



Company Announcement
No.9 2019

Copenhagen, 29 August 2019

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

Organic EBITDA growth of 5.5% in the second quarter of 2019 supporting the full-year guidance

Q2 2019 Highlights

- Net sales of DKK 1,818 million (DKK 1,780 million). Organic growth -0.9%
- EBITDA before special items of DKK 398 million (DKK 346 million). Organic growth 5.5%
- EBITDA margin before special items was 21.9% (19.4%). Excluding IFRS 16, the margin improved by 1.2%-points
- Free cash flow before acquisitions of DKK 243 million (DKK 213 million)
- Earnings Per Share (EPS) of DKK 2.0 (DKK 2.1)

In the second quarter of 2019, Scandinavian Tobacco Group A/S delivered net sales of DKK 1,818 million and EBITDA before special items of DKK 398 million. The quarter delivered 1.6% organic growth in net sales in North America Online & Retail which was offset by negative organic growth in net sales in North America Branded, Region Machine-Made Cigars and Region Smoking Tobacco & Accessories of 4.2%, 1.4% and 1.6%, respectively. Overall, organic growth in net sales was negative by 0.9%. Underlying EBITDA margins improved in North America Online & Retail, Region Machine-Made Cigars and Region Smoking Tobacco & Accessories, but declined in North America Branded.

In the first six months of 2019, the Group reported negative organic net sales growth of 1.2% and organic EBITDA growth of 6.2%, generating a free cash flow before acquisitions of DKK 316 million (DKK 137 million). EPS of DKK 3.0 (DKK 2.9)

CEO of Scandinavian Tobacco Group Niels Frederiksen says: "We are delivering an organic EBITDA growth of 5.5% and a free cash flow of DKK 243 million in the quarter. We saw positive organic sales growth in North America Online & Retail and in Machine-Made Cigars we are seeing a stable market share in key European markets. The execution of our transformational program Fuelling the Growth continues to positively affect our Group wide operational performance and cost efficiency."

Financial guidance for 2019

The full-year guidance is unchanged:

- >5% organic growth in EBITDA
- Special items of DKK ~85 million
- Free cash flow before acquisitions >DKK 750 million

Conference Call and Webcast

A conference call and webcast will be held on 29 August 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	Q2 2019	Q2 2018 ex. IFRS 16	6M 2019	6M 2018 ex. IFRS 16	Year 2018 ex. IFRS 16
INCOME STATEMENT					
Net sales	1,818	1,780	3,282	3,065	6,718
Gross profit before special items	873	853	1,558	1,466	3,219
EBITDA before special items	398	346	637	544	1,304
Special items ¹	-20	-11	-44	-14	-216
EBIT	280	258	399	383	738
Net financial items ²	-22	1	-26	-14	-37
Profit before tax	262	264	381	378	717
Income taxes	-57	-59	-83	-85	-51
Net profit	205	205	298	293	666
BALANCE SHEET					
Total assets			13,660	13,309	13,403
Equity			8,547	8,349	8,818
Net interest-bearing debt (NIBD)			3,184	3,084	2,585
Investment in property, plant and equipment	14	30	31	56	110
Total capital expenditures	33	34	52	68	125
CASH FLOW STATEMENT					
Cash flow from operating activities	274	245	363	200	784
Cash flow from investing activities	-31	-421	-48	-452	-511
Free cash flow	243	-176	316	-252	274
Free cash flow before acquisitions	243	213	316	137	668
KEY RATIOS³					
Net sales growth	2.1%	6.4%	7.1%	0.4%	3.9%
Gross margin before special items	48.0%	47.9%	47.5%	47.8%	47.9%
EBITDA margin before special items	21.9%	19.4%	19.4%	17.8%	19.4%
Effective tax percentage	21.9%	22.4%	21.9%	22.5%	7.2%
Equity ratio			62.6%	62.7%	65.8%
Cash conversion	109.6%	75.8%	95.7%	69.0%	88.2%
Organic net sales growth	-0.9%	1.6%	-1.2%	2.4%	0.4%
Organic EBITDA growth	5.5%	3.1%	6.2%	2.4%	3.5%
NIBD / EBITDA before special items			2.3	2.4	2.0
ROIC			6.4%	8.3%	6.4%
ROIC ex. goodwill and trademarks from 2010 merger			11.6%	15.7%	11.8%
Basic earnings per share (DKK)	2.0	2.1	3.0	2.9	6.7
Diluted earnings per share (DKK)	2.0	2.1	3.0	2.9	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.

