Company Announcement
No. 11/2020

Copenhagen, 19 May 2020

Scandinavian Tobacco Group A/S reports on first quarter 2020 and presents new guidance for full year 2020

First quarter 2020 highlights

- Net sales of DKK 1,791 million (DKK 1,464 million). Organic growth 5.0%
- EBITDA before special items of DKK 326 million (DKK 239 million). Organic growth 23.9%
- EBITDA margin before special items 18.2% (16.3%)
- Earnings Per Share (EPS) of DKK 0.2 (DKK 0.9). EPS adj. for special items of DKK 1.4 (DKK 1.1)
- Free cash flow before acquisitions of DKK 122 million (DKK 72 million)

In the first quarter of 2020, Scandinavian Tobacco Group A/S delivered net sales of DKK 1,791 million, organic net sales growth of 5.0% and EBITDA before special items of DKK 326 million. The first quarter 2020 includes Agio Cigars, which was acquired on January 2, 2020. The quarter delivered positive organic growth in net sales in all four commercial divisions with high growth in Region Machine-Made Cigars of 5.2% and in Region Smoking Tobacco & Accessories of 11.6%.

Phasing ahead of excise increases in certain markets and hoarding of tobacco products ahead of various restrictions following COVID-19, impacted the financial performance positively. Excluding these impacts it is estimated that organic net sales growth was slightly positive and organic EBITDA growth was mid-single digit.

For the first four months of 2020 organic net sales growth for Scandinavian Tobacco Group was close to 3% with North America Online & Retail partly off-setting declining net sales in the other divisions.

CEO of Scandinavian Tobacco Group Niels Frederiksen says: “In the middle of a unprecedented global pandemic with a high degree of volatility and uncertainty in most markets, we are able to present a solid result for the first three months of 2020 with net sales growth and a strong cash flow as well as we have revealed the plans for creating significant value with the integration of Agio Cigars. During these uniquely challenging times, I have been encouraged by the resilience of our business and by the dedication of our employees in keeping our business running and delivering on our promise to our consumers and customers.

Scandinavian Tobacco Group entered the COVID-19 crisis from a position of strength, and we will remain in good financial health even though we expect a negative impact from the COVID-19 crisis on our business in 2020. To ensure the continued strength of our underlying business we have reinforced our emphasis on costs and strengthened our focus on cash and liquidity”.

Updated financial guidance for 2020

On 19 March 2020, Scandinavian Tobacco Group suspended the guidance for the full year due to low visibility following the outbreak of COVID-19. Based on the financial performance in the first quarter and an improved visibility into the second quarter as the implications of COVID-19 have become more clear and with the integration plan of Agio Cigars having been completed, the conditions for releasing an updated guidance have improved. However, it must be stressed that basic assumptions behind a new guidance remain more uncertain than normal.

The financial guidance 2020 includes the financial impact from the acquisition of Agio Cigars.

- EBITDA: Organic growth > 2%
- Free cash flow before acquisitions ~DKK 850 million

The guidance is based on assumptions of a moderate decline in organic net sales growth for the full year with the highest decline in organic net sales growth in the second quarter and a gradual normalisation over the third and fourth quarter as markets reopens and with no material disruptions to our supply-chain. We expect a contribution from cost savings in relation to the integration of Agio Cigars of about DKK 70-80 million in 2020 as well as further benefits from our Fuelling the Growth program. Special costs are expected to be about DKK 415-435 million, including a non-cash impairment charge of DKK 109 million.

The intention to initiate the previously announced share buy-back program at a total value of up to DKK 300 million remains unchanged.

Conference Call and Webcast

A conference call and webcast will be held on 20 May 2020 at 10:00 AM CET. Presentation materials will be available online approximately one hour before the webcast on investor.st-group.com.

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About Scandinavian Tobacco Group

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

The Group holds market-leading positions in several categories and has a portfolio of more than 200 global and local brands.

Scandinavian Tobacco Group has its headquarter in Copenhagen, Denmark – and employs approximately 11,000 people in Europe, the US, Canada, Australia, New Zealand, the Dominican Republic, Honduras, Nicaragua, Indonesia and Sri Lanka. For more information please visit www.st-group.com

Key Figures

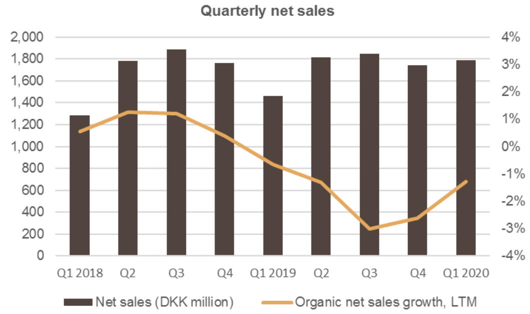
DKK million	3M 2020	3M 2019	Year 2019
INCOME STATEMENT			
Net sales	1,791	1,464	6,870
Gross profit before special items	819	684	3,314
EBITDA before special items	326	239	1,513
Special items	-155	-24	-133
EBIT	66	119	977
Net financial items[1]	-43	-4	-45
Profit before tax	26	119	949
Income taxes	-6	-26	-201
Net profit	21	93	748
BALANCE SHEET			
Total assets	15,388	13,866	13,872
Equity	8,545	9,033	9,103
Net interest-bearing debt (NIBD)	4,444	2,801	2,330
Investment in property, plant and equipment	32	17	94
Total capital expenditures	35	19	122
CASH FLOW STATEMENT			
Cash flow from operating activities	154	89	1,300
Cash flow from investing activities	-1,593	-17	-50
Free cash flow	-1,438	72	1,250
Free cash flow before acquisitions	122	72	1,187
KEY RATIOS[2]			
Net sales growth	22.3%	13.9%	2.3%
Gross margin before special items	45.8%	46.8%	48.2%
EBITDA margin before special items	18.2%	16.3%	22.0%
Effective tax percentage	21.5%	21.9%	21.2%
Equity ratio	55.5%	65.1%	65.6%
Cash conversion	102.3%	70.1%	118.6%
Organic net sales growth	5.0%	-1.6%	-2.6%
Organic EBITDA growth	23.9%	7.3%	7.1%
NIBD / EBITDA before special items	2.8	2.1	1.5
ROIC	7.5%	6.2%	8.2%
ROIC ex. Goodwill	12.4%	10.1%	13.5%
Basic earnings per share (DKK)	0.2	0.9	7.5
Diluted earnings per share (DKK)	0.2	0.9	7.5
Earnings per share adj. special items (DKK)	1.4	1.1	8.5
Number of shares issued ('000)			100,000
Number of treasury shares ('000)			316
Share price at year-end (DKK)			81.25
Dividend per share (DKK)			6.1
Pay-out ratio			81.6%

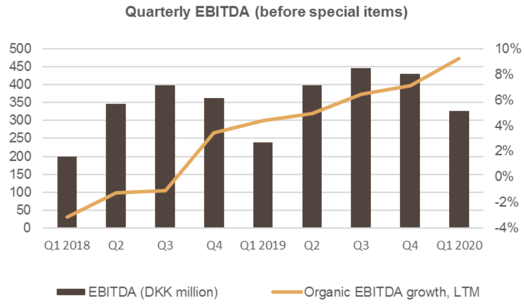
1. Excl. share of profit of associated companies.
2. See definition/explanation of financial ratios in note 5.8 in the Annual Report 2019.

