusted for special items of DKK 2.6 (DKK 2.4)
- Agreement of the terms and conditions for the acquisition of Royal Agio Cigars

In the third quarter of 2019, Scandinavian Tobacco Group A/S delivered net sales of DKK 1,846 million and EBITDA before special items of DKK 446 million. The quarter delivered positive organic growth in EBITDA of 5.4% with EBITDA margins (excluding IFRS 16) improving by 1.9% driven by Region Smoking Tobacco & Accessories and North America Branded. Organic growth in net sales was negative by 4.5% driven by all divisions.

In the first nine months of 2019, the Group reported negative organic net sales growth of 2.4% and organic EBITDA growth of 5.8%, generating a free cash flow before acquisitions of DKK 819 million (DKK 464 million) and an EPS of DKK 4.7 (DKK 5.1). EPS adjusted for special items were DKK 5.9 (DKK 5.4).

CEO of Scandinavian Tobacco Group Niels Frederiksen says: “In the third quarter of the year we deliver organic EBITDA growth of 5.4%, continued margin improvements and a strong free cash flow despite a disappointing development in organic net sales. This follows better than expected progress from our transformational program Fuelling the Growth and continued cash flow focus across our business. During the quarter we were also able to announce our intention to acquire Royal Agio Cigars; a significant step in support of our ambition to become the undisputed leader in cigars and pipe tobacco.”

Financial guidance for 2019

The full-year guidance for free cash flow is revised up and is now about 1 billion from previously >750 million. Special items are expected to be about DKK 200 million. The revised expectation includes transaction costs from the Royal Agio Cigars acquisition of about DKK 20 million, costs for the closure of Scandinavian Tobacco Group Lane Ltd.’s facility in the US of up to DKK 120 million and lower than previously anticipated costs relating to the Fuelling the Growth program. The guidance for organic growth in EBITDA is unchanged.

- >5% organic growth in EBITDA
- Special items of about DKK 200 million
- Free cash flow before acquisitions about 1 billion (previous >DKK 750 million)

In the fourth quarter of 2019, we expect that the development in organic net sales will remain weak.

Conference Call and Webcast

A conference call and webcast will be held on 14 November 2019 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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Key Figures

DKK million	Q3 2019	Q3 2018 ex. IFRS 16	9M 2019	9M 2018 ex. IFRS 16	Year 2018 ex. IFRS 16
INCOME STATEMENT					
Net sales	1,846	1,887	5,127	4,952	6,718
Gross profit before special items	899	916	2,457	2,382	3,219
EBITDA before special items	446	398	1,083	942	1,304
Special items[1]	-118	-23	-162	-37	-216
EBIT	229	292	627	675	738
Net financial items[2]	-16	-9	-42	-23	-37
Profit before tax	217	288	598	666	717
Income taxes	-45	-67	-129	-152	-51
Net profit	172	221	469	515	666
BALANCE SHEET					
Total assets			13,939	13,450	13,403
Equity			8,993	8,628	8,818
Net interest-bearing debt (NIBD)			2,705	2,751	2,585
Investment in property, plant and equipment	26	32	57	88	110
Total capital expenditures	31	34	83	101	125
CASH FLOW STATEMENT					
Cash flow from operating activities	532	359	896	559	784
Cash flow from investing activities	-13	-44	-61	-496	-511
Free cash flow	519	315	835	63	274
Free cash flow before acquisitions	503	327	819	464	668
KEY RATIOS[3]					
Net sales growth	-2.2%	9.7%	3.5%	3.8%	3.9%
Gross margin before special items	48.7%	48.5%	47.9%	48.1%	47.9%
EBITDA margin before special items	24.2%	21.1%	21.1%	19.0%	19.4%
Effective tax percentage	20.8%	23.2%	21.5%	22.8%	7.2%
Equity ratio			64.5%	64.1%	65.8%
Cash conversion	140.2%	101.7%	114.6%	83.1%	88.2%
Organic net sales growth	-4.5%	1.7%	-2.4%	2.1%	0.4%
Organic EBITDA growth	5.4%	-0.3%	5.8%	1.2%	3.5%
NIBD / EBITDA before special items			1.9	2.2	2.0
ROIC			5.8%	8.2%	6.4%
ROIC ex. goodwill and trademarks from 2010 merger			10.6%	15.2%	11.8%
Basic earnings per share (DKK)	1.7	2.2	4.7	5.1	6.7
Diluted earnings per share (DKK)	1.7	2.2	4.7	5.1	6.7
Number of shares issued ('000)					100,000
Number of treasury shares ('000)					367
Share price at year-end (DKK)					78.45
Dividend per share (DKK)					6.0
Pay-out ratio					90.2%

1. New accounting principles on special items, refer to note 1 in this interim report.
2. Excluding share of profit of associated companies.
3. See definition/explanation of financial ratios in note 5.8 in the Annual Report 2018.

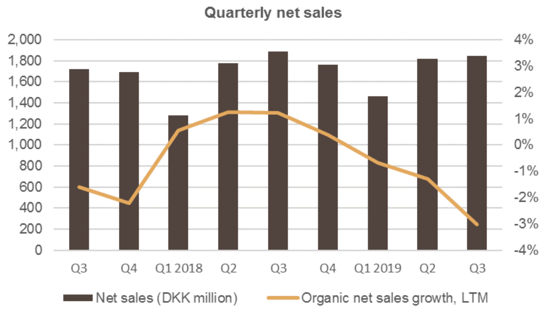
About Scandinavian Tobacco Group

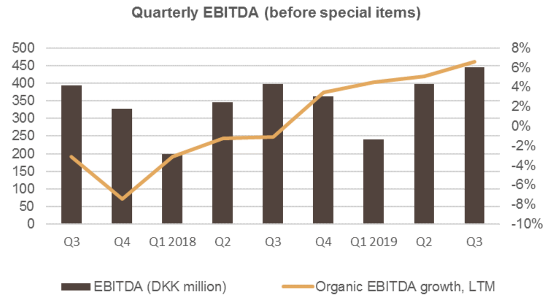
Scandinavian Tobacco Group A/S is a world leading manufacturer of cigars and pipe tobacco with annual production of three billion cigars and 5,000 tonnes of pipe and fine-cut tobacco.
Scandinavian Tobacco Group holds market-leading positions in several categories and has a portfolio of more than 200 brands providing a complementary range of established global brands and local champions.
The Group employs 7,650 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

Group Performance Q3 2019

For the third quarter of 2019, Group net sales decreased by 2.2%. Positive exchange rates contributed 2.3%, offset by negative organic growth of 4.5%. All four divisions; North America Online & Retail, North America Branded, Region Machine-Made Cigars and Region Smoking Tobacco & Accessories delivered negative organic growth in net sales for the quarter. The development in organic net sales is below our expectations for the quarter.

Quarterly development, Q3 2017-Q3 2019





Gross profit before special items decreased by 1.9% to DKK 899 million (DKK 916 million). The gross margin before special items increased slightly to 48.7% (48.5%) driven by the divisions Region Machine-Made Cigars and Region Smoking Tobacco & Accessories.

EBITDA before special items increased by 12.1% with an organic growth of 5.4% and an EBITDA margin before special items of 24.2% (21.1%). All divisions improved the EBITDA-margin before special items. The implementation of IFRS 16 increased EBITDA by DKK 22 million and the EBITDA margin by 1.2% point. The remaining margin increase was driven by improved operational performance and increased efficiency following the results of Fuelling the Growth.

Special costs were DKK 118 million (DKK 23 million) with DKK 100 million recognised as impairment costs related to the factory optimisation in the US as well as DKK 13 million expensed as transaction costs for the acquisition of Royal Agio Cigars.

Free cash flow before acquisitions was DKK 503 million (DKK 327 million). The development was driven by improved operational performance, changes in working capital and a positive impact from IFRS 16 of DKK 22 million.

First nine months of 2019

For the first nine months of 2019, the Group delivered 2.4% negative organic net sales growth, 5.8% positive organic growth in EBITDA and a free cash flow before acquisitions of DKK 819 million (DKK 464 million). The EBITDA margin increased to 21.1% (19.0%). The implementation of IFRS 16 increased EBITDA by DKK 67 million and the EBITDA margin by 1.3% point.

Special costs were DKK 162 million (DKK 37 million) with DKK 100 million recognised as impairment costs related to the factory optimisation in the US as well as DKK 13 million relating to the above-mentioned transaction costs of the acquisition of Royal Agio Cigars.

For a detailed overview of the impact of IFRS 16, please see note 1 on page 23-24.

