



Company Announcement
No. 3/2018

Copenhagen, 8 March 2018

Annual Report 2017

Full Year Results in Line with Guidance. 4.5% Increase in Proposed Ordinary Dividend per Share.

Scandinavian Tobacco Group A/S delivered organic growth in net sales and EBITDA in accordance with our guidance presented in May 2017. The Board of Directors proposes an ordinary dividend of DKK 5.75 per share, an increase of 4.5% compared to 2016.

Highlights 2017:

- Net sales decreased 4.2% to DKK 6,464 million – organic growth of -2.2%
- Reported EBITDA decreased 3.7% to DKK 1,232 million - organic growth of -7.4%
- The adjusted EBITDA margin decreased to 19.9% (21.4%)
- Net profit increased 4.4% to DKK 712 million
- Free cash flow was DKK 955 million (DKK 1,139 million)

Financial Guidance 2018

- Net Sales: Flat to slightly positive organic growth
- EBITDA: Organic growth > 3%
- Ordinary dividend for 2018 > 2017 (DKK 575 million)

For the full year 2017 Scandinavian Tobacco Group A/S delivered DKK 6,464 million in total net sales and an adjusted EBITDA of DKK 1,283 million. This equals a 2.2% negative organic growth in net sales and an organic decline of 7.4% in EBITDA. Net profit for the year increased by 4.4% to DKK 712 million while free cash flow was DKK 955 million (DKK 1,139 million). Organic growth in net sales and EBITDA was delivered in accordance with the revised guidance presented in May 2017.

CEO Niels Frederiksen says:

“2017 was a financially challenging year for Scandinavian Tobacco Group due to the IT implementation in Cigars International. However, our underlying business remains strong with an adjusted EBITDA of DKK 1,283 million and with a free cash flow close to DKK 1 billion we are able to continue our track record of delivering attractive shareholder returns. In total, we will return DKK 925 million to our shareholders for 2017.

Also, we have during the year strengthened our business significantly. In the US, our single biggest market, we are expanding our retail platforms. We announced the opening of two large cigar retail stores in 2018 in Texas and in January 2018, we reinforced our position in the online retail channel by signing a deal to acquire the business of Thompson and Co. of Tampa, Inc. Furthermore, we have in our biggest category, machine-made cigars, regained momentum with stronger market share performance in a number of markets through intensified strategic focus on innovation and core brands.”

The annual report for 2017 is available for download on: investor.st-group.com.

Conference Call and Webcast

A conference call and webcast will be held on 8 March 2018 at 10:00 AM CET.

Presentation materials will be available online approximately one hour before the webcast on investor.st-group.com.

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About Scandinavian Tobacco Group

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

The Group employs 7,300 people in the Dominican Republic, Honduras, Nicaragua, Indonesia, Europe, New Zealand, Australia, Canada and the US. For more information please visit www.st-group.com.

Financial Highlights for Q4 2017

Organic net sales growth of -1.3%

Net sales decreased by 6.5% to DKK 1,691 million (DKK 1,807 million). Organic net sales growth for the group was negative by 1.3% with -2.5% in handmade cigars, -0.9% in machine-made cigars, -6.1% in pipe tobacco, -4.7% in fine-cut tobacco and +5.8% in the other category.

Gross profit decreased by 4.0%

In the quarter, the group gross profit decreased by 4.0% to DKK 816 million (DKK 850 million) implying a gross margin of 48.2% (47.0%). Excluding a non-recurring income of DKK 4 million, the adjusted gross margin was 48.0% (48.0%). Machine-made cigars delivered improved adjusted gross margin to 53.4% (50.8%) driven by positive effects from the cost optimisation programs.

Organic growth in EBITDA at -7.1%

Reported EBITDA increased by 3.1% to DKK 328 million (DKK 318 million).

Adjusted EBITDA declined to DKK 328 million (DKK 375 million). Organic growth in EBITDA was negative by 7.1%. The organic development was negatively impacted by a loss of DKK 26 million related to the UK distributor Palmer & Harvey entering into administration.

Reported EBITDA margin was 19.4% (17.6%). Adjusted EBITDA margin was 19.4% (20.8%). The quarter did not include any non-recurring items, net compared with an expense of DKK 57 million in the fourth quarter of 2016.

Reported net profit for the quarter increased by 35% to DKK 247 million (DKK 183 million) primarily due to a favorable effective tax rate in the fourth quarter of 2017 and the non-recurring costs expensed in the fourth quarter of 2016.

Free cash flow at DKK 315 million (DKK 348 million)

Cash flow from operating activities decreased by 13% to DKK 333 million (DKK 383 million). The strong cash-flow generation was driven by operating performance and a significant reduction in working capital. Free cash flow amounted to DKK 315 million (DKK 348 million).

Capital expenditures amounted to DKK 34 million (DKK 37 million).