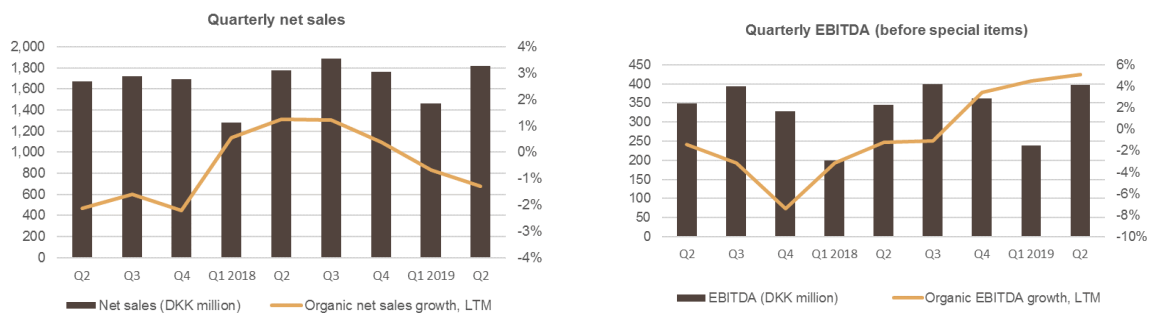
Scandinavian Tobacco Group holds market-leading positions in several categories and has a portfolio of more than 200 brands providing a complementary range of established global brands and local champions.

The Group employs 7,300 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

Group Performance Q2 2019

For the second quarter of 2019, the Group increased net sales by 2% driven by positive exchange rate developments of 3% and negative organic growth in net sales of 0.9%. Positive organic net sales growth in North America Online & Retail (NAO&R) was offset by negative organic growth in North America Branded (NAB), Region Machine-Made Cigars (MMC) and Region Smoking Tobacco & Accessories (ST&A).

Quarterly development, Q2 2017-Q2 2019



EBITDA before special items in the second quarter increased by 15% with an organic growth of 5.5% and an EBITDA margin before special items of 21.9% (19.4%). The implementation of IFRS 16 increased EBITDA by DKK 24 million in the second quarter of 2019 and the EBITDA margin by 1.3% point. The remaining margin increase was driven by improved operational performance and increased efficiency following the initial results of Fuelling the Growth initiatives.

Free cash flow before acquisitions was DKK 243 million (DKK 213 million). The improvement was driven by the improved operational performance, changes in working capital and the positive impact from IFRS 16 of DKK 24 million partly offset by higher cash payments for special items.

For the first six months of 2019, the Group delivered 1.2% negative organic net sales growth, 6.2% positive organic growth in EBITDA and a free cash flow before acquisitions of DKK 316 million (DKK 137 million).

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

Fuelling the Growth

The transformational Fuelling the Growth program continues to progress as planned and is on track to deliver commercial competitiveness and net savings at a run rate of DKK 250 million by the end of 2021. Highlights as of the end of second quarter 2019 include:

- New organizational structure implemented as of 1 January 2019 including new structure for financial reporting
- The Procurement workstream is progressing well and has renegotiated a large amount of supplier contracts in categories spanning the entire value chain. Such renegotiations and savings include but are not limited to professional services (already renegotiated in Europe, and under negotiations in the US), IT and Telecom contracts and travels and facilities. Core business contracts are also being reviewed and renegotiated including third party manufacturing
- France, which is a key focus market for Fuelling the Growth, has seen a change of trajectory and growing consumer market share since the initiation of the program last year
- In the Organization workstream, where the expectation is to have a net reduction of 100-120 FTEs, Fuelling the Growth is well on track
- In the workstreams, Commercial Resources and Global Logistics, the initiatives North America online growth and North America logistics have been activated, although both are still in their early stage

During the second quarter DKK 12 million have been expensed as special items relating to Fuelling the Growth. For the first six months DKK 25 million have been expensed as special items relating to Fuelling the Growth.