Group Performance First Quarter 2020

For the first quarter 2020, the Group increased net sales by 22%. The acquisition of Agio Cigars and the divestments of sales companies in Slovenia/Croatia contributed by 16%, a positive exchange rate development by 1% and a positive organic growth in net sales by 5.0%. Positive organic growth was realised in all four divisions with North America Online & Retail (NAO&R) at 0.2%, North America Branded (NAB) at 2.9%, Region Machine-Made Cigars (MMC) at 5.2% and Region Smoking Tobacco & Accessories (ST&A) at 11.6%. The quarter was positively impacted by phasing in certain markets, for example in Denmark due to loading ahead of a local excise increase.

Quarterly development, Q1 2018-Q1 2020





Gross profit before special items increased by 20% to DKK 819 million (DKK 684 million). The gross margin before special items decreased to 45.8% (46.8%) driven by the consolidation of Agio Cigars, which delivered lower margins.

EBITDA before special items increased by 36.0% to DKK 326 million (DKK 239 million) with an organic growth of 23.9% and an EBITDA-margin before special items at 18.2% (16.3%). The margin development was mainly driven by improved mix, improved operational performance due to increased volume and increased efficiency following the continued progress of Fuelling the Growth initiatives across all divisions..

Special items were DKK 155 million (DKK 24 million) with DKK 39 million (DKK 10 million) expensed as integration and transaction costs, DKK 1 million (DKK 14 million) relating to Fuelling the Growth, DKK 6 million relating to the closure of our US factory and DKK 109 million relating to impairments following announced factory closures as part of the Agio Cigars integration.

Free cash flow before acquisitions was DKK 122 million (DKK 72 million) primarily driven by the operational performance.

We expect the second quarter to be significantly negatively impacted by the high loading in for example Denmark in the first quarter and impacts from the COVID-19 crisis. We expect the second quarter to show negative organic net sales growth and negative organic EBITDA growth. As communities slowly ease the lock downs, we expect sales to return to more normal levels during the third and fourth quarter.

Agio Cigars integration and new organisational structure

On 23 April 2020, Scandinavian Tobacco Group announced the completion of the plan for integration of Agio Cigars. The combination of Scandinavian Tobacco Group and Agio Cigars is expected to deliver substantial cost synergies within sales & marketing, production and back office functions. When full integration has been completed by the end of 2022, it is assumed that Agio Cigars will contribute to an increase in Scandinavian Tobacco Group´s EBITDA margin before special items of more than 2%-points, based on estimates of net synergies at the level of DKK 225 million. In reaching the synergies, special costs are estimated at the level of DKK 450 million with cash impact and another DKK

109 million in the form of non-cash impairments related to factory closures, including write down of buildings. Due to significant uncertainty about timing and sales prices, the adjusted values of property and buildings from closed-down factories are by nature associated with uncertainty. The expected sale of property and buildings from closed-down factories are included with DKK 66 million based on external valuations.

Approximately DKK 70-80 million of net cost synergies is expected to be realised in 2020 with about DKK 145-155 million to be realised in 2021 and 2022. About DKK 360-380 million of the special costs will be expensed in 2020, whereof DKK 109 million in non-cash impairments and about DKK 180-200 million of special costs are assumed to be expensed in 2021-2022. In the 23 April 2020 Company Announcement, we expected non-cash impairments of DKK 175 million but have now included a cautious valuation of buildings to be sold. In addition to these special items, we still expect to expense DKK 55 million in relation to Fuelling the Growth and the closure of the facility in Tucker, USA.

For the financial year 2019 and based on Scandinavian Tobacco Group´s accounting principles, Agio Cigars delivered DKK 1,023 million in net sales and DKK 203 million in EBITDA before special items.

As part of the integration of Agio Cigars, Scandinavian Tobacco Group changed its organisational structure and moves from four to three commercial divisions and intends to optimize its operational footprint by closing three production sites.

In order to increase speed to market and unlock synergies, Scandinavian Tobacco Group will going forward conduct commercial activities in three divisions by integrating the current Smoking Tobacco and Accessories Division into the North America Branded Division (NAB) and the Region Machine-Made Cigar Division (MMC). NAB will change name to Division North America Branded & RoW (Rest of World) and MMC will change name to Division Europe Branded. The North America Online & Retail Division (NAO&R) will remain unchanged except from a move of its cigars wholesale business to Division North America Branded & RoW. The divisions will be headed by Senior Vice President Régis Broersma (NAB) Senior Vice President Jurjan Klep (MMC) and Senior Vice President Sarah Santos (NAO&R). Financial reporting reflecting the new structure will commence from the second quarter of 2020.

To improve capacity utilisation and reduce unit costs across our production footprint, Scandinavian Tobacco Group will over the next 9-18 months close production facilities in Eersel and Duizel in the Netherlands as well as the facility in Moca in the Dominican Republic and move the production to other production facilities.

Following the changes, a total of around 800 employees are expected to be terminated.

COVID-19

On 2 January 2020, in relation to the completion of the acquisition of Agio Cigars, Scandinavian Tobacco Group communicated the intention to release an updated financial guidance including Agio Cigars as soon as the integration planning period was concluded. On 19 March 2020, Scandinavian Tobacco Group suspended its financial guidance for the year due to the outbreak of COVID-19 and lack of transparency. See Company Announcement no. 7, 2020.

The demand for our product categories has historically been relatively resilient to major macroeconomic developments. However, in the short to medium-term changes in consumer behaviour following the outbreak of COVID-19 are impacting demand for our products across markets. Currently, net sales have been negatively impacted by the implementation of international travel restrictions, the closure of small stores and restrictions on out-of-home activities across many markets.

In Division North American Online & Retail, the online operation has experienced a positive impact from consumers purchasing more online. The increased online net sales are being partly off-set by a negative impact in the retail stores which closed down during March, A gradual re-opening is currently taking place, but net sales in Retail remains well below the level before the outbreak. Organic net sales growth for Division North America Online & Retail was +6% for the period January-April 2020.

The Division North America Branded saw a negative impact on net sales from the brick-and-mortar retail channel being significantly impacted by close-downs across the country which has only been partly offset by increasing volumes to the online channel. In Canada, loadings during the first quarter have been reversed and volumes during April have been significantly down. Organic net sales growth for the first 4 months was about -4% for North America Branded.

In Region Machine-Made Cigars and in Region Smoking Tobacco & Accessories, the positive organic net sales growth rates in the first quarter reversed during April. For the period January-April 2020, organic net sales growth in Region Machine-Made Cigars was +1% and for Region Smoking Tobacco & Accessories it was positive by almost 6%.

For Scandinavian Tobacco Group organic net sales growth for the first four months of 2020 was close to 3%.

During March and April, we have experienced temporary shut-downs of our factories in Honduras, Sri Lanka and the Dominican Republic, but in all countries a restart of production has taken place.