Scandinavian Tobacco Group - Key Figures¹

DKK million	Q4 2017	Q4 2016	2017	2016	2015
INCOME STATEMENT					
Net sales	1,691	1,807	6,464	6,746	6,732
Gross profit	816	850	3,095	3,225	3,239
EBITDA	328	318	1,232	1,279	1,247
EBIT	253	244	913	957	941
Net financial items ²	-15	-10	-77	-72	-67
Profit before tax	246	236	852	895	884
Income taxes	1	-53	-140	-213	-216
Net profit	247	183	712	681	668
BALANCE SHEET					
Total assets			12,990	14,264	14,544
Equity			8,448	9,273	8,998
Net interest-bearing debt (NIBD)			2,247	2,469	3,011
Investment in property, plant and equipment	14	34	54	190	210
Total capital expenditures	34	37	109	235	236
CASH FLOW STATEMENT					
Cash flow from operating activities	333	383	1,049	1,358	1,285
Cash flow from investing activities	-18	-35	-94	-219	-229
Free cash flow	315	348	955	1,139	1,057
KEY RATIOS					
Net sales growth	-6.5%	2.3%	-4.2%	0.2%	9.9%
Gross margin	48.2%	47.0%	47.9%	47.8%	48.1%
EBITDA margin	19.4%	17.6%	19.1%	19.0%	18.5%
Effective tax percentage	-0.4%	22.4%	16.4%	23.8%	24.5%
Equity ratio			65.0%	65.0%	61.9%
Cash conversion	156.1%	158.0%	110.2%	122.4%	119.0%
Organic net sales growth	-1.3%	1.5%	-2.2%	0.4%	0.3%
Adjusted gross margin	48.0%	48.0%	48.5%	49.1%	48.7%
Organic EBITDA growth	-7.1%	10.8%	-7.4%	4.0%	2.2%
Adjusted EBITDA (DKK million)	328	375	1,283	1,440	1,385
Adjusted EBITDA margin	19.4%	20.8%	19.9%	21.4%	20.5%
NIBD / Adjusted EBITDA			1.8	1.7	2.2
ROIC			7.9%	7.8%	7.4%
ROIC ex. goodwill and trademarks from 2010 merger			14.8%	14.2%	13.3%
Basic earnings per share (DKK)	2.5	1.8	7.1	6.8	6.7
Diluted earnings per share (DKK)	2.5	1.8	7.1	6.8	6.7
Number of shares issued ('000)			100,000	100,000	100,000
Number of treasury shares ('000)			367	412	-
Share price at year-end (DKK)			120.0	118.9	-
Dividend per share (DKK)			9.3	5.5	14.0
Pay-out ratio			130.0%	80.7%	209.7%

1. See definition/explanation of financial ratios in note 5.7 in the Annual Report 2017.

2. Excl. share of profit of associated companies.

Key Data Per Category

	Q4 17	Q4 16	Change	2017	2016	Change
Net sales (DKK m)						
Handmade cigars	471	531	-11.2%	1,921	2,067	-7.1%
Machine-made cigars	668	695	-3.8%	2,491	2,593	-3.9%
Pipe tobacco	136	154	-11.6%	544	569	-4.4%
Fine-cut tobacco	168	184	-8.8%	598	652	-8.3%
Other	247	244	1.5%	909	864	5.2%
Group total	1,691	1,807	-6.5%	6,464	6,746	-4.2%
Gross profit (DKK m)						
Handmade cigars	181	226	-20.0%	795	903	-12.0%
Machine-made cigars	361	339	6.6%	1,268	1,280	-0.9%
Pipe tobacco	79	89	-11.3%	326	346	-5.9%
Fine-cut tobacco	105	107	-1.6%	364	378	-3.5%
Other	90	89	0.6%	342	318	7.5%
Group total	816	850	-4.0%	3,095	3,225	-4.0%
Organic net sales growth (%)						
Handmade cigars	-2.5%	6.1%		-4.0%	7.2%	
Machine-made cigars	-0.9%	-2.9%		-2.4%	-3.9%	
Pipe tobacco	-6.1%	-9.9%		-2.6%	-8.9%	
Fine-cut tobacco	-4.7%	26.8%		-7.0%	13.3%	
Other	5.8%	-2.3%		6.4%	-3.6%	
Group total	-1.3%	1.5%		-2.2%	0.4%	
Volume impact (%)						
Handmade cigars	0.7%	6.4%		-1.8%	7.4%	
Machine-made cigars	-2.6%	-4.9%		-3.7%	-6.0%	
Pipe tobacco	-6.2%	-12.1%		-2.3%	-10.6%	
Fine-cut tobacco	-13.2%	20.0%		-14.0%	7.1%	
Other	-	-		-	-	
Group total	-	-		-	-	
Price/Mix impact (%)						
Handmade cigars	-3.2%	-0.3%		-2.3%	-0.2%	
Machine-made cigars	1.7%	2.0%		1.3%	2.2%	
Pipe tobacco	0.2%	2.2%		-0.3%	1.7%	
Fine-cut tobacco	8.5%	6.9%		7.0%	6.2%	
Other	-	-		-	-	
Group total	-	-		-	-	
Gross margin (%)						
Handmade cigars	38.4%	42.6%	-4.2%	41.4%	43.7%	-2.3%
Machine-made cigars	54.0%	48.7%	5.3%	50.9%	49.3%	1.6%
Pipe tobacco	58.0%	57.8%	0.2%	59.9%	60.8%	-0.9%
Fine-cut tobacco	62.7%	58.1%	4.6%	60.9%	57.9%	3.0%
Other	36.3%	36.6%	-0.3%	37.6%	36.8%	0.8%
Group total	48.2%	47.0%	1.2%	47.9%	47.8%	0.1%
Adjusted Gross margin (%)*						
Machine-made cigars	53.4%	50.8%	2.6%	52.4%	52.6%	-0.2%
Pipe tobacco	58.0%	59.0%	-1.0%	60.1%	61.2%	-1.1%
Fine-cut tobacco	62.7%	59.1%	3.6%	61.1%	58.3%	2.8%
Group total	48.0%	48.0%	0.0%	48.5%	49.1%	-0.6%

* Adjusted for non-recurring items