Key data per division

KEY DATA PER DIVISION	Q2 2019	Q2 2018 ex. IFRS 16	Change	6M 2019	6M 2018 ex. IFRS 16	Change	Year 2018 ex. IFRS 16
Net sales (DKKm)							
North America Online & Retail	658	610	7.8%	1,155	907	27.3%	2,111
North America Branded	316	313	0.9%	573	584	-2.0%	1,247
Region Machine-Made Cigars	433	437	-0.9%	781	794	-1.7%	1,682
Region Smoking Tobacco & Accessories	410	419	-2.1%	773	779	-0.8%	1,677
Group total	1,818	1,780	2.1%	3,282	3,065	7.1%	6,718
Gross profit before special items (DKKm)							
North America Online & Retail	259	222	16.6%	441	334	32.1%	793
North America Branded	179	188	-4.7%	326	339	-3.7%	712
Region Machine-Made Cigars	217	225	-3.4%	394	402	-2.0%	832
Region Smoking Tobacco & Accessories	218	218	0.0%	396	391	1.4%	882
Group total	873	853	2.4%	1,558	1,466	6.3%	3,219
EBITDA before special items (DKKm)							
North America Online & Retail	111	83	32.9%	161	116	38.7%	310
North America Branded	71	68	3.3%	116	110	5.2%	242
Region Machine-Made Cigars	100	87	14.9%	163	137	19.0%	304
Region Smoking Tobacco & Accessories	142	136	4.2%	243	234	4.0%	545
Group costs	-25	-30	-13.9%	-46	-53	-13.3%	-96
Group total	398	346	15.1%	637	544	17.1%	1,304
Organic net sales growth (%)							
North America Online & Retail	1.6%	10.1%		1.9%	9.6%		6.3%
North America Branded	-4.2%	-2.4%		-6.5%	-0.7%		-1.2%
Region Machine-Made Cigars	-1.4%	-5.2%		-2.0%	-4.3%		-6.4%
Region Smoking Tobacco & Accessories	-1.6%	0.5%		-0.7%	3.6%		1.9%
Group total	-0.9%	1.6%		-1.2%	2.4%		0.4%
Gross margin before special items (%)							
North America Online & Retail	39.3%	36.4%	3.0%	38.2%	36.8%	1.4%	37.5%
North America Branded	56.6%	59.9%	-3.3%	57.0%	58.0%	-1.0%	57.1%
Region Machine-Made Cigars	50.2%	51.5%	-1.3%	50.5%	50.7%	-0.2%	49.5%
Region Smoking Tobacco & Accessories	53.2%	52.0%	1.1%	51.3%	50.2%	1.1%	52.6%
Group total	48.0%	47.9%	0.1%	47.5%	47.8%	-0.4%	47.9%
EBITDA margin before special items (%)							
North America Online & Retail	16.8%	13.7%	3.1%	13.9%	12.8%	1.1%	14.7%
North America Branded	22.3%	21.8%	0.5%	20.3%	18.9%	1.4%	19.4%
Region Machine-Made Cigars	23.0%	19.9%	3.1%	20.9%	17.3%	3.6%	18.0%
Region Smoking Tobacco & Accessories	34.6%	32.5%	2.1%	31.5%	30.0%	1.5%	32.5%
Group total	21.9%	19.4%	2.5%	19.4%	17.8%	1.7%	19.4%
ORGANIC GROWTH COMPOSITION							
<i>Volume impact (%)</i>							
Handmade cigars (NAO&R)	3.9%	3.4%		2.0%	3.9%		1.6%
Handmade cigars (NAB)	-8.6%	-3.5%		-7.9%	1.2%		1.8%
Machine-made cigars (MMC)	-4.6%	-3.0%		-2.5%	-4.6%		-7.8%
<i>Price/mix impact (%)</i>							
Handmade cigars (NAO&R)	-1.5%	5.7%		-0.1%	4.5%		4.9%
Handmade cigars (NAB)	-1.1%	5.2%		1.5%	1.0%		0.9%
Machine-made cigars (MMC)	0.9%	-0.4%		0.1%	1.4%		1.0%