To protect the continued financial health of our business, we are constantly implementing mitigating activities by reducing costs. Along with lower consumption, we consider unexpected temporary close-downs of our factories potentially causing out-of-stock situations as well as constraints in the distribution across our commercial operations, especially within our online operation in North America, the key risks to our financial performance.

Key data per division

KEY DATA PER DIVISION	3M 2020	3M 2019	Change	Year 2019
Net sales (DKKm)				
North America Online & Retail	513	496	3.3%	2,398
North America Branded	280	257	9.0%	1,219
Region Machine-Made Cigars	530	348	52.3%	1,653
Region Smoking Tobacco & Accessories	468	363	29.2%	1,601
Group total	**1,791**	**1,464**	**22.3%**	**6,870**
Gross profit before special items (DKKm)				
North America Online & Retail	188	182	3.4%	903
North America Branded	164	147	11.3%	689
Region Machine-Made Cigars	233	177	31.7%	860
Region Smoking Tobacco & Accessories	234	178	31.5%	861
Group total	**819**	**684**	**19.7%**	**3,314**
EBITDA before special items (DKKm)				
North America Online & Retail	74	50	48.4%	384
North America Branded	59	45	30.4%	277
Region Machine-Made Cigars	71	64	11.0%	385
Region Smoking Tobacco & Accessories	145	101	43.6%	544
Group costs	-24	-21	13.9%	-77
Group total	**326**	**239**	**36.0%**	**1,513**
Organic net sales growth (%)				
North America Online & Retail	0.2%	2.4%		0.5%
North America Branded	2.9%	-9.2%		-6.3%
Region Machine-Made Cigars	5.2%	-3.3%		-2.0%
Region Smoking Tobacco & Accessories	11.6%	1.6%		-4.4%
Group total	**5.0%**	**-1.6%**		**-2.6%**
Gross margin before special items (%)				
North America Online & Retail	36.7%	36.6%	0.0%	37.7%
North America Branded	58.6%	57.4%	1.2%	56.6%
Region Machine-Made Cigars	44.0%	50.9%	-6.9%	52.0%
Region Smoking Tobacco & Accessories	50.0%	49.1%	0.9%	53.8%
Group total	**45.8%**	**46.8%**	**-1.0%**	**48.2%**
EBITDA margin before special items (%)				
North America Online & Retail	14.5%	10.1%	4.4%	16.0%
North America Branded	21.2%	17.7%	3.5%	22.7%
Region Machine-Made Cigars	13.3%	18.3%	-5.0%	23.3%
Region Smoking Tobacco & Accessories	31.0%	27.9%	3.1%	34.0%
Group total	**18.2%**	**16.3%**	**1.8%**	**22.0%**
ORGANIC GROWTH COMPOSITION				
Volume impact (%)				
Handmade cigars (NAB)	-5.5%	-4.6%		-8.3%
Machine-made cigars (MMC)	1.6%	0.6%		-4.3%
Price/mix impact (%)				
Handmade cigars (NAB)	2.6%	2.9%		2.7%
Machine-made cigars (MMC)	3.6%	-1.3%		1.8%

Divisional update

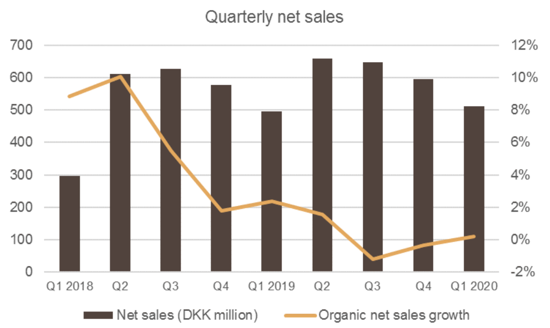
North America Online & Retail*

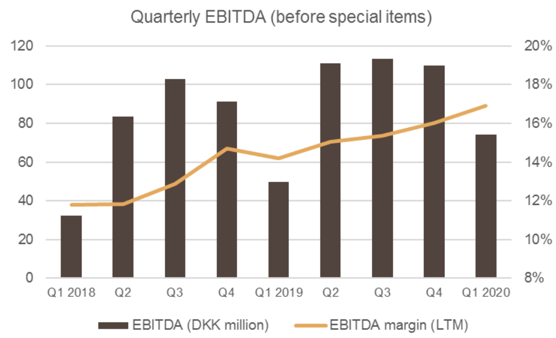
For the first quarter of 2020, the North America Online & Retail division delivered positive organic growth in net sales of 0.2%. Competition in the online channel remained fierce in the beginning of the year, but at the end of the quarter organic net sales improved as online traffic increased following closures of retail stores and lounges. The performance in our retail stores continued to be positive until they were forced to close due to COVID-19 at the end of the quarter.

Commercial initiatives continued throughout the quarter with modernisation and upgrades of website platforms including Thompson Cigar websites. The construction of Cigars International's three new super stores in Florida and Texas are – despite COVID-19 - progressing as planned. We expect the stores to open during 2020.

We expect the division to show increased organic growth during the second quarter due to increased demand during the COVID-19 crisis.

Quarterly development, Q1 2018-Q1 2020





Net sales increased by 3% to DKK 513 million (DKK 496 million) during the quarter composed by a 0.2% positive organic net sales growth and a positive exchange rate effect of 3%. The organic development was driven by a positive contribution from handmade cigars in both the retail and the online distribution channel, whereas machine-made cigars delivered negative organic growth. The high level of promotional activity in the market seen in previous quarters continued, although at lower pace by the end of the quarter.

Gross profit before special items increased to DKK 188 million (DKK 182 million) driven by the impact from exchange rates. The gross margin before special items was almost unchanged at 36.7% (36.6%).

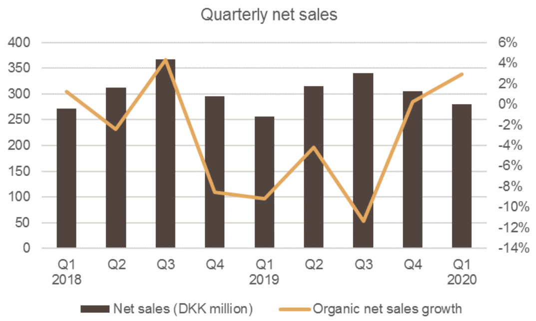
EBITDA before special items increased to DKK 74 million (DKK 50 million) with an EBITDA margin before special items of 14.5% (10.1%). The development in the margin was driven by a lower OPEX ratio primarily driven by efficiency improvements, but also a low comparison base. The improved efficiency is primarily driven by continued integration benefits from Thompson and Fuelling the Growth impacts.