Fuelling the Growth

The transformational program Fuelling the Growth progresses well and remains on track to deliver commercial competitiveness and net savings at a run rate of DKK 250 million by the end of 2021. Net savings have been realised faster than originally expected. More than 1/3 of total net savings is now expected to be realised in the 2019 results.

The new organizational structure, implemented as of January 1, 2019 is fully up and running, the procurement workstream progresses well and is on track to deliver expected savings as a significant amount of supplier contracts has been renegotiated. The turnaround in France continues with good momentum and France delivered positive organic growth in net sales in the third quarter and improved market share. Fuelling the Growth initiatives regarding the Group´s North America online presence as well as initiatives on logistics in North America and EU are progressing with results expected to materialize in the coming years.

During the quarter DKK 1 million has been expensed as special items relating to Fuelling the Growth and for the first nine months DKK 26 million. Special items expensed in full year 2019 are now expected to be about DKK 35 million (previously about DKK 60 million) with the total special items for Fuelling the Growth still seen at up to DKK 250 million.

Scandinavian Tobacco Group to acquire Royal Agio Cigars

On September 16, 2019 Scandinavian Tobacco Group announced an agreement of the terms and conditions for the acquisition of Royal Agio Cigars. On a debt and cash free basis the transaction is valued at EUR 210 million. The acquisition will be financed by cash at hand and debt. The transaction is subject to satisfactory conclusion of a statutory employee consultation process in The Netherlands and subsequent completion requires approval from competition authorities in certain European jurisdictions. Completion is expected to occur in the first half of 2020.

The consultation process with the works councils has been initiated.

Royal Agio Cigars is a leading European cigar company with a strong cigar portfolio including key brands such as Mehari´s, Panter and Balmoral. The company is based in Duizel, The Netherlands and has approximately 3,200 full-time employees. Royal Agio Cigars' reported annual net sales full year 2018 were EUR 133 million with an EBITDA of EUR 18 million.

The transaction is expected to be EPS accretive no later than in year 2 after completion.

Key data per division

KEY DATA PER DIVISION	Q3 2019	Q3 2018 excl. IFRS 16	Change	9M 2019	9M 2018 excl. IFRS 16	Change	Year 2018 excl. IFRS 16
Net sales (DKKm)							
North America Online & Retail	648	626	3.5%	1,803	1,534	17.6%	2,111
North America Branded	341	368	-7.4%	913	952	-4.1%	1,247
Region Machine-Made Cigars	436	446	-2.3%	1,217	1,240	-1.9%	1,682
Region Smoking Tobacco & Accessories	421	447	-5.8%	1,194	1,227	-2.6%	1,677
Group total	**1,846**	**1,887**	**-2.2%**	**5,127**	**4,952**	**3.5%**	**6,718**
Gross profit before special items (DKKm)							
North America Online & Retail	246	238	3.3%	687	572	20.1%	793
North America Branded	191	210	-9.0%	517	548	-5.7%	712
Region Machine-Made Cigars	231	233	-0.6%	626	635	-1.5%	832
Region Smoking Tobacco & Accessories	231	236	-2.0%	627	627	0.1%	882
Group total	**899**	**916**	**-1.9%**	**2,457**	**2,382**	**3.1%**	**3,219**
EBITDA before special items (DKKm)							
North America Online & Retail	113	103	10.1%	274	219	25.3%	310
North America Branded	80	66	21.3%	196	176	11.2%	242
Region Machine-Made Cigars	109	105	4.2%	272	242	12.6%	304
Region Smoking Tobacco & Accessories	156	147	5.9%	399	381	4.8%	545
Group costs	-12	-23	-47.6%	-58	-76	-23.5%	-96
Group total	**446**	**398**	**12.1%**	**1,083**	**942**	**15.0%**	**1,304**
Organic net sales growth (%)							
North America Online & Retail	-1.2%	5.5%		0.7%	8.0%		6.3%
North America Branded	-11.4%	4.3%		-8.4%	1.1%		-1.2%
Region Machine-Made Cigars	-2.3%	-8.8%		-2.1%	-6.0%		-6.4%
Region Smoking Tobacco & Accessories	-5.6%	6.3%		-2.5%	4.6%		1.9%
Group total	**-4.5%**	**1.7%**		**-2.4%**	**2.1%**		**0.4%**
Gross margin before special items (%)							
North America Online & Retail	37.9%	38.0%	-0.1%	38.1%	37.3%	0.8%	37.5%
North America Branded	56.0%	57.0%	-1.0%	56.6%	57.6%	-1.0%	57.1%
Region Machine-Made Cigars	53.1%	52.2%	0.9%	51.4%	51.2%	0.2%	49.5%
Region Smoking Tobacco & Accessories	54.8%	52.7%	2.1%	52.5%	51.1%	1.4%	52.6%
Group total	**48.7%**	**48.5%**	**0.2%**	**47.9%**	**48.1%**	**-0.2%**	**47.9%**
EBITDA margin before special items (%)							
North America Online & Retail	17.5%	16.4%	1.1%	15.2%	14.3%	0.9%	14.7%
North America Branded	23.3%	17.8%	5.5%	21.4%	18.5%	2.9%	19.4%
Region Machine-Made Cigars	25.0%	23.5%	1.6%	22.4%	19.5%	2.9%	18.0%
Region Smoking Tobacco & Accessories	37.1%	32.9%	4.2%	33.4%	31.1%	2.4%	32.5%
Group total	**24.2%**	**21.1%**	**3.1%**	**21.1%**	**19.0%**	**2.1%**	**19.4%**
ORGANIC GROWTH COMPOSITION							
Volume impact (%)							
Handmade cigars (NAO&R)	5.6%	4.1%		3.4%	4.0%		1.6%
Handmade cigars (NAB)	-12.6%	10.2%		-10.0%	4.0%		1.8%
Machine-made cigars (MMC)	-1.4%	-9.9%		-2.1%	-6.6%		-7.8%
Price/mix impact (%)							
Handmade cigars (NAO&R)	-7.8%	3.8%		-3.0%	4.2%		4.9%
Handmade cigars (NAB)	5.5%	-1.6%		3.3%	0.5%		0.9%
Machine-made cigars (MMC)	-0.6%	1.0%		-0.1%	1.3%		1.0%

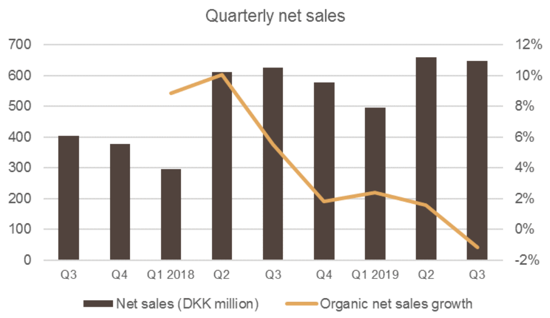
North America Online & Retail*

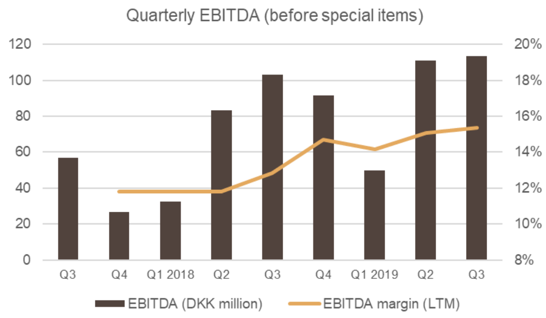
For the third quarter of 2019, the North America Online & Retail division delivered negative organic growth in net sales as a result of a negative price/mix impact in handmade cigars driven by a higher proportion of small sized cigars in the sell-out to consumers, especially in Thompson Cigar and increased promotional activity in the market.

The integration of Thompson Cigar which was acquired in April, 2018 remains on track and is expected to be finalised by the end of 2019. The completion of the second Super-Store in Texas and the two Super-Stores in the Tampa-area, Florida is expected during the second and the third quarter of 2020.

Handmade cigars is by far the largest product category in the North America Online & Retail division. As a business to consumer company, the volume development for handmade cigars is driven by the sell out to consumers, which is driven by the total market development and our market share performance. The total market for handmade cigars is seen as declining by about 1% per year and we have an ambition to increase market share over time.

Quarterly development, Q3 2017-Q3 2019





Net sales increased by 4% to DKK 648 million (DKK 626 million) during the quarter composed by a 1.2% negative organic net sales growth and a positive exchange rate effect of 5%. The product category handmade cigars delivered -2.2% organic growth (+5.6% volume impact and -7.8% price/mix impact) with volumes driven by higher sales of small sized cigars. The negative price/mix impact was driven by a higher proportion of small sized cigars and increased promotional activity in the market. Gross profit before special items increased to DKK 246 million (DKK 238 million) driven by positive exchange rates. The gross margin before special items was 37.9% (38.0%).