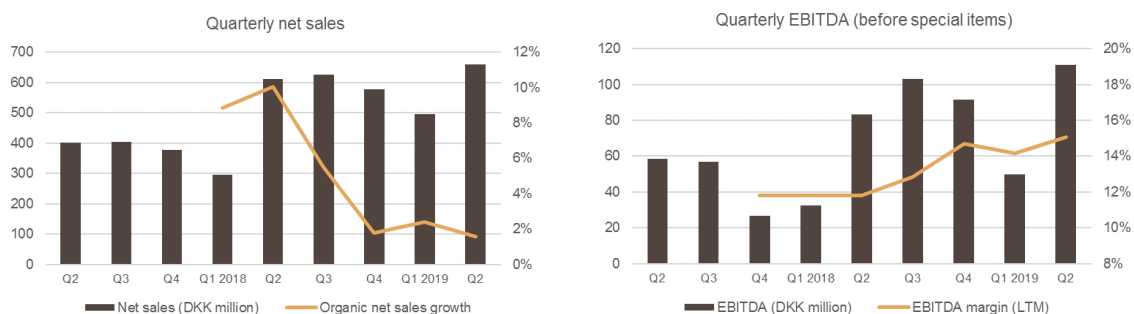
North America Online & Retail

In the division North America Online & Retail the largest product category is handmade cigars accounting for about 80% of divisional net sales. For a breakdown by all product categories for the full year 2018, see Company Announcement no. 6 from May 7, 2019.

The division delivered positive organic growth in net sales in the second quarter driven by handmade cigars. The transfer of Thompson Cigar's IT platforms was completed during the quarter and the integration is still expected to be finalised by the end of 2019.

The Cigar International Super-Store in the Colony, Texas, which opened in October 2018, is performing well and is attracting a more diverse customer group than the online business. The store contributed to an increase of net sales from retail in the quarter. The building of the second Super-Store in Texas – in the Fort Worth area - has progressed slower than anticipated and opening is expected during the first half of 2020. The US retail expansion is continuing and the plans for two Super-Stores in the Tampa-area, Florida are progressing well with the appropriate permits and licences having been obtained. The first of two Super-Stores is expected to open by mid-2020 and the second in the third quarter of 2020.

Quarterly development, Q2 2017-Q2 2019



In the second quarter of 2019, net sales in the division North America Online & Retail increased by 8% to DKK 658 million (DKK 610 million) driven by organic net sales growth (1.6%) and a positive exchange rate effect of 6%. The product category handmade cigars delivered 2.4% organic growth (+3.9% volume impact and -1.5% price/mix impact).

Gross profit before special items in the second quarter of 2019 increased to DKK 259 million (DKK 222 million) driven by increased net sales, underlying margin improvements and positive exchange rates. The gross margin before special items was 39.3% (36.4%) primarily driven by efficiency improvements.

EBITDA before special items increased to DKK 111 million (DKK 83 million) with an EBITDA margin before special items of 16.8% (13.7%). The development in the margin was driven by the gross margin improvement.

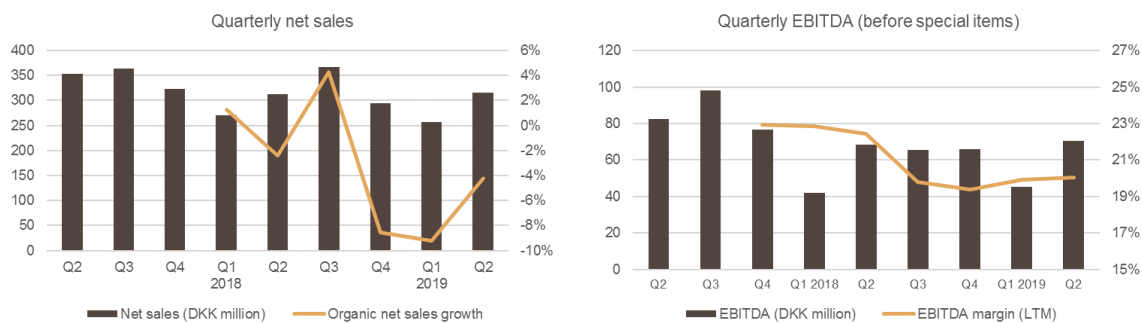
Net sales for the first six months of 2019 were DKK 1,155 million (DKK 907 million) and organic growth was 1.9%. Gross profit before special items for the first six months of 2019 was DKK 441 million (DKK 334 million) and the gross margin was 38.2% (36.8%) primarily driven by efficiency improvements. EBITDA before special items for the first six months of 2019 was DKK 161 million (DKK 116 million) with an EBITDA margin of 13.9% (12.8%) driven by IFRS 16 and the gross margin improvement.