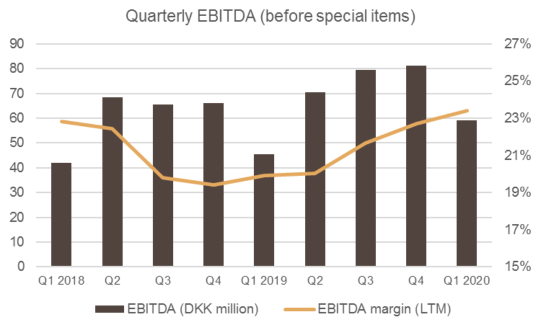
* For a detailed account of the division and breakdown by product categories for the full year 2019, see Annual Report 2019

North America Branded*

Organic net sales growth was positive in all product categories until the beginning of March, where COVID-19 restrictions closed a major part of brick-and-mortar retail stores across the US. The close-downs have since significantly reduced volumes for the handmade cigars category despite an increased demand from online distributors. Smoking tobacco and machine-made cigars in Canada delivered positive organic growth and secured a positive growth for the division in the first quarter of 2020.

Quarterly development, Q1 2018-Q1 2020





In the first quarter of 2020 the net sales in the North America Branded division increased by 9% to DKK 280 million (DKK 257 million). The organic net sales growth was positive by 2.9% while a positive development in exchange rates impacted by 3% and acquisitions by 3%. The positive organic growth was driven by the pro-duct categories machine-made cigars and smoking tobacco. Handmade cigars delivered 2.9% negative organic growth (-5.5% volume impact and +2.6% price/mix impact) as the market was negatively impacted by the close-down of retail stores in March and despite an increased demand from the online channel. The price/mix impact was driven by price increases. Both pipe tobacco and fine-cut tobacco experienced positive organic net sales growth driven by both volume and better pricing. In Canada, the volume development for machine-made cigars was positive, though partly impacted by loading.

Gross profit before special items in the first quarter of 2020 increased to DKK 164 million (DKK 147 million) driven by net sales and margin improvements. The gross margin before special items increased to 58.6% (57.4%) driven by product mix changes and price increases.

EBITDA before special items increased to DKK 59 million (DKK 45 million) with an EBITDA margin before special items of 21.2% (17.7%). The improvement in the margin was in addition to the improvement of the gross margin driven by a lower OPEX-ratio due to positive impacts from efficiency improvements.

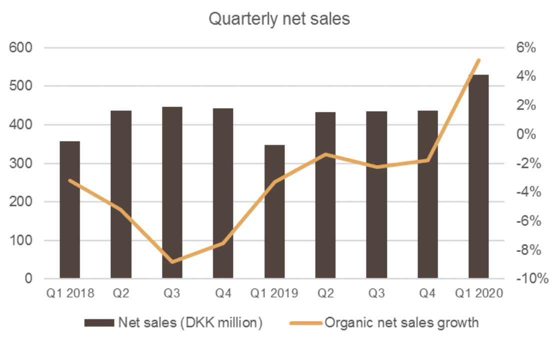
* For a detailed account of the division and breakdown by product categories for the full year 2019, see Annual Report 2019

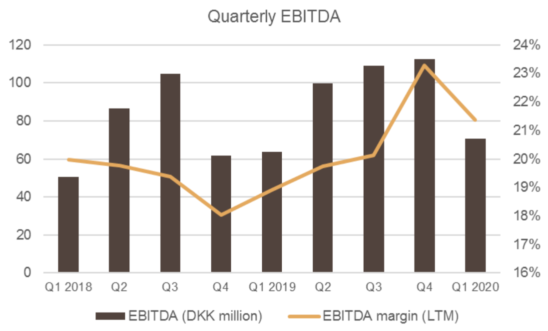
Region Machine-Made Cigars*

The integration of Agio Cigars has primarily impacted Region Machine-Made Cigars with significant new volume in France, the Netherlands, Belgium, the UK and Spain.

The overall market for machine-made cigars declined at a higher speed than in previous quarters and was down by an estimated 3.5% driven by France, where excise taxes was increased March 1 and by COVID-19 related impacts. The combined market share in the top 5 European markets including Agio Cigars is 46.5% versus about 31% in the fourth quarter of 2019.

Quarterly development, Q1 2018-Q1 2020





In the first quarter of 2020, net sales in Region Machine-Made Cigars increased by 52% to DKK 530 million (DKK 348 million) driven by the acquisition of Agio Cigars and a positive organic net sales growth by 5.2%. The product category machine-made cigars delivered a positive organic growth of 5.2% (volume impact of 1.6% and a price/mix impact of 3.6%). The growth was driven by positive volume impact in France, Spain and the UK and general price/mix improvements in most markets.

Gross profit before special items was DKK 233 million (DKK 177 million). The gross margin before special items was 44.0% (50.9%) with the decrease being driven by the acquisition of Agio Cigars, where inventories were recognised at fair value at the date of acquisition, which led to a temporary increase in 'the cost of goods sold'. Excluding this impact from Agio Cigars the gross margin (51.4%) improved slightly versus last year.

EBITDA before special items increased to DKK 71 million (DKK 64 million) with an EBITDA margin before special items of 13.3% (18.3%). The decline in the margin was driven by the gross margin development. The underlying OPEX ratio was stable versus last year.

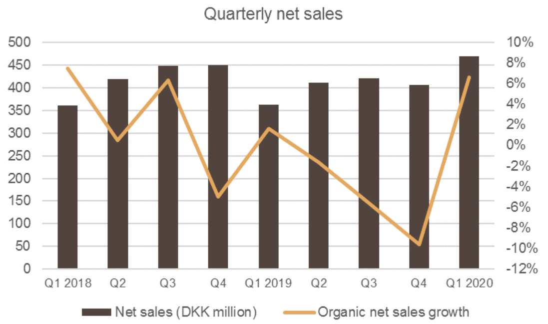
* For a detailed account of the division and breakdown by product categories for the full year 2019, see Annual Report 2019

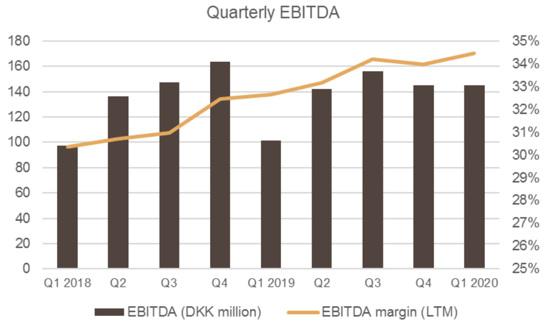
Region Smoking Tobacco & Accessories*

In the first quarter of 2020, net sales in Region Smoking Tobacco & Accessories increased by 29% to DKK 468 million (DKK 363 million) driven by a positive organic growth in net sales by 12%, exchange rates by -1% and the acquisition of Agio Cigars and the divestments of sales companies in Slovenia/Croatia by a total of 18%.

The organic net sales growth was positively impacted by phasing in Denmark ahead of an excise increase in April as well as to other markets, but also by a positive development of smoking tobacco in Germany. By the end of the quarter, smoking tobacco was negatively impacted by the close-down of the Danish/German border. Agio Cigars contributed negatively to organic growth in the quarter.

Quarterly development, Q1 2018-Q1 2020





Gross profit before special items was DKK 234 million (DKK 178 million). The gross margin before special items was 50.0% (49.1%) driven by changes in product and market mix with the fine-cut category and the Nordics countries contributing positively.