EBITDA before special items increased to DKK 113 million (DKK 103 million) with an EBITDA margin before special items of 17.5% (16.4%). The development in the margin was driven by IFRS 16 and to a lesser extent a lower OPEX ratio driven by efficiency improvements. IFRS 16 improved the EBITDA margin before special items by 0.8% point in the quarter.

First nine months of 2019

Net sales for the first nine months of 2019 were DKK 1,803 million (DKK 1,534 million) and organic growth was 0.7%. Gross profit before special items was DKK 687 million (DKK 572 million) and the gross margin was 38.1% (37.3%) primarily driven by efficiency improvements. EBITDA before special items was DKK 274 million (DKK 219 million) with an EBITDA margin of 15.2% (14.3%) driven by IFRS 16 and the gross margin improvement. IFRS 16 improved the EBITDA margin before special items by 0.9% point for the first nine months.

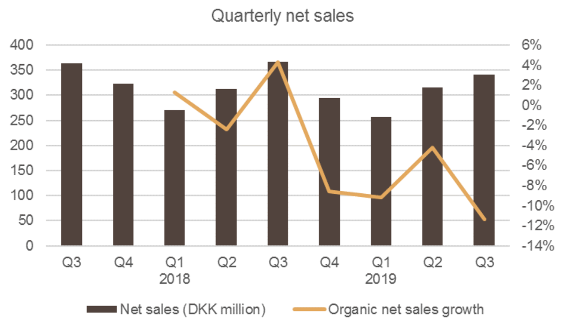
* For a detailed account of the division and breakdown by product categories for the full year 2018, see Company Announcement no. 6 from May 7, 2019

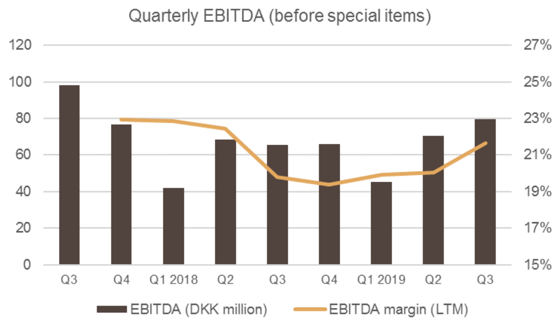
North America Branded*

In 2019, the market for handmade cigars in the US has been impacted by weather conditions and lower volumes to the online segment in general and one online distributor in particular. The impact has been more profound than originally expected and continued in the third quarter. The impacts remain to be considered temporary, however a normalisation is now seen at the earliest in the beginning of 2020.

The largest product category in the North America Branded division is handmade cigars with almost 50% of net sales. The handmade cigar volume development in the division is primarily driven by the sell-in to the online distribution channel and the physical trade. The long-term development in volumes follows consumer trends and market share changes with inventory rebalancing and positioning in the trade substantially having short-term to mid-term impact on the volumes.

Quarterly development, Q3 2017-Q3 2019





In the third quarter of 2019, the net sales in the North America Branded division decreased by 7% to DKK 341 million (DKK 368 million). The organic net sales growth was negative by 11.4% after adjusting for a positive exchange rate impact of 4%. The negative organic growth was driven by all product categories. Handmade cigars delivered 7.1% negative organic growth (-12.6% volume impact and +5.5% price/mix impact) as the market continued to be negatively impacted by the inventory rebalancing in parts of the online distribution channel. The price/mix impact was driven by price increases and repositioning to the premium segment. In Canada, the market for machine-made cigars was impacted by preparations for the introduction of plain packaging planned for November 2019 and both pipe tobacco and fine-cut tobacco experienced higher volume declines in the quarter than expected.

Gross profit before special items in the third quarter of 2019 decreased to DKK 191 million (DKK 210 million) driven by the decrease in volumes. The gross margin before special items decreased to 56.0% (57.0%) also driven by lower volumes.

EBITDA before special items increased to DKK 80 million (DKK 66 million) with an EBITDA margin before special items of 23.3% (17.8%). The improvement in the margin was driven by a positive impact of IFRS 16, the positive impacts from Fuelling the Growth efficiency improvements and a relatively high OPEX ratio in Q3 2018. IFRS16 improved the EBITDA margin before special items by 1.7% point.

First nine months of 2019

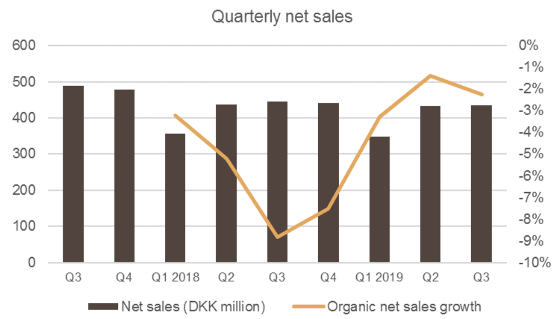
Net sales for the first nine months of 2019 were DKK 913 million (DKK 952 million) and the organic growth was negative by 8.4% driven by all product categories. Gross profit before special items was DKK 517 million (DKK 548 million) and the gross margin was 56.6% (57.6%). EBITDA before special items was DKK 196 million (DKK 176 million) with an EBITDA margin of 21.4% (18.5%). The margin improvement was driven by efficiency improvements and a positive impact of IFRS 16 being only partly offset by the negative gross margin development. IFRS 16 improved the EBITDA margin before special items by 1.9% point for the first nine months.

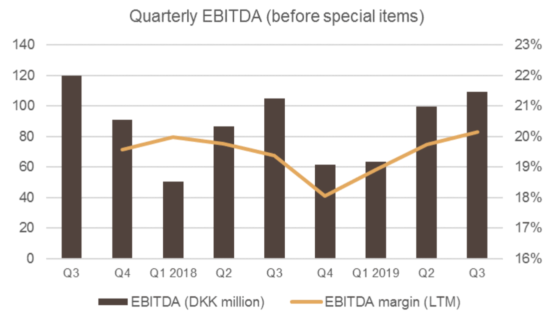
* For a detailed account of the division and breakdown by product categories for the full year 2018, see Company Announcement no. 6 from May 7, 2019

Region Machine-Made Cigars*

The negative organic growth in net sales for the division was higher in the third quarter driven by pipe-tobacco and fine-cut, whereas machine-made cigars improved versus the second quarter. The overall market for machine-made cigars showed modest declines for the second quarter in a row and market shares increased in France, the UK, The Netherlands and in Belgium versus the second quarter of 2019. Combined the market share in the top 5 European markets (France, Belgium, Netherlands, UK and Spain) was slightly up compared to the second quarter of 2019.

Quarterly development, Q3 2017-Q3 2019





In the third quarter of 2019, net sales in Region Machine-Made Cigars decreased by 2% to DKK 436 million (DKK 446 million). The organic net sales growth was negative by 2.3%. Machine-made cigars delivered negative organic growth of 2.0% (volume impact of -1.4% and a price/mix impact of -0.6%). The product category machine-made cigars in France and the UK delivered positive organic growth in net sales and Belgium, The Netherlands and Iberia delivered negative organic growth.

Gross profit before special items was DKK 231 million (DKK 233 million). The gross margin before special items was 53.1% (52.2%) driven by regional mix changes.

EBITDA before special items increased to DKK 109 million (DKK 105 million) with an EBITDA margin before special items of 25.0% (23.5%). The improvement in the margin was driven by a positive impact of IFRS 16. IFRS 16 improved the EBITDA margin before special items by 1.7% point in the third quarter of 2019. In comparison with last year, notice the third quarter of 2018 was exceptionally strong driven by good performance in high margin markets like the UK and Belgium.

First nine months of 2019
Net sales in Region Machine-Made Cigars for the first nine months of 2019 were DKK 1,217 million (DKK 1,240 million) and the organic growth was negative by 2.1%. Gross profit before special items was DKK 626 million (DKK 635 million) and the gross margin was 51.4% (51.2%). EBITDA before special items was DKK 272 million (DKK 242 million) with an EBITDA margin of 22.4% (19.5%). The EBITDA margin improvement is driven by the positive development in operating expenses and IFRS 16. IFRS 16 improved the EBITDA margin before special items by 1.8% point.