IFRS 16 improved the EBITDA margin before special items by 0.8%-point in the second quarter of 2019 and by 0.9% for the first six months.

North America Branded

In the division North America Branded the largest product category is handmade cigars followed by machine-made cigars and smoking tobacco. For a breakdown by all product categories for the full-year 2018, see Company Announcement no. 6 from May 7, 2019.

Quarterly development, Q2 2017-Q2 2019



In the second quarter of 2019, the net sales increased by 1% to DKK 316 million (DKK 313 million). The organic net sales growth was negative by 4.2% after adjusting for a positive exchange rate impact of 5%. The negative organic growth was primarily driven by handmade cigars in the US. Handmade cigars delivered 9.7% negative organic growth (-8.6% volume impact and -1.1% price/mix impact) as the market was negatively impacted by weather conditions and inventory rebalancing in the online distribution channel. In Canada, the weakness during the first quarter due to among other things introduction of plain packaging continued in April and May, but market conditions improved by the end of the second quarter.

Gross profit before special items in the second quarter of 2019 decreased to DKK 179 million (DKK 188 million) driven by the decrease in volumes and a negative price/mix impact. The gross margin before special items decreased to 56.6% (59.9%) also driven by negative price/mix in handmade cigars and lower volumes.

EBITDA before special items increased to DKK 71 million (DKK 68 million) with an EBITDA margin before special items of 22.3% (21.8%). The improvement in the margin was driven by a positive impact of IFRS 16 being partly offset by the negative gross margin development.

Net sales for the first six months of 2019 were DKK 573 million (DKK 584 million) and the organic growth was negative by 6.5% primarily driven by handmade cigars in the US. Gross profit before special items for the first six months of 2019 was DKK 326 million (DKK 339 million) and the gross margin was 57.0% (58.0%). EBITDA before special items for the first six months of 2019 was DKK 116 million (DKK 110 million) with an EBITDA margin of 20.3% (18.9%). The improvement in the margin was driven by a positive impact of IFRS 16 being partly offset by the negative gross margin development.

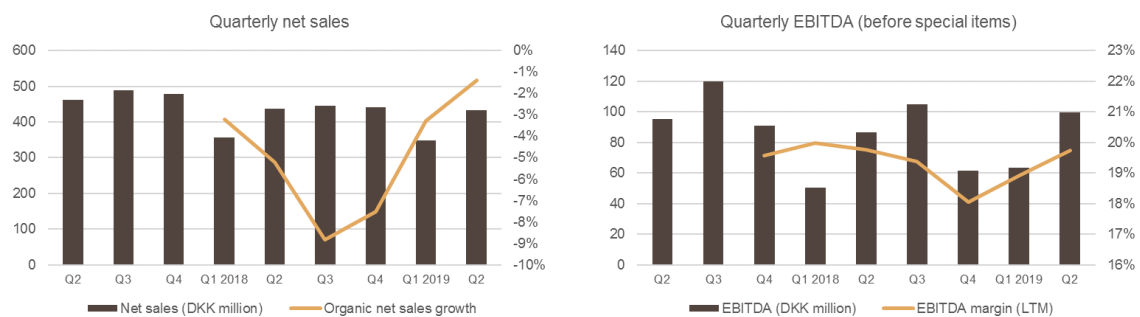
IFRS 16 improved the EBITDA margin before special items by 2.0%-point in the second quarter of 2019 and by 2.0% for the first six months.

Region Machine-Made Cigars

In the division Region Machine-Made Cigars the product category machine-made cigars is the largest accounting for about three quarters of divisional net sales. For a breakdown by all product categories for the full year 2018, see Company Announcement no. 6 from May 7, 2019.