EBITDA before special items increased to DKK 145 million (DKK 101 million) with an EBITDA margin before special items of 31.0% (27.9%). The improvement in the margin was driven by the improved gross margin before special items and an improved OPEX ratio driven partly by timing of sales and marketing expenses and partly by efficiency improvements.

* For a detailed account of the division and breakdown by product categories for the full year 2019, see Annual Report 2019

Group Financials

Net sales

For the first quarter of 2020, net sales increased by 22% to DKK 1,791 million (DKK 1,464 million). Adjusted for the acquisition of Agio Cigars and the divested sales activities in Slovenia and Croatia by DKK 224 million (16%) and a positive exchange rate impact by DKK 19 million (1%), the organic growth in net sales was positive by 5.0%. All four divisions delivered positive organic growth.

Table 1: Net sales

DKK million	3M 2020	3M 2019	Change in %
Net sales	1,791	1,464	22.3%
Acquisitions		246	
Divestments		-22	
Effect from currency development	-19		
Organic net sales	**1,771**	**1,688**	**5.0%**

Profit

Gross profit before special items for the first quarter of 2020 was DKK 819 million (DKK 684 million), an increase of 19.7%, driven by Agio Cigars, the positive organic growth in net sales and a positive impact of DKK 6 million from exchange rate developments. The gross margin before special items was 45.8% (46.8%) with increasing or stable gross margins in all divisions except Region Machine-Made Cigars, where margin was temporary adversely impacted by the consolidation of Agio Cigars.

Operating expenses for the first quarter were DKK 494 million (DKK 445 million), an increase of 11.0% mainly driven by Agio Cigars. Underlying cost efficiencies and savings from the Fuelling the Growth program continued to improve the OPEX ratio to 27.5% (30.3%).

Table 2: EBITDA

DKK million	3M 2020	3M 2019	Change in %
EBITDA before special items	326	239	36.0%
Acquisitions	39	58	
Divestments		-3	
Currency development	-1		
Organic EBITDA	**364**	**294**	**23.9%**

EBITDA before special items for the first quarter of 2020 amounted to DKK 326 million (DKK 239 million), an increase of 36.0%. The development is explained by a positive contribution from acquisitions and divestments, net of DKK 55 million as well a positive impact of cost efficiency improvements.. Organic EBITDA growth was 23.9% and includes an adjustment from the impact of the recognition of the fair value of inventories from the Agio acquisition.

EBITDA margin before special items for the first quarter of 2020 was 18.2% (16.3%), an increase of 1.8% point. The development is explained by improved OPEX ratio driven by Fuelling the Growth.

Special items

During the quarter DKK 1 million (DKK 14 million) has been expensed as special items relating to Fuelling the Growth with the total special items for Fuelling the Growth still seen at up to DKK 250 million.

DKK 39 million has been expensed in relation to the integration of Agio Cigars and DKK 109 million has been expensed as an impairment of assets, also in relation to the planned factory closures.

Table 3: Special items

DKK million	3M 2020	3M 2019	Change
Integration and transactions costs (Thompson Cigar)	-	10	-10
Integration and transactions costs (Agio Cigars)	39	-	39
Fuelling the Growth program	1	14	-12
Manufacturing footprint, factory close-down	6	-	6
Impairment tangible assets	109	-	109
Special items, costs	**155**	**24**	**132**

Net profit was DKK 21 million (DKK 93 million).

Earnings per share (EPS) were DKK 0.2 (DKK 0.9). Fully diluted EPS were DKK 0.2 (DKK 0.9). EPS adjusted for special items net of tax were DKK 1.4 (DKK 1.1).

Cash flows

Cash flow from operations before changes in working capital in the first quarter of 2020 was DKK 234 million (DKK 178 million), an increase of DKK 56 million driven by the improved operational results.

Working capital in the first quarter of 2020 contributed negatively to the cash flow by DKK 80 million (DKK -89 million). The increase in working capital in the first quarter of 2020 was driven by inventory build-up, which is normal for the quarter.

Cash flow from investing activities amounted to DKK -1,593 million (DKK -17 million). The increase was driven by the acquisition of Agio Cigars by DKK 1,559 million.

Free cash flow before acquisitions in the first quarter of 2020 was positive by DKK 122 million (DKK 72 million). The cash conversion ratio was 102% (70%).

Table 4: Cash flow

DKK million	3M 2020	3M 2019	Change
Cash flow from operations before NWC	234	178	56
Changes in working capital	-80	-89	9
Cash flow from operations	154	89	65
Investing activities	-1,593	-17	-1,576
Free cash flow	-1,438	72	-1,510
Free cash flow before acquisitions	122	72	50

Equity

Total shareholders' equity as at 31 March 2020 amounted to DKK 8,545 million (DKK 9,103 million on 31 December 2019). The equity was mainly impacted by profit for the period and distribution of dividends. As at 31 March 2020 the equity ratio was 55.5% (65.6% on 31 December 2019).

Net interest bearing debt

Net interest-bearing debt increased by DKK 1,643 million to DKK 4,444 million versus the end of Q1 2019. The leverage ratio (net interest-bearing debt to LTM EBITDA before special items) increased to

2.8x (2.1x at 31 March 2019). The increase was driven by investments in companies and timing of dividend payments.

In March, we refinanced our total long term debt at attractive terms with nordic banks all categorised as Systemically Important Financial Institutions (SIFI).

Financial guidance for 2020

The financial guidance includes the financial impact from the acquisition of Agio Cigars.

- EBITDA: Organic growth > 2%
- Free cash flow before acquisitions ~DKK 850 million

The guidance is based on assumptions of a moderate decline in organic net sales growth for the full year with the highest decline in organic net sales growth in the second quarter and a gradual normalisation over the remaining course of the year as markets reopens and with no material disruptions to our supply-chain. Furthermore, we expect a contribution from cost savings in relation to the integration of Agio Cigars of about DKK 70-80 million in 2020 as well as further benefits from our Fuelling the Growth program.

Special costs are expected to be about DKK 415-435 million in relation to the integration of Agio Cigars of DKK 250-270 million, non-cash impairment charge of DKK 109 million for the closure of facilities in Moca, Duizel and Eersel and DKK 55 million in relation to Fuelling the Growth and the closure of the facility in Tucker, USA.

Capital expenditure is expected to be in the level of DKK 300 million, financial expenses, excluding currency losses or gains at DKK 90-100 million and the tax rate is expected to be 21-22%.

No contribution from working capital changes is included in the guidance for free cash flow before acquisitions.

Annual General Meeting

At the Annual General Meeting held on 26 March 2020, the shareholders approved a dividend of DKK 6.10 per share, for a total dividend pay-out of DKK 610 million.

The shareholders re-elected Nigel Northridge, Henrik Brandt, Anders Obel, Dianne Neal Blixt, Luc Missorten, Marlene Forsell and Claus Gregersen as members of the Board of Directors.

The Board of Directors has reappointed Nigel Northridge as Chairman of the Board of Directors, Henrik Brandt as Vice-chairman and Marlene Forsell as chairman of the Audit Committee.