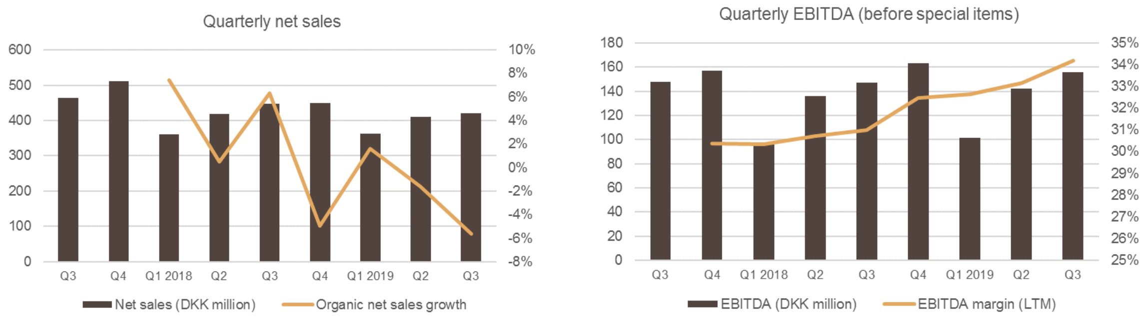
* For a detailed account of the division and breakdown by product categories for the full year 2018, see Company Announcement no. 6 from May 7, 2019

Region Smoking Tobacco & Accessories*

In the third quarter of 2019, net sales in Region Smoking Tobacco & Accessories decreased by 6% to DKK 421 million (DKK 447 million). The organic net sales growth was negative by 5.6% despite a positive price/mix impact. The negative organic growth in net sales was primarily driven by machine-made cigars with pipe-tobacco and fine-cut tobacco delivering positive growth in the quarter.

Machine-made cigar volumes have been impacted by lower shipments to Middle East and Russia. In Russia preparations for introduction of track-n-trace is being taken.

Quarterly development, Q3 2017-Q3 2019



Gross profit before special items was DKK 231 million (DKK 236 million). The gross margin before special items was 54.8% (52.7%) driven by the positive price/mix impact.

EBITDA before special items increased to DKK 156 million (DKK 147 million) with an EBITDA margin before special items of 37.1% (32.9%). The improvement in the margin was driven by the improved gross margin before special items, an improved OPEX ratio and IFRS 16. IFRS 16 improved the EBITDA margin before special items by 0.5% point in the quarter.

In the quarter, the Group decided to terminate its sales companies in Slovenia and Croatia as a consequence of a loss of key management executives and a number of key third party distribution contracts. The annual net sales in these sales companies are about DKK 85 million with an EBITDA margin above Group average.

First nine months of 2019

For the first nine months of 2019 net sales were DKK 1,194 million (DKK 1,227 million) and the organic growth was negative by 2.5%. Gross profit before special items was DKK 627 million (DKK 627 million) and the gross margin was 52.5% (51.1%). EBITDA before special items was DKK 399 million (DKK 381 million) with an EBITDA margin of 33.4% (31.1%). The increase in the EBITDA margin is explained by the improved gross margin before special items, an improved OPEX ratio and the positive impact of IFRS 16.

IFRS 16 improved the EBITDA margin before special items by 0.7% point for the first nine months.

* For a detailed account of the division and breakdown by product categories for the full year 2018, see Company Announcement no. 6 from May 7, 2019

Group Financials

Net sales
For the third quarter of 2019, net sales decreased by 2% to DKK 1,846 million (DKK 1,887 million) with exchange rates impacting positively by DKK 43 million. Organic growth in net sales was negative by 4.5% with all four divisions delivering negative growth.

For the first nine months of 2019, the organic growth in net sales was negative by 2.4% as positive growth in North America Online & Retail could not fully compensate for negative growth in North America Branded, Region Machine-Made Cigars and Region Smoking Tobacco & Accessories. For the first nine months of 2019 exchange rates impacted positively by DKK 161 million and acquisitions by DKK 137 million.

Table 1: Net sales

DKK million	Q3 2019	Q3 2018	Change in %	9M 2019	9M 2018	Change in %
Net sales	1,846	1,887	-2.2%	5,127	4,952	3.5%
Acquisitions					137	
Effect from currency development	-43			-161		
Organic net sales	**1,803**	**1,887**	**-4.5%**	**4,966**	**5,090**	**-2.4%**

Profit
Gross profit before special items for the third quarter of 2019 was DKK 899 million (DKK 916 million), a decrease of 1.9%, driven by the negative organic growth in net sales and despite a positive impact of DKK 14 million from exchange rate developments. The gross margin before special items was 48.7% (48.5%) with increased gross margins in Region Machine-Made Cigars and Region Smoking Tobacco & Accessories partly being offset by declining gross margin in North America Branded.

For the first nine months of 2019, gross profit before special items was DKK 2,457 million (DKK 2,382 million), an increase of 3.1% explained by acquisition impact and exchange rate developments. The gross margin before special items for the first nine months was 47.9% (48.1%), a decrease of 0.2% point. Increased gross margins in North America Online & Retail, Region Smoking Tobacco & Accessories and Region Machine-Made Cigars were partly offset by lower margins in North America Branded and the impact of the acquisition of Thompson Cigar where gross margins were below the Group's average margins.

Operating expenses for the third quarter were DKK 459 million (DKK 518 million), a decrease of 11.5% mainly driven by cost efficiencies and savings from the Fuelling the Growth program and the impact of new accounting principles for operating leases where expenses now are reported as depreciation and interest. This was partly offset by exchange rate developments of DKK 10 million.

For the first nine months of 2019 operating expenses amounted to DKK 1,379 million (DKK 1,440 million), a decrease of 4.2%. The development is explained by cost efficiencies and savings from the Fuelling the Growth program and the impact of new accounting principles for operating leases where expenses now are reported as depreciation and interest partly offset by acquisition effect and exchange rate developments of DKK 44 million.

Table 2: EBITDA

DKK million	Q3 2019	Q3 2018	Change in %	9M 2019	9M 2018	Change in %
EBITDA before special items	446	398	12.1%	1,083	942	15.0%
Acquisitions					8	
Currency development	-4			-12		
IFRS 16		22			63	
Organic EBITDA	**442**	**419**	**5.4%**	**1,071**	**1,012**	**5.8%**

EBITDA before special items for the third quarter of 2019 amounted to DKK 446 million (DKK 398 million), an increase of 12.1%. The development is explained by a positive impact of cost efficiencies and the Fuelling the Growth program, exchange rates and the new accounting principles for operating leases.

The same development as well as the consolidation effect from acquiring Thompson Cigar, April 2018 results in the increase of 15.0% in EBITDA before special items for the first nine months of 2019.

EBITDA margin before special items for the third quarter of 2019 was 24.2% (21.1%), an increase of 3.1% point. The development is explained by an 1.2% point impact of new accounting principles for operating leases as well as an 1.9% point impact from an improved OPEX ratio and exchange rates.

EBITDA margin before special items for the first nine months of 2019 was 21.1% (19.0%), an increase of 2.1% point, of which 1.3% point is explained by new accounting principles for operating leases.

Table 3: Special items

DKK million	Q3 2019	Q3 2018	Change	9M 2019	9M 2018	Change
Integration and transactions costs (Thompson Cigar)	4	9	-5	22	23	-1
M&A costs	13		13	13		13
Fuelling the Growth program	1	14	-13	26	14	12
Manufacturing footprint, factory close-down (impair-ment)	100		100	100		100
Special items, costs	**118**	**23**	**95**	**162**	**37**	**125**

Financial items

Financial items for the third quarter of 2019 amounted to net expenses of DKK 16 million compared to net expenses of DKK 9 million in the same period last year. The increase is explained by fair value adjustments of the Group's interest rate swaps.

Financial items of DKK 42 million net expenses for the first nine months of 2019 increased by DKK 19 million compared to the same period last year. The development is explained by fair value adjustments of the Group's interest rate swaps driven by the drop in current interest rate level as well as expectations for future interest rate levels. Furthermore, the impact of new accounting principles for operating leases where expenses now are reported as depreciation and interest contributed to higher financial expenses.

Net profit for the third quarter of 2019 was DKK 172 million (DKK 221 million) and for the first nine months of 2019 DKK 469 million (DKK 515 million), a decrease of 9%.

Earnings per share (EPS) for the third quarter were DKK 1.7 (DKK 2.2) and for the first nine months DKK 4.7 (DKK 5.1). Fully diluted EPS were DKK 1.7 (DKK 2.2) for the third quarter of 2019 and DKK 4.7 (DKK 5.1) for the first nine months of 2019. EPS adjusted for special items net of tax were DKK 2.6 (DKK 2.4) for the third quarter and DKK 5.9 (DKK 5.4) for the first nine months of 2019.