The organic growth in net sales for the division improved in the second quarter compared to recent quarters with a solid improvement of EBITDA margins. The overall market for machine-made cigars showed modest declines for the quarter. Our market share increased in the UK, Belgium and Spain, but decreased slightly in France versus the first quarter of 2019 due to inventory movements in the trade. Combined the market share in the top 5 European markets (France, Belgium, Netherlands, UK and Spain) was slightly down compared to the first quarter of 2019.

Quarterly development, Q2 2017-Q2 2019



In the second quarter of 2019, the net sales in Region Machine-Made Cigars decreased by 0.9% to DKK 433 million (DKK 437 million). The organic net sales growth was negative by 1.4%. Machine-made cigars delivered negative organic growth of 3.7% (volume impact of -4.6% and a price/mix impact of +0.9%).

Gross profit before special items in the second quarter of 2019 was DKK 217 million (DKK 225 million) driven by the development in net sales and lower gross margins. The gross margin before special items was 50.2% (51.5%) driven by geographical mix changes.

EBITDA before special items increased to DKK 100 million (DKK 87 million) with an EBITDA margin before special items of 23.0% (19.9%). The improvement in the margin was driven by an underlying improvement of the OPEX ratio following the progress of Fuelling the Growth and a positive impact of IFRS 16.

Net sales for the first six months of 2019 were DKK 781 million (DKK 794 million) and the organic growth was negative by 2.0%. Gross profit before special items for the first six months of 2019 was DKK 394 million (DKK 402 million) and the gross margin was 50.5% (50.7%). EBITDA before special items for the first six months of 2019 was DKK 163 million (DKK 137 million) with an EBITDA margin of 20.9% (17.3%). The EBITDA margin improvement is driven by the positive development in operating expenses and IFRS 16.

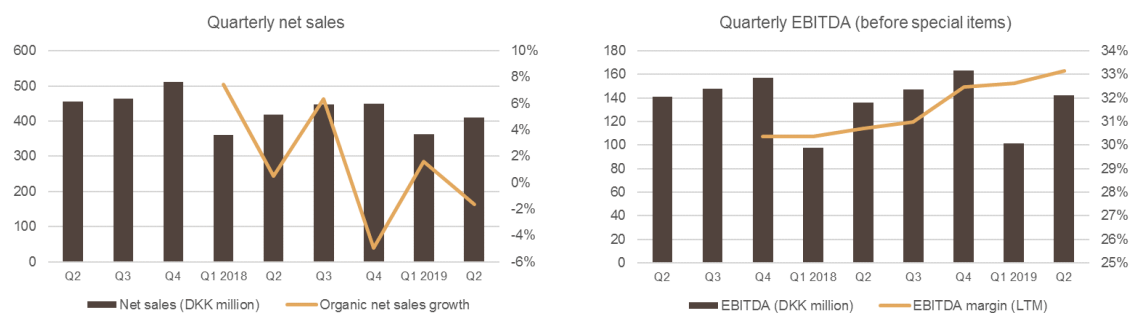
IFRS 16 improved the EBITDA margin before special items by 1.8%-point in the second quarter of 2019 and by 1.9% for the first six months.

Region Smoking Tobacco & Accessories

In the division Region Smoking Tobacco & Accessories the product categories smoking tobacco, accessories & contract manufacturing and machine-made cigars are of about equal size. For a breakdown by all product categories for the full year 2018, see Company Announcement no. 6 from May 7, 2019.

The division delivered negative organic growth in net sales in the second quarter primarily driven by timing of shipments and a negative impact of the excise increase on fine-cut tobacco in Israel that was implemented in February. Germany and Middle East/Africa continue to perform well.

Quarterly development, Q2 2017-Q2 2019



In the second quarter of 2019, the net sales decreased by 2.1% to DKK 410 million (DKK 419 million). The organic net sales growth was negative by 1.6%.

Gross profit before special items in the second quarter of 2019 was unchanged at DKK 218 million (DKK 218 million). The gross margin before special items was 53.2% (52.0%) driven by a positive price/mix impact.