Events after the reporting period

No other events, than those mentioned in the above, are expected to have material impact on the financial position of the Group have occurred after 31 March 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

	2020	2019				
DKK million	Q1	Q4	Q3	Q2	Q1	Full-year
Reported data						
Net sales	1,791	1,743	1,846	1,818	1,464	6,870
Gross profit before special items	819	857	899	873	684	3,314
EBITDA before special items	326	430	446	398	239	1,513
Special items	-155	29	-118	-20	-24	-133
EBIT	66	350	229	280	119	977
Net financial items	-43	-3	-16	-22	-4	-45
Profit before tax	26	351	217	262	119	949
Income taxes	-6	-72	-45	-57	-26	-201
Net profit	21	279	172	205	93	748
Other financial key data						
Organic EBITDA growth	23.9%	10.6%	5.4%	5.5%	7.3%	7.1%
Organic net sales growth	5.0%	-2.9%	-4.5%	-0.9%	-1.6%	-2.6%
Free cash flow before acquisitions	122	368	503	243	72	1,187

Quarterly Financial Data (continued)

	2020	2019				
DKK million	Q1	Q4	Q3	Q2	Q1	Full-year
North America Online & Retail (NAO&R)						
Net sales	513	595	648	658	496	2,398
Gross profit before special items	188	217	246	259	182	903
EBITDA before special items	74	110	113	111	50	384
Net sales growth	3.3%	2.9%	3.5%	7.8%	67.3%	13.6%
Organic net sales growth	0.2%	-0.3%	-1.2%	1.6%	2.4%	0.5%
Gross margin before special items	36.7%	36.4%	37.9%	39.3%	36.6%	37.7%
EBITDA margin before special items	14.5%	18.5%	17.5%	16.8%	10.1%	16.0%
North America Branded (NAB)						
Net sales	280	305	341	316	257	1,219
Gross profit before special items	164	172	191	179	147	689
EBITDA before special items	59	81	80	71	45	277
Net sales growth	9.0%	3.5%	-7.4%	0.9%	-5.3%	-2.3%
Organic net sales growth	2.9%	0.3%	-11.4%	-4.2%	-9.2%	-6.3%
Gross margin before special items	58.6%	56.4%	56.0%	56.6%	57.4%	56.6%
EBITDA margin before special items	21.2%	26.6%	23.3%	22.3%	17.7%	22.7%
Region Machine-Made Cigars (MMC)						
Net sales	530	436	436	433	348	1,653
Gross profit before special items	233	234	231	217	177	860
EBITDA before special items	71	113	109	100	64	385
Net sales growth	52.3%	-1.3%	-2.3%	-0.9%	-2.6%	-1.7%
Organic net sales growth	5.2%	-1.8%	-2.3%	-1.4%	-3.3%	-2.0%
Gross margin before special items	44.0%	53.7%	53.1%	50.2%	50.9%	52.0%
EBITDA margin before special items	13.3%	25.8%	25.0%	23.0%	18.3%	23.3%
Region Smoking Tobacco & Accessories (ST&A)						
Net sales	468	407	421	410	363	1,601
Gross profit before special items	234	234	231	218	178	861
EBITDA before special items	145	145	156	142	101	544
Net sales growth	29.2%	-9.7%	-5.8%	-2.1%	0.7%	-4.5%
Organic net sales growth	11.6%	-9.6%	-5.6%	-1.6%	1.6%	-4.4%
Gross margin before special items	50.0%	57.6%	54.8%	53.2%	49.1%	53.8%
EBITDA margin before special items	31.0%	35.6%	37.1%	34.6%	27.9%	34.0%
Group costs						
EBITDA before special items	-24	-19	-12	-25	-21	-77

ORGANIC GROWTH COMPOSITION						
Volume impact (%)						
Handmade cigars (NAB)	-5.5%	-2.6%	-12.6%	-8.6%	-4.6%	-8.3%
Machine-made cigars (MMC)	1.6%	-10.8%	-1.4%	-4.6%	0.6%	-4.3%
Price/mix impact (%)						
Handmade cigars (NAB)	2.6%	0.6%	5.5%	-1.1%	2.9%	2.7%
Machine-made cigars (MMC)	3.6%	7.4%	-0.6%	0.9%	-1.3%	1.8%

MANAGEMENT STATEMENT

The Board of Directors and the Executive Management have today considered and approved the interim report of Scandinavian Tobacco Group A/S for the period 1 January – 31 March 2020.

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

In our opinion, the interim consolidated financial statements give a true and fair view of the Group's assets, liabilities and financial position at 31 March 2020 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 31 March 2020.

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.

Gentofte, 20 May 2020

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 - 31 MARCH

CONSOLIDATED INCOME STATEMENT

DKK million	Note	3M 2020	3M 2019
Net sales	**2**	**1,790.8**	**1,463.7**
Cost of goods sold	2	-971.4	-779.3
Gross profit before special items	**2**	**819.4**	**684.4**
Other external costs	2	-286.1	-256.0
Staff costs	2	-207.8	-189.1
Earnings before interest, tax, depreciation, amortisation and special items (EBITDA before special items)	**2**	**325.5**	**239.3**
Depreciation and impairment		-60.8	-53.2
Earnings before interest, tax, amortisation and special items (EBITA before special items)		**264.7**	**186.1**
Amortisation and impairment		-43.3	-43.7
Earnings before interest, tax and special items (EBIT before special items)		**221.4**	**142.4**
Special items, costs and impairment	3	-155.4	-23.6
Earnings before interest and tax (EBIT)		**66.0**	**118.8**
Share of profit of associated companies, net of tax		2.9	4.0
Financial income		15.1	18.4
Financial costs		-57.6	-22.4
Profit before tax		**26.4**	**118.8**
Income taxes		-5.7	-26.0
Net profit for the period		**20.7**	**92.8**
Earnings per share			
Basic earnings per share (DKK)		0.2	0.9
Diluted earnings per share (DKK)		0.2	0.9

OTHER COMPREHENSIVE INCOME

Items that will be recycled subsequently to the Consolidated Income Statement, when specific conditions are met:		
Cash flow hedges, deferred gains/losses incurred during the period	-9.9	-16.6
Tax of cash flow hedges	2.2	3.7
Foreign exchange adjustments on net investments in foreign operations	37.2	133.7
Other comprehensive income for the period, net of tax	**29.5**	**120.8**
Total comprehensive income for the period	**50.2**	**213.6**

CONSOLIDATED BALANCE SHEET

ASSETS

DKK million	**31 Mar 2020**	**31 Mar 2019**	**31 Dec 2019**
INTANGIBLE ASSETS			
Goodwill	5,191.6	4,615.9	4,629.8
Trademarks	3,261.3	2,918.4	2,840.2
IT software	50.3	69.3	45.7
Other intangible assets	275.5	303.8	281.1
Total intangible assets	**8,778.7**	**7,907.4**	**7,796.8**
Property, plant and equipment	1,444.6	1,446.4	1,323.7
Investments in associated companies	159.2	147.3	155.9
Deferred income tax assets	151.9	130.4	136.3
Other financial fixed assets	0.0	12.2	1.7
Total non-current assets	**10,534.4**	**9,643.7**	**9,414.4**
Inventories	3,155.1	2,825.6	2,530.0
Trade receivables	985.6	764.2	800.6
Other receivables	108.4	73.4	93.6
Corporate tax	97.5	130.6	82.0
Prepayments	78.8	60.4	53.9
Cash and cash equivalents	428.5	367.8	897.5
Total current assets	**4,853.9**	**4,222.0**	**4,457.6**
Total assets	**15,388.3**	**13,865.7**	**13,872.0**