Cash flow

Cash flow from operations before changes in working capital in the third quarter of 2019 was DKK 420 million (DKK 341 million), an increase of DKK 78 million driven by the improved operational results and positive impact of DKK 22 million from new accounting for operating leases.

Working capital in the third quarter of 2019 contributed positively to the cash flow of DKK 113 million (DKK 17 million). The reduction in working capital in the third quarter of 2019 is driven by reduced inventories.

Cash flow from investing activities amounted to DKK -13 million (DKK -44 million). The decline is explained by the divestment of the sales companies in Slovenia and Croatia, which had a positive cash impact of DKK 22 million.

Free cash flow before acquisitions in the third quarter of 2019 was positive by DKK 503 million (DKK 327 million). The cash conversion ratio was 140.2% (101.7%).

For the first nine months of 2019, free cash flow was DKK 835 million (DKK 63 million). The free cash flow before acquisitions was DKK 819 million (DKK 464 million), an increase of DKK 355 million. The development is explained by a positive impact of working capital compared to a negative impact in the same period last year. Increased earnings, a positive impact of DKK 67 million from new accounting for operating leases and lower net tax payments also contributed positively whereas payments of special items had a higher negative impact on cash flow compared to last year. The cash conversion ratio was 114.6% (83.1%).

Table 4: Cash flow

DKK million	Q3 2019	Q3 2018	Change	9M 2019	9M 2018	Change
Cash flow from operations before NWC	420	341	78	875	688	187
Changes in working capital	113	17	96	21	-129	150
Cash flow from operations	532	359	174	896	559	337
Investing activities	-13	-44	30	-61	-496	435
Free cash flow	519	315	204	835	63	772
Free cash flow before acquisitions	503	327	176	819	464	355

Equity

Total shareholders' equity as at 30 September 2019 amounted to DKK 8,993 million (DKK 8,818 million on 31 December 2018). The equity was mainly affected by profit for the period and foreign exchange adjustments on net investments in foreign operations partly offset by distribution of dividends. As at 30 September 2019 the equity ratio was 64.5% (65.8% on 31 December 2018).

Net interest-bearing debt

Net interest-bearing debt decreased by DKK 46 million to DKK 2,705 million by the end of the third quarter of 2019 compared to the end of third quarter of 2018. The leverage ratio (net interest-bearing debt to EBITDA before special items) decreased to 1.9x (2.2x at 30 September 2018).

Events after the reporting period

Optimization of manufacturing footprint

On October 17, 2019 Scandinavian Tobacco Group announced a decision to reduce the number of production sites in the Group from 12 to 11 by closing Scandinavian Tobacco Group Lane Ltd.´s facility in Tucker, Georgia in the United States. The closure is expected to be completed by the end of 2020 and production will be transferred to the Group´s production facilities in Assens and Holstebro, Denmark and Santiago, the Dominican Republic.

The factory in Tucker manufactures brands within the Group´s portfolios of pipe tobacco, fine-cut tobacco and little cigars where excess capacity across the Group´s manufacturing footprint has been established faster than expected. The closure of the facility in Tucker will adjust the capacity to current and projected volumes.

The closure is expected to improve the Group's overall annual cost structure by more than DKK 20 million. The transfer of production is expected to incur investments at the level of DKK 30 million.

Special costs related to the closure are expected to be about DKK 120 million and will be expensed in 2019. DKK 20 million of the special costs are expected to have cash flow effect in 2020, while the closure of the factory will result in non-cash impairment costs of about DKK 100 million, which have been recognised as special items in the interim report for the first nine month of 2019. Possible proceeds from sale of land and buildings have not been included in the above figures.

No other events which are expected to have material impact on the financial position of the Group have occurred after 30 September 2019.

Financial guidance for 2019

The full-year guidance is

- >5% organic growth in EBITDA
- Special items of about DKK 200 million including the transaction costs related to the acquisition of Royal Agio Cigars (previously about DKK 205 million excluding the costs related to the acquisition of Royal Agio)
- Free cash flow before acquisitions of about DKK 1 billion (previously >DKK 750 million)

Assumptions

- Financial expenses, exclusive of currency losses or gains and fair value adjustments, are expected to be in the range of DKK 70-80 million
- The effective tax rate is expected to be in the range of 21-23%
- Guidance and assumptions are based on current exchange rates
- No contributions or expenses related to potential acquisitions are included

Finance calendar for 2020

Annual Report 2019	27 February, 2020
Annual General Meeting	26 March, 2020
Interim report Q1 2020	20 May, 2020
Interim report Q2 2020	28 August, 2020
Interim report Q3 2020	5 November, 2020

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.

Quarterly Financial Data

	2019			2018				
DKK million	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Full-year**
				-------------------	*Excluding IFRS 16*	------------------		
Reported data								
Net sales	1,846	1,818	1,464	1,765	1,887	1,780	1,285	6,718
Gross profit before special items	899	873	684	838	916	853	613	3,219
EBITDA before special items	446	398	239	362	398	346	199	1,304
Special items	-118	-20	-24	-179	-24	-11	-3	-216
EBIT	229	280	119	63	292	258	125	738
Net financial items	-16	-22	-4	-14	-9	1	-15	-37
Profit before tax	217	262	119	51	288	264	114	717
Income taxes	-45	-57	-26	101	-67	-59	-26	-51
Net profit	172	205	93	152	221	205	88	666
Other financial key data								
Organic EBITDA growth	5.4%	5.5%	7.3%	10.2%	-0.3%	3.1%	1.2%	3.5%
Organic net sales growth	-4.5%	-0.9%	-1.6%	-4.4%	1.7%	1.6%	3.5%	0.4%
Free cash flow before acquisitions	503	243	72	204	327	213	-76	668
North America Online & Retail (NAO&R)								
Net sales	648	658	496	578	626	610	297	2,111
Gross profit before special items	246	259	182	221	238	222	112	793
EBITDA before special items	113	111	50	91	103	83	32	310
Net sales growth	3.5%	7.8%	67.3%	52.9%	54.9%	51.7%	-6.0%	40.7%
Organic net sales growth	-1.2%	1.6%	2.4%	1.8%	5.5%	10.1%	8.8%	6.3%
Gross margin before special items	37.9%	39.3%	36.6%	38.2%	38.0%	36.4%	37.6%	37.5%
EBITDA margin before special items	17.5%	16.8%	10.1%	15.8%	16.4%	13.7%	10.9%	14.7%
North America Branded (NAB)								
Net sales	341	316	257	295	368	313	271	1,247
Gross profit before special items	191	179	147	164	210	188	151	712
EBITDA before special items	80	71	45	66	66	68	42	242
Net sales growth	-7.4%	0.9%	-5.3%	-8.6%	1.2%	-11.6%	-11.8%	-7.5%
Organic net sales growth	-11.4%	-4.2%	-9.2%	-8.5%	4.3%	-2.4%	1.3%	-1.2%
Gross margin before special items	56.0%	56.6%	57.4%	55.6%	57.0%	59.9%	55.7%	57.1%
EBITDA margin before special items	23.3%	22.3%	17.7%	22.4%	17.8%	21.8%	15.5%	19.4%
Region Machine-Made Cigars (MMC)								
Net sales	436	433	348	442	446	437	357	1,682
Gross profit before special items	231	217	177	198	233	225	177	832
EBITDA before special items	109	100	64	62	105	87	51	304
Net sales growth	-2.3%	-0.9%	-2.6%	-7.6%	-8.8%	-5.2%	-3.5%	-6.4%
Organic net sales growth	-2.3%	-1.4%	-3.3%	-7.5%	-8.8%	-5.2%	-3.2%	-6.4%
Gross margin before special items	53.1%	50.2%	50.9%	44.7%	52.2%	51.5%	49.6%	49.5%
EBITDA margin before special items	25.0%	23.0%	18.3%	13.9%	23.5%	19.9%	14.2%	18.0%

Quarterly Financial Data (continued)