EBITDA before special items increased to DKK 142 million (DKK 136 million) with an EBITDA margin before special items of 34.6% (32.5%). The improvement in the margin was driven by the improved gross margin before special items and an improved OPEX ratio.

Net sales for the first six months of 2019 were DKK 773 million (DKK 779 million) and the organic growth was negative by 0.7%. Gross profit before special items for the first six months of 2019 was DKK 396 million (DKK 391 million) and the gross margin was 51.3% (50.2%). EBITDA before special items for the first six months of 2019 was DKK 243 million (DKK 234 million) with an EBITDA margin of 31.5% (30.0%). The increase in the EBITDA margin is explained by the improved gross margin before special items and the positive impact from IFRS 16.

IFRS 16 improved the EBITDA margin before special items by 0.8%-point in the second quarter of 2019 and by 0.8% for the first six months.

During the quarter certain pipe tobacco trademarks and designs were acquired from Dunhill Tobacco Company of London Limited, a subsidiary of British American Tobacco p.l.c. Included in the deal are premium pipe tobacco trademarks such as Early Morning Pipe, Nightcap, Royal Yacht and Elizabethan Mixture that were previously sold under the Dunhill brand and carry a solid reputation as well as premium positioning. The price paid is confidential, but immaterial.

Scandinavian Tobacco Group will market the acquired trademarks as sub-brands to existing brands in the company's portfolio. The acquisition strengthens Scandinavian Tobacco Group's product range in the premium pipe tobacco segment in important pipe tobacco markets such as the US, Germany and across Asia.

Group Financials

Net sales

For the second quarter of 2019 net sales increased by 2% to DKK 1,818 million (DKK 1,780 million). Exchange rates impacted positively by DKK 55 million. Organic growth in net sales was negative by 0.9% as the positive growth in North America Online & Retail could not fully compensate for the negative growth in North America Branded, Region Machine-Made Cigars and Region Smoking Tobacco & Accessories. For the first six months of 2019, the organic growth in net sales was negative by 1.2% explained by the same divisional development as in the second quarter of 2019.

Table 1: Net sales

DKK million	Q2 2019	Q2 2018	Change in %	6M 2019	6M 2018	Change in %
Net sales	1,818	1,780	2.1%	3,282	3,065	7.1%
Acquisitions					137	
Effect from currency development	-55			-118		
Organic net sales	1,763	1,780	-0.9%	3,163	3,202	-1.2%

Profit

Gross profit before special items for the second quarter of 2019 was DKK 873 million (DKK 853 million), an increase of 2.4%, driven by a positive impact of DKK 18 million from exchange rate developments. The gross margin before special items was 48.0% (47.9%) with increased gross margins in North America Online & Retail and Region Smoking Tobacco & Accessories being offset by North America Branded and Region Machine-Made Cigars.

For the first six months, gross profit before special items was DKK 1,558 million (DKK 1,466 million), an increase of 6.3% explained by acquisition impact and exchange rate developments. The gross margin before special items for the first six months was 47.5% (47.8%), a decrease of 0.4% point. Increased gross margins in North America Online & Retail and Region Smoking Tobacco & Accessories were offset by lower margins in North America Branded and the impact of the acquisition of Thompson Cigar, where gross margins are below the Group's average margins.

Operating expenses for the second quarter were DKK 475 million (DKK 507 million), a decrease of 6.3% 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 15 million.

For the first six months of 2019 operating expenses of DKK 921 million (DKK 922 million) were in line with the same period last year as a combination of 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 offset by acquisition effect and exchange rate developments of DKK 34 million.

Table 2: EBITDA

DKK million	Q2 2019	Q2 2018	Change in %	6M 2019	6M 2018	Change in %
EBITDA before special items	398	346	15.1%	637	544	17.1%
Acquisitions		7			8	
Currency development	-3			-8		
IFRS 16		22			41	
Organic EBITDA	395	374	5.5%	629	593	6.2%

EBITDA before special items for the second quarter of 2019 amounted to DKK 398 million (DKK 346 million), an increase of 15.1%. The development is explained by a positive impact from the Fuelling the Growth program and the new accounting principles for operating leases. The same development results in the increase of 17.1% in EBITDA before special items for the first six months of 2019.