CONSOLIDATED BALANCE SHEET

EQUITY AND LIABILITIES

DKK million	Note	31 Mar 2020	31 Mar 2019	31 Dec 2019
Share capital		100.0	100.0	100.0
Reserve for hedging		-22.8	-5.9	-15.1
Reserve for currency translation		951.6	876.0	914.4
Treasury shares		-30.8	-40.5	-35.0
Retained earnings		7,547.0	8,103.6	8,138.4
Total equity		**8,545.0**	**9,033.2**	**9,102.7**
Bank loans	4	4,298.0	2,676.4	2,682.1
Deferred income tax liabilities		605.7	515.7	516.7
Pension obligations		295.2	247.2	281.7
Other provisions		23.7	31.7	18.5
Leasing liabilities		154.5	156.9	159.8
Other liabilities		37.1	29.2	31.4
Total non-current liabilities		**5,414.2**	**3,657.1**	**3,690.2**
Trade payables		405.0	347.5	334.0
Corporate tax		106.2	123.3	121.5
Other provisions		53.4	94.7	38.4
Leasing liabilities		74.3	78.2	67.0
Other liabilities		790.2	531.7	518.2
Total current liabilities		**1,429.1**	**1,175.4**	**1,079.1**
Total liabilities		**6,843.3**	**4,832.5**	**4,769.3**
Total equity and liabilities		**15,388.3**	**13,865.7**	**13,872.0**

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY - 31 MARCH

DKK million	**3M 2020**	**3M 2019**
Net profit for the period	20.7	92.8
Depreciation, amortisation and impairment	213.4	96.9
Adjustments	125.9	47.7
Changes in working capital	-79.6	-89.0
Special items, paid	-21.6	-25.8
Cash flow from operating activities before financial items	**258.8**	**122.6**
Financial income received	57.9	39.2
Financial costs paid	-91.2	-23.7
Cash flow from operating activities before tax	**225.5**	**138.1**
Tax payments	-71.3	-49.0
Cash flow from operating activities	**154.2**	**89.1**
Acquisitions	-1,560.1	0.0
Investment in intangible assets	-2.4	-2.5
Investment in property, plant and equipment	-32.1	-16.6
Dividend from associated companies	1.9	2.2
Cash flow from investing activities	**-1,592.7**	**-16.9**
Free cash flow	**-1,438.5**	**72.2**
Repayment of lease liabilities	-19.1	-21.8
Other financing	5.1	0.0
New external funding	5,344.2	0.0
Repayment bank loans	-3,748.0	0.0
Dividend payment	-608.3	0.0
Cash flow from financing activities	**973.9**	**-21.8**
Net cash flow for the period	**-464.6**	**50.4**
Cash and cash equivalents, net at 1 January	897.5	310.8
Exchange gains/losses on cash and cash equivalents	-4.4	6.6
Net cash flow for the period	-464.6	50.4
Cash and cash equivalents, net at 31 March	**428.5**	**367.8**

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 31 MARCH 2020

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
Equity at 1 January 2020	**100.0**	**-15.1**	**914.4**	**-35.0**	**8,138.4**	**9,102.7**
Comprehensive income for the period						
Net profit for the period	**-**	**-**	**-**	**-**	**20.7**	**20.7**
Other comprehensive income						
Cash flow hedges	-	-9.9	-	-	-	**-9.9**
Tax of cash flow hedges	-	2.2	-	-	-	**2.2**
Foreign exchange adjustments on net investments in foreign operations	-	-	37.2	-	-	**37.2**
Total other comprehensive income	**-**	**-7.7**	**37.2**	**-**	**-**	**29.5**
Total comprehensive income for the period	**-**	**-7.7**	**37.2**	**-**	**20.7**	**50.2**
Transactions with shareholders						
Share-based payments	-	-	-	-	1.7	**1.7**
Settlement of vested PSUs	-	-	-	4.2	-4.2	**-**
Settlement in cash of vested PSU's	-	-	-	-	-1.3	**-1.3**
Dividend paid to shareholders	-	-	-	-	-610.0	**-610.0**
Dividend, treasury shares	-	-	-	-	1.7	**1.7**
Total transactions with shareholders	**-**	**-**	**-**	**4.2**	**-612.1**	**-607.9**
Equity at 31 March 2020	**100.0**	**-22.8**	**951.6**	**-30.8**	**7,547.0**	**8,545.0**

1 JANUARY - 31 MARCH 2019

DKK million						
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	**-**	**-**	**-**	**-**	**92.8**	**92.8**
Other comprehensive income						
Cash flow hedges	-	-16.6	-	-	**-**	**-16.6**
Tax of cash flow hedges	-	3.7	-	-	**-**	**3.7**
Foreign exchange adjustments on net investments in foreign operations	-	-	133.7	-	**-**	**133.7**
Total other comprehensive income	**-**	**-12.9**	**133.7**	**-**	**-**	**120.8**
Total comprehensive income for the period	**-**	**-12.9**	**133.7**	**-**	**92.8**	**213.6**
Transactions with shareholders						
Share-based payments	-	-	-	**-**	1.4	**1.4**
Total transactions with shareholders	**-**	**-**	**-**	**-**	**1.4**	**1.4**
Equity at 31 March 2019	**100.0**	**-5.9**	**876.0**	**-40.5**	**8,103.6**	**9,033.2**

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 2019. As a consequence of the impairments related to factory closures, we have in Q1 2020 added 'Property, plant and equipment' to the accounting areas that include key accounting estimates and assumptions used in the preparation of the Interim report for Q1 2020.

Accounting policies
The interim report has been prepared in accordance with the accounting policies set out in the Annual Report for 2019 except for any new, amended, or revised accounting standards and interpretations (IFRSs) endorsed by the EU, effective for the accounting period beginning on 1 January 2020. Below, the most relevant new or amended standards and interpretations are presented.

Implementation of new or changed accounting standards and interpretations
Effective from 1 January 2020, we have implemented the following new or changed accounting standards (IAS and IFRS) and interpretations:

- Amendments to IFRS 3: Business Combinations.
- Amendments to IFRS 9 and IFRS 7: Interest Rate Benchmark Reform.

The adoption of the new and changed standards has not impacted our interim financial report and is not expected to impact the Consolidated Financial Statements for 2020.