	2019			2018				
DKK million	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Full-year
				------------------	*Excluding IFRS 16*			------------------
Region Smoking Tobacco & Accessories (ST&A)								
Net sales	421	410	363	450	447	419	360	1,677
Gross profit before special items	231	218	178	255	236	218	173	882
EBITDA before special items	156	142	101	163	147	136	98	545
Net sales growth	-5.8%	-2.1%	0.7%	-12.0%	-3.7%	-8.0%	-6.7%	-7.7%
Organic net sales growth	-5.6%	-1.6%	1.6%	-5.0%	6.3%	0.5%	7.4%	1.9%
Gross margin before special items	54.8%	53.2%	49.1%	56.7%	52.7%	52.0%	48.0%	52.6%
EBITDA margin before special items	37.1%	34.6%	27.9%	36.3%	32.9%	32.5%	27.1%	32.5%
Group costs								
EBITDA before special items	-12	-25	-21	-20	-23	-30	-24	-96
ORGANIC GROWTH COMPOSITION								
Volume impact (%)								
Handmade cigars (NAO&R)	5.6%	3.9%	1.4%	-4.3%	4.1%	3.4%	5.2%	1.6%
Handmade cigars (NAB)	-12.6%	-8.6%	-4.6%	-5.2%	10.2%	-3.5%	7.2%	1.8%
Machine-made cigars (MMC)	-1.4%	-4.6%	0.6%	-10.7%	-9.9%	-3.0%	-7.2%	-7.8%
Price/mix impact (%)								
Handmade cigars (NAO&R)	-7.8%	-1.5%	-0.1%	6.0%	3.8%	5.7%	2.0%	4.9%
Handmade cigars (NAB)	5.5%	-1.1%	2.9%	1.6%	-1.6%	5.2%	-4.4%	0.9%
Machine-made cigars (MMC)	-0.6%	0.9%	-1.3%	0.0%	1.0%	-0.4%	4.4%	1.0%

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 2019.

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 2019 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 30 September 2019.

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, 14 November 2019

EXECUTIVE MANAGEMENT

Niels Frederiksen
CEO

Marianne Rørslev Bock
CFO

BOARD OF DIRECTORS

Nigel Northridge
CHAIRMAN

Henrik Brandt
VICE-CHAIRMAN

Marlene Forsell

Dianne Neal Blixt

Anders Obel

Luc Missorten

Claus Gregersen

Lindy Larsen

Hanne Malling

Mogens Olsen

STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY - 30 SEPTEMBER

DKK million	Note	Q3 2019	Q3 2018 ex. IFRS 16	9M 2019	9M 2018 ex. IFRS 16
Net sales	**2**	**1,845.7**	**1,887.2**	**5,127.2**	**4,952.1**
Cost of goods sold	2	-946.8	-971.2	-2,670.5	-2,570.3
Gross profit before special items	**2**	**898.9**	**916.0**	**2,456.7**	**2,381.8**
Other external costs	2	-298.2	-324.7	-843.1	-857.0
Staff costs	2	-160.6	-193.6	-536.3	-582.9
Other income		5.9	0.0	5.9	0.0
Earnings before interest, tax, depreciation, amortisation and special items (EBITDA before special items)	**2**	**446.0**	**397.7**	**1.083.2**	**941.9**
Depreciation and impairment		-54.0	-29.6	-161.1	-87.9
Earnings before interest, tax, amortisation and special items (EBITA before special items)		**392.0**	**368.1**	**922.1**	**854.0**
Amortisation		-45.3	-52.7	-133.1	-142.1
Earnings before interest, tax and special items (EBIT before special items)		**346.7**	**315.4**	**789.0**	**711.9**
Special items, costs and impairment	3	-118.1	-23.3	-161.9	-37.0
Earnings before interest and tax (EBIT)		**228.6**	**292.1**	**627.1**	**674.9**
Share of profit of associated companies, net of tax		4.2	5.0	12.8	14.7
Financial income		10.9	13.1	38.2	48.1
Financial costs		-26.8	-22.2	-80.3	-71.3
Profit before tax		**216.9**	**288.0**	**597.8**	**666.4**
Income taxes		-45.2	-66.7	-128.6	-151.9
Net profit for the period		**171.7**	**221.3**	**469.2**	**514.5**
Earnings per share					
Basic earnings per share (DKK)		1.7	2.2	4.7	5.1
Diluted earnings per share (DKK)		1.7	2.2	4.7	5.1
OTHER COMPREHENSIVE INCOME					
Items that will be recycled subsequent to the Consolidated Income Statement, when specific conditions are met:					
Cash flow hedges, deferred gains/losses incurred during the period		-1.7	7.5	-33.6	27.1
Tax of cash flow hedges		0.4	-1.5	7.4	-5.9
Foreign exchange adjustments on net investments in foreign operations		271.6	49.0	322.2	210.8
Other comprehensive income for the period, net of tax		**270.3**	**55.0**	**296.0**	**232.0**
Total comprehensive income for the period		**442.0**	**276.3**	**765.2**	**746.5**

ASSETS

DKK million	30 Sep 2019	30 Sep 2018 ex. IFRS 16	31 Dec 2018 ex. IFRS 16
Goodwill	4,707.8	4,518.9	4,561.8
Trademarks	2,899.4	2,984.5	2,922.6
IT software	62.9	85.1	75.9
Other intangible assets	292.8	314.0	308.8
Total intangible assets	**7,962.9**	**7,902.5**	**7,869.1**
Property, plant and equipment	1,286.7	1,228.7	1,219.5
Investments in associated companies	158.1	142.0	143.7
Deferred income tax assets	123.0	104.5	120.2
Other financial fixed assets	1.7	35.5	22.3
Total non-current assets	**9,532.4**	**9,413.2**	**9,374.8**
Inventories	2,674.0	2,665.0	2,598.7
Trade receivables	850.9	760.1	854.1
Other receivables	101.1	102.4	76.7
Corporate tax	113.0	146.6	121.2
Prepayments	60.9	76.9	66.8
Cash and cash equivalents	606.8	285.6	310.8
Total current assets	**4,406.7**	**4,036.6**	**4,028.3**
Total assets	**13,939.1**	**13,449.8**	**13,403.1**

CONSOLIDATED BALANCE SHEET

EQUITY AND LIABILITIES

DKK million	30 Sep 2019	30 Sep 2018 ex. IFRS 16	31 Dec 2018 ex. IFRS 16
Share capital	100.0	100.0	100.0
Reserve for hedging	-19.2	25.2	7.0
Reserve for currency translation	1,064.5	691.2	742.3
Treasury shares	-35.0	-40.5	-40.5
Retained earnings	7,882.2	7,851.7	8,009.4
Total equity	**8,992.5**	**8,627.6**	**8,818.2**
Bank loans	2,820.4	2,830.3	2,658.1
Deferred income tax liabilities	503.8	591.1	515.7
Pension obligations	257.1	246.8	240.8
Other provisions	26.1	29.5	33.7
Leasing liabilities	125.2	0.0	0.0
Other liabilities	37.6	20.6	27.4
Total non-current liabilities	**3,770.2**	**3,718.3**	**3,475.7**
Trade payables	340.0	364.5	377.1
Corporate tax	130.8	209.1	132.4
Other provisions	38.1	7.9	104.1
Leasing liabilities	66.9	0.0	0.0
Other liabilities	600.6	522.4	495.6
Total current liabilities	**1,176.4**	**1,103.9**	**1,109.2**
Total liabilities	**4,946.6**	**4,822.2**	**4,584.9**
Total equity and liabilities	**13,939.1**	**13,449.8**	**13,403.1**

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY – 30 SEPTEMBER

DKK million	Q3 2019	Q3 2018 ex. IFRS 16	9M 2019	9M 2018 ex. IFRS 16
Net profit for the period	171.7	221.3	469.2	514.5
Depreciation, amortisation and impairment	199.3	82.3	394.2	230.0
Adjustments	88.0	77.2	242.7	161.3
Changes in working capital	112.8	17.2	21.1	-129.3
Special items, paid	-39.9	-14.1	-130.0	-35.6
Cash flow from operating activities before financial items	**531.9**	**383.9**	**997.2**	**740.9**
Financial income received	47.3	17.3	104.6	85.3
Financial costs paid	-24.6	-19.2	-84.3	-88.3
Cash flow from operating activities before tax	**554.6**	**382.0**	**1,017.5**	**737.9**
Tax payments	-22.2	-23.5	-121.9	-179.4
Cash flow from operating activities	**532.4**	**358.5**	**895.6**	**558.5**
Acquisitions	-5.9	-12.5	-5.9	-401.1
Divestments	21.8	0.0	21.8	0.0
Investment in intangible assets	-5.1	-1.9	-26.0	-13.0
Investment in property, plant and equipment	-25.9	-31.7	-56.9	-88.1
Sale of property, plant and equipment	0.0	0.5	0.0	0.9
Dividend from associated companies	1.7	2.0	6.0	5.5
Cash flow from investing activities	**-13.4**	**-43.6**	**-61.0**	**-495.8**
Free cash flow	**519.0**	**315.0**	**834.6**	**62.8**
Repayment of lease liabilities	-21.8	0.0	-67.4	0.0
Revolving credit facility	-186.6	-186.3	111.9	186.0
Dividend payment	0.0	0.0	-598.0	-572.9
Cash flow from financing activities	**-208.4**	**-186.3**	**-553.5**	**-386.9**
Net cash flow for the period	**310.6**	**128.7**	**281.1**	**-324.1**
Cash and cash equivalents, net at 1 July / 1 January	284.6	154.7	310.8	605.2
Exchange gains/losses on cash and cash equivalents	11.6	2.2	14.9	4.5
Net cash flow for the period	310.6	128.7	281.1	-324.1
Cash and cash equivalents, net at 30 September	**606.8**	**285.6**	**606.8**	**285.6**