EBITDA margin before special items for the second quarter of 2019 was 21.9% (19.4%), an increase of 2.5% point. The development is explained by an 1.3% point impact from new accounting principles for operating leases and an improved OPEX ratio of 1.1% point.

EBITDA margin before special items for the first six months was 19.4% (17.8%), an increase of 1.7% point, of which 1.4% is explained by new accounting principles for operating leases.

Table 3: Special items

DKK million	Q2	Q2	Change	6M	6M	Change
	2019	2018		2019	2018	
Integration and transactions costs (Thompson Cigar)	8	11	-3	19	14	5
Fuelling the Growth program	12		12	25		25
Special items, costs	20	11	9	44	14	30

Financial items

Financial items for the second quarter amounted to a net expense of DKK 22 million compared to a net income of DKK 1 million in 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. The second quarter of 2018 included high exchange rate gains that did not occur to the same extent in the second quarter of 2019. The increase compared to the same period last year of DKK 12 million in the first six months of 2019 is explained by the development in the second quarter. Financial items amounted to a net expense of DKK 26 million (DKK 14 million).

Net profit for the second quarter was DKK 205 million (DKK 205 million) and for the first six months DKK 298 million (DKK 293 million), an increase of 1%.

Earnings per share (EPS) for the second quarter were DKK 2.0 (DKK 2.1) and for the first six months DKK 3.0 (DKK 2.9). Fully diluted EPS were DKK 2.0 (DKK 2.1) and for the first six months DKK 3.0 (DKK 2.9).

Cash flows

Cash flow from operations before changes in working capital in the second quarter of 2019 was DKK 277 million (DKK 324 million) a decrease of DKK 47 million as higher net tax payments and net financial items more than offset the improved operational results and positive impact of DKK 24 million from new accounting for operating leases.

Working capital in the second quarter contributed negatively to the cash flow of DKK -3 million (DKK -79 million). The stable level of working capital in Q2 2019 is a combination of reduced inventories and higher receivables.

Cash flow from investing activities amounted to DKK -31 million (DKK -421 million). The development is explained by the acquisition of Thompson Cigar in April 2018.

Free cash flow before acquisitions in the second quarter was positive by DKK 243 million (DKK 213 million). The cash conversion ratio was 109.6% (75.8%).

For the first six months of 2019, free cash flow was DKK 316 million (DKK -252 million). The free cash flow before acquisitions was DKK 316 million (DKK 137 million), an increase of DKK 179 million. The development is explained by the reduced negative impact from working capital, lower net tax payments, increased earnings and a positive impact of DKK 46 million from new accounting for operating leases, partly offset by higher payments related to special items. The cash conversion ratio was 95.7% (69.0%).

Table 4: Cash flow

DKK million	Q2 2019	Q2 2018	Change	6M 2019	6M 2018	Change
Cash flow from operations before NWC	277	324	-47	455	347	108
Changes in working capital	-3	-79	76	-92	-147	55
Cash flow from operations	274	245	29	363	200	163
Investing activities	-31	-421	390	-48	-452	405
Free cash flow	243	-176	419	316	-252	568
Free cash flow before acquisitions	243	213	31	316	137	179

Equity

Total shareholders' equity as per 30 June 2019 amounted to DKK 8,547 million (DKK 8,818 million on 31 December 2018). The equity was mainly affected by distribution of dividends and profit for the period. As per 30 June 2019 the equity ratio was 62.6% (65.8% on 31 December 2018).

Net interest-bearing debt

Net interest-bearing debt increased by DKK 100 million to DKK 3,184 million by the end of the second quarter 2019 compared to end of second quarter 2018. The leverage ratio (net interest-bearing debt to EBITDA before special items) decreased to 2.3x (2.4x at 30 June 2018).

Events after the reporting period

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

Financial guidance for 2019

The full-year guidance is unchanged

- >5% organic growth in EBITDA
- Special items of DKK ~85 million
- Free cash flow before acquisitions >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

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

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

Quarterly Financial Data (continued)

DKK million	2019		2018				
	Q2	Q1	Q4	Q3	Q2	Q1	Full-year
			----- Excluding IFRS 16 -----				
Region Smoking