NOTE 2

SEGMENT INFORMATION AND NET SALES

3M 2020 DKK million	**North America Online & Retail**	**North America Branded**	**Region MMC**	**Region ST&A**	**Group costs / not allocated**	**Total**
Net sales	512.7	279.8	529.8	468.5	-	1,790.8
Cost of goods sold	-324.7	-115.8	-296.8	-234.1	-	-971.4
Gross profit before special items	**188.0**	**164.0**	**233.0**	**234.4**	**-**	**819.4**
Staff and other external costs	-113.8	-104.8	-162.3	-89.2	-23.8	-493.9
EBITDA before special items	**74.2**	**59.2**	**70.7**	**145.2**	**-23.8**	**325.5**
Depreciation and impairment					-60.8	-60.8
Amortisation and impairment					-43.3	-43.3
EBIT before special items					**-127.9**	**221.4**
Special items, costs					-155.4	-155.4
EBIT					**-283.3**	**66.0**
Share of profit of associated companies, net of tax					2.9	2.9
Financial income					15.1	15.1
Financial costs					-57.6	-57.6
Profit before tax					**-322.9**	**26.4**

NOTE 2

SEGMENT INFORMATION AND NET SALES (continued)

3M 2019 DKK million	**North America Online & Retail**	**North America Branded**	**Region MMC**	**Region ST&A**	**Group costs / not allocated**	**Total**
Net sales	496.5	256.7	347.8	362.7	-	1,463.7
Cost of goods sold	-314.6	-109.3	-170.9	-184.5	-	-779.3
Gross profit before special items	**181.9**	**147.4**	**176.9**	**178.2**	**-**	**684.4**
Staff and other external costs	-131.9	-102.0	-113.2	-77.1	-20.9	-445.1
EBITDA before special items	**50.0**	**45.4**	**63.7**	**101.1**	**-20.9**	**239.3**
Depreciation and impairment					-53.2	-53.2
Amortisation and impairment					-43.7	-43.7
EBIT before special items					**-117.8**	**142.4**
Special items, costs					-23.6	-23.6
EBIT					**-141.4**	**118.8**
Share of profit of associated companies, net of tax					4.0	4.0
Financial income					18.4	18.4
Financial costs					-22.4	-22.4
Profit before tax					**-141.4**	**118.8**

DKK million	**3M 2020**	**3M 2019**
Category split, net sales		
Handmade cigars	532.6	521.8
Machine-made cigars	716.5	484.2
Smoking tobacco	293.2	234.8
Accessories and CMA	248.5	222.9
Total net sales	**1,790.8**	**1,463.7**

Licence income and other sales of DKK 10.0 million (DKK 9.2 million) are included in the category 'Accessories and Contract Manufacturing'.

Geographical split, net sales		
Americas	823.1	757.6
Europe	842.6	577.3
Rest of World	125.1	128.8
Total net sales	**1,790.8**	**1,463.7**

NOTE 3

SPECIAL ITEMS

DKK million	3M 2020	3M 2019
Integration and transactions costs (Thompson Cigar)	-	10.0
Integration and transactions costs (Royal Agio Cigars)	38.5	-
Fuelling the Growth program	1.2	13.6
Manufacturing footprint, factory close-down	6.4	-
Impairment tangible assets	109.3	-
Total special items	**155.4**	**23.6**

NOTE 4

BANK LOANS

In Q1 2020 we refinanced our debt in a new club deal financing agreement, with a EUR 450 million five-year committed RCF and a EUR 300 million 18 months bridge loan.

DKK million	31 Mar 2020	31 Mar 2019
Financial institutions are recognised in the balance sheet as follows:		
Non-current liabilities	4,298.0	2,676.4
Total	**4,298.0**	**2,676.4**

Currency	Fixed/ float-ing	Term/ bridge/ revolv-ing credit facility	Maturity date	31 Mar 2020	31 Mar 2019
EUR	Floating	Term	Early repaid	-	559.9
EUR	Floating	Term	Early repaid	-	1,119.8
USD	Floating	Term	Early repaid	-	332.2
USD	Floating	Term	Early repaid	-	664.5
EUR	Floating	RCF	Early repaid	-	-
EUR	Floating	Bridge	30-09-21	2,240.2	-
EUR	Floating	RCF	31-03-25	485.4	-
USD	Floating	RCF	31-03-25	1,022.4	-
DKK	Floating	RCF	31-03-25	550.0	-
Total				**4,298.0**	**2,676.4**

NOTE 5

BUSINESS COMBINATIONS

With effect from 2 January 2020, the Group acquired 100% of the shares in Agio Beheer B.V. (Agio Cigars) a leading European cigar company. The total consideration transferred of EUR 220 million was paid in cash. The disclosure for the business combination is considered provisional as the figures are based on the unaudited closing balance of Agio Cigars. The provisional figures can be changed up until 1 January 2021.

Agio Cigars
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. Agio Cigar’s unaudited annual net sales for 2019 were EUR 137 million (DKK 1 billion) with a net profit of EUR 7 million (DKK 55 million). Agio Cigars will provide the Group access to a strong product portfolio and important market positions in key European machine-made cigar markets. The acquisition will secure leading positions in France, Belgium and the Netherlands and significantly improve the position in key cigar markets such as Spain and Italy.

Fair value of acquired net assets and recognised goodwill
Net assets and goodwill are provisional and may be adjusted and off-balance sheet items may be recorded within the 12 months period of the acquisition date in compliance with IFRS 3. Net assets have been adjusted to comply with the Group's accounting policies and financial reporting requirements. The provisional calculated goodwill relates to synergies from integrating Agio Cigars into the existing divisions 'Region Machine Made Cigars' and 'Region Smoking Tobacco and Accessories' including optimisations within sales, marketing, procurement, workforce and manufacturing expertise.

Transaction costs
Total transaction costs related to the acquisition amount to DKK 27 million, of which DKK 22 million was recognised in 2019 Financial Statements and DKK 5 million will be recognised in the 2020 Financial Statements. Transaction costs for 2019 are recognised by DKK 20 million in 'Special items' and by DKK 2 million in the 'balance sheet' that subsequently will be amortised during the financing period.

Impact on Consolidated Income Statement
The interim Report includes in the first three months of 2020 net sales of DKK 230 million with a net result showing a loss of DKK 23 million from the acquisition for the period 2 January 2020 to 31 March 2020. The net result is negatively impacted by the high level of ‘cost of goods sold’ as the inventories in the acquisition balance is recognised at fair value, which is higher than ordinary value of production costs. Furthermore, special items contributed negatively.

NOTE 5

BUSINESS COMBINATIONS (continued)

DKK million	Provisional fair value at date of acquisition
Trademarks	452.9
IT software	9.9
Property, plant and equipment	235.6
Right-of-use assets	13.0
Inventories	512.4
Trade receivables	124.9
Other Receivables	3.3
Prepayments	4.3
Corporate tax	9.1
Total assets	**1,365.4**
Deferred tax liabilities	112.4
Pension obligations	18.8
Trade payables	34.9
Lease liabilities	13.0
Other liabilities	128.3
Total liabilities	**307.4**
Acquired net assets	**1,058.0**
Goodwill from acquisition	501.1
Acquisition (cash flow)	**1,559.1**
Cash and cash equivalents in acquired business	83.8
Consideration transferred	**1,642.9**

The recognised goodwill is not tax deductible.