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 30 SEPTEMBER 2019

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
Equity at 1 January 2019	**100.0**	**7.0**	**742.3**	**-40.5**	**8,009.4**	**8,818.2**
Comprehensive income for the period						
Net profit for the period	**-**	**-**	**-**	**-**	**469.2**	**469.2**
Other comprehensive income						
Cash flow hedges	-	-33.6	-	-	-	**-33.6**
Tax of cash flow hedges	-	7.4	-	-	-	**7.4**
Foreign exchange adjustments on net investments in foreign operations	-	-	322.2	-	-	**322.2**
Total other comprehensive income	**-**	**-26.2**	**322.2**	**-**	**-**	**296.0**
Total comprehensive income for the period	**-**	**-26.2**	**322.2**	**-**	**469.2**	**765.2**
Transactions with shareholders						
Share-based payments	-	-	-	-	7.1	**7.1**
Settlement of vested PSUs	-	-	-	5.5	-5.5	**-**
Dividend paid to shareholders	-	-	-	-	-600.0	**-600.0**
Dividend, treasury shares	-	-	-	-	2.0	**2.0**
Total transactions with shareholders	**-**	**-**	**-**	**5.5**	**-596.4**	**-590.9**
Equity at 30 September 2019	**100.0**	**-19.2**	**1,064.5**	**-35.0**	**7,882.2**	**8,992.5**

1 JANUARY - 30 SEPTEMBER 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	**-**	**-**	**-**	**-**	**514.5**	**514.5**
Other comprehensive income						
Cash flow hedges	-	27.1	-	-	**-**	**27.1**
Tax of cash flow hedges	-	-5.9	-	-	**-**	**-5.9**
Foreign exchange adjustments on net investments in foreign operations	-	-	210.8	-	**-**	**210.8**
Total other comprehensive income	**-**	**21.2**	**210.8**	**-**	**-**	**232.0**
Total comprehensive income for the period	**-**	**21.2**	**210.8**	**-**	**514.5**	**746.5**
Transactions with shareholders						
Share-based payments	-	-	-	**-**	5.8	**5.8**
Dividend paid to shareholders	-	-	-	**-**	-575.0	**-575.0**
Dividend, treasury shares	-	-	-	**-**	2.1	**2.1**
Total transactions with shareholders	**-**	**-**	**-**	**-**	**-567.1**	**-567.1**
Equity at 30 September 2018	**100.0**	**25.2**	**691.2**	**-40.5**	**7,851.7**	**8,627.6**

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 2018.

Accounting policies

The interim report has been prepared in accordance with the accounting policies set out in the Annual Report for 2018 except for the implementation of IFRS 16 'Leases' as well as new accounting policies on special items.

IFRS 16 Leases

IFRS 16 replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

The standard is effective as of 1 January 2019. The Group has used the modified retrospective approach to implement the standard and the comparative figures have not been restated. The cumulative effect of applying the standard has been recognised as of 1 January 2019. At initial recognition, right-of-use assets are measured at an amount equal to the lease liability, which is measured at the present value of future lease payments. STG will not apply IFRS 16 to short-term leases and low-value leases.

Opening balance sheet impact of IFRS 16

DKK million	Opening IFRS 16 adjustment	30 Sep 2019
Right-of-use assets (included in property, plant and equipment)	246.2	189.8
Lease liabilities, non-current (separate line in balance sheet)	165.7	125.2
Lease liabilities, current (separate line in balance sheet)	80.5	66.9

At inception of a contract, STG assess whether the contract is, or contains, a lease. Based on the contract the right-of-use asset and the lease liability is recognised at commencement of the lease. The initial measurement of the right-of-use asset is at cost and comprises the initial value of the lease liability and lease payments made at or before the commencement date. The right-of-use assets are depreciated on a straight-line basis over the shorter period of the lease term or the useful life of the underlying asset. The carrying amounts are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by depreciation.

The lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date. Lease payments include fixed payments and variable payments that depend on an index such as an inflation index as well as lease payments from an extension option that STG considers reasonably certain to be exercised.

NOTE 1 (continued)

Impact of IFRS 16 on financials
The implementation of IFRS 16 has impacted the Group's financial statements as the majority of contracts previously classified as off-balance operating leases under IAS 17 have now been capitalised as right-of-use assets (included in property, plant and equipment) and lease liabilities. 'EBITDA before special items' have increased, as previous operating lease expenses are now being reported as depreciation of the right-of-use asset and interest expenses for the financial liability. The impact on 'net profit' will be limited to a timing impact due to frontloading of interest expenses. 'Net cash flow' is not impacted as the increase in 'cash flow from operating activities' is offset by the increase in cash outflow from 'cash flow from financing activities'.

The impact of IFRS 16 on Group figures in the first nine months of 2019 and pro forma comparison figures for the same period last year is stated below.

DKK million	*9M 2019 reported*	*IFRS 16 impact*	*9M 2019 excluding IFRS 16*	*9M 2018 reported*	*Pro forma IFRS 16 adj.*	*9M 2018 Pro forma restated*
EBITDA before special items	1,083.2	-67.4	1,015.8	941.9	62.6	1,004.5
Depreciation	-161.1	64.6	-96.5	-87.9	-60.1	-148.0
EBIT before special items	789.0	-2.8	786.2	711.9	2.5	714.4
Free cash flow before acquisitions	818.7	-67.4	751.3	463.9	62.6	526.5
Total assets	13,939.1	-189.8	13,749.3	-	-	-
Net interest-bearing debt	2,705.0	-192.1	2,512.9	-	-	-
EBITDA margin before special items	21.1%		19.8%	19.0%		20.3%

The impact of IFRS 16 on divisional figures in the first nine months of 2019 is stated below.

DKK million	***North America Online & Retail***	***North America Branded***	***Region MMC***	***Region ST&A***	***Group costs / not allocated***	***Total***
EBITDA before special items	274.3	195.5	272.4	399.3	-58.3	1,083.2
IFRS 16 impact	-15.7	-17.4	-22.1	-7.9	-4.3	-67.4
EBITDA before special items ex. IFRS 16	258.6	178.1	250.3	391.4	-62.6	1,015.8
EBITDA margin before special items	15.2%	21.4%	22.4%	33.4%		21.1%
EBITDA margin before special items ex. IFRS 16	14.3%	19.5%	20.6%	32.8%		19.8%

NOTE 1(continued)

Special items

As of January 1, 2019 Scandinavian Tobacco Group recognises 'Special items' on a separate line item in the Income Statement. Previously ‘Special items’ were recognised as part of the line items in the Income Statement based on the nature of the items.

The change in presentation of ‘Special items’ is to improve the transparency and understanding of the Group’s financial statements by separating the special items from the core performance.

Special items are by nature of a significant character and comprise restructuring costs from larger structural and M&A reorganisations, M&A transaction costs, impairment losses, gains or losses from sale of assets and other non-recurring items.

The impact on the first nine months of 2019 and the restated comparison figures for the same period last year is stated below.

DKK million	*9M 2019 New accounting policies*	*9M 2019 Special items*	*9M 2019 Previous accounting policies*	*9M 2018 New accounting policies*	*9M 2018 Special items*	*9M 2018 Previous accounting policies*
Net sales	**5,127.2**	**-**	**5,127.2**	**4,952.1**	**-**	**4,952.1**
Cost of goods sold	-2,670.5	-8.5	-2,679.0	-2,570.3	-	-2,570.3
Gross profit before special items	**2,456.7**	**-8.5**	**2,448.2**	**2,381.8**	**-**	**2,381.8**
Other external costs	-843.1	-40.2	-883.3	-857.0	-23.2	-880.2
Staff costs	-536.3	-13.2	-549.5	-582.9	-13.8	-596.7
Other income	5.9	-	5.9	-	-	-
EBITDA before special items | new[1]	**1,083.2**	**-**	**-**	**941.9**	**-**	**-**
EBITDA | previous[2]	**-**	**-61.9**	**1,021.3**	**-**	**-37.0**	**904.9**
Depreciation and impairment	-161.1	-100.0	-261.1	-87.9	-	-87.9
Amortisation and impairment	-133.1	-	-133.1	-142.1	-	-142.1
EBIT before special items | new[3]	**789.0**	**-**	**-**	**711.9**	**-**	**-**
Special items, costs	-161.9	161.9	-	-37.0	37.0	-
EBIT | previous[4]	**627.1**	**-**	**627.1**	**674.9**	**-**	**674.9**
Share of profit of associated companies, net of tax	12.8	-	12.8	14.7	-	14.7
Financial income	38.2	-	38.2	48.1	-	48.1
Financial costs	-80.3	-	-80.3	-71.3	-	-71.3
Profit before tax	**597.8**	**-**	**597.8**	**666.4**	**-**	**666.4**
Income taxes	-128.6	-	-128.6	-151.9	-	-151.9
Net profit for the period	**469.2**	**-**	**469.2**	**514.5**	**-**	**514.5**

1. Earnings before interest, tax, depreciation, amortisation and special items.
2. Earnings before interest, tax, depreciation and amortisation.
3. Earnings before interest, tax and special items.
4. Earnings before interest and tax.

NOTE 1 (continued)

Special items (continued)

The impact on the restated full year 2018 is stated below.

DKK million	*2018 New accounting policies*	*2018 Special items*	*2018 Previous accounting policies*
Net sales	**6,717.5**	**-**	**6,717.5**
Cost of goods sold	-3,498.1	-18.5	-3,516.6
Gross profit before special items	**3,219.4**	**-18.5**	**3,200.9**
Other external costs	-1,161.7	-44.8	-1,206.5
Staff costs	-753.4	-152.3	-905.7
EBITDA before special items | new[1]	**1,304.3**	**-**	**-**
EBITDA | previous[2]	**-**	**-215.6**	**1,088.7**
Depreciation and impairment	-116.7	-10.4	-127.1
Amortisation and impairment	-184.1	-40.0	-224.1
EBIT before special items | new[3]	**1,003.5**	**-**	**-**
Special items, costs	-266.0	266.0	-
EBIT | previous[4]	**737.5**	**-**	**737.5**
Share of profit of associated companies, net of tax	16.7	-	16.7
Financial income	55.0	-	55.0
Financial costs	-92.4	-	-92.4
Profit before tax	**716.8**	**-**	**716.8**
Income taxes	-51.3	-	-51.3
Net profit for the period	**665.5**	**-**	**665.5**

1. Earnings before interest, tax, depreciation, amortisation and special items.
2. Earnings before interest, tax, depreciation and amortisation.
3. Earnings before interest, tax and special items.
4. Earnings before interest and tax.

NOTE 2

SEGMENT INFORMATION AND NET SALES

As a part of the Group's transformational program, Fuelling the Growth[1] that realigned commercial resources in four new divisions, the reportable segments have as of 2019 been changed from five to four. This is to align to the new internal reporting structure, which is provided to the Executive Board. The Executive Board is considered to be the chief operating decision maker.

The Group has as of 2019 combined pipe tobacco and fine-cut tobacco into one category, 'smoking tobacco'.

Comparison figures for segments and categories have been restated.

The four new segments are:

North America Online & Retail includes direct to consumer sales of all product categories sold via the online, catalogue and retail channel in North America. The division holds the overall Group responsibility for sales and marketing activities of all products and sales within the division.

North America Branded includes sales of all product categories to wholesalers and distributors that supply retail in North America. The division holds the overall Group responsibility for product development, sales and marketing activities of all products and sales within the division.

Region Machine-Made Cigars includes sales of all product categories to wholesalers and distributors that supply retail. Machine-made cigars make up the majority of divisional net sales and also dominates sales in the main markets in the division, which are France, Belgium, the UK, Spain and the Netherlands. The division holds the overall Group responsibility for product development, sales and marketing activities of machine-made cigars outside North America.

Region Smoking Tobacco & Accessories includes sales of all product categories to wholesalers and distributors that supply retail. Main markets are Australia, Germany, Denmark and Norway. The division holds the overall Group responsibility for product development, sales and marketing activities of smoking tobacco (pipe tobacco and fine-cut tobacco) and accessories outside North America.

Operating expenses that are not directly inherent in the divisions are to some extent allocated to the divisions based on allocation keys defined by activities or other relevant components. Certain costs relating to Group functions are managed on Group level. These items are not included in the reportable divisions and therefore reported as 'Group costs'.

Depreciation, amortisation, impairment, special items, share of profit of associated companies, net of tax and financial items are not allocated to the different segments.

No operating segments have been aggregated to form the reported business segments.

No assets and liabilities are allocated to segments in the internal reporting.

1) For further details around Fuelling the Growth please refer to the 2018 Annual Report.

NOTE 2

SEGMENT INFORMATION AND NET SALES (continued)

9M 2019 DKK million	**North America Online & Retail**	**North America Branded**	**Region MMC**	**Region ST&A**	**Group costs / not allo-cated**	**Total**
Net sales	1,803.0	913.3	1,216.5	1,194.4	-	5,127.2
Cost of goods sold	-1,116.2	-396.3	-591.0	-567.0	-	-2,670.5
Gross profit before special items	**686.8**	**517.0**	**625.5**	**627.4**	**-**	**2,456.7**
Staff and other external costs	-412.5	-321.5	-353.1	-234.0	-58.3	-1,379.4
Other income	-	-	-	5.9	-	5.9
EBITDA bef. special items	**274.3**	**195.5**	**272.4**	**399.3**	**-58.3**	**1,083.2**
Depreciation and impairment					-161.1	-161.1
Amortisation					-133.1	-133.1
EBIT before special items					**-352.5**	**789.0**
Special items, costs and impairment					-161.9	-161.9
EBIT					**-514.4**	**627.1**
Share of profit of associated companies, net of tax					12.8	12.8
Financial income					38.2	38.2
Financial costs					-80.3	-80.3
Profit before tax					**-543.7**	**597.8**

9M 2018 ex. IFRS 16 DKK million	**North America Online & Retail**	**North America Branded**	**Region MMC**	**Region ST&A**	**Group costs / not allo-cated**	**Total**
Net sales	1,533.5	951.9	1,240.1	1,226.6	-	4,952.1
Cost of goods sold	-961.8	-403.5	-605.1	-599.9	-	-2,570.3
Gross profit before special items	**571.7**	**548.4**	**635.0**	**626.7**	**-**	**2,381.8**
Staff and other external costs	-352.8	-372.5	-393.0	-245.5	-76.1	-1,439.9
EBITDA bef. special items	**218.9**	**175.9**	**242.0**	**381.2**	**-76.1**	**941.9**
Depreciation and impairment					-87.9	-87.9
Amortisation					-142.1	-142.1
EBIT before special items					**-306.1**	**711.9**
Special items, costs					-37.0	-37.0
EBIT					**-343.1**	**674.9**
Share of profit of associated companies, net of tax					14.7	14.7
Financial income					48.1	48.1
Financial costs					-71.3	-71.3
Profit before tax					**-351.6**	**666.4**

NOTE 2

SEGMENT INFORMATION AND NET SALES (continued)

DKK million	**9M 2019**	**9M 2018**
Category split, net sales		
Handmade cigars	1,950.3	1,752.9
Machine-made cigars	1,691.9	1,750.8
Smoking tobacco	772.9	747.1
Accessories and CMA	712.1	701.3
Total net sales	**5,127.2**	**4,952.1**

License income and other sales of DKK 32.3 million (DKK 24.9 million) are included in the category 'Accessories and Contract Manufacturing'.

Geographical split, net sales		
Americas	2,733.7	2,545.7
Europe	1,975.6	1,998.4
Rest of World	417.9	408.0
Total net sales	**5,127.2**	**4,952.1**

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

NOTE 3

SPECIAL ITEMS

DKK million	**9M 2019**	**9M 2018**
Integration and transactions costs (Thompson Cigar)	22.3	23.3
M&A costs	13.5	-
Fuelling the Growth program	26.1	13.7
Manufacturing footprint, factory close-down (impairment)	100.0	-
Total special items	**161.9**	**37.0**

NOTE 4

FINANCIAL INSTRUMENTS

The fair value of financial instruments included in the balance sheet as per 30 September 2019 amounts to a net liability of DKK 42.2 million (net receivable of DKK 3.5 million on 31 December 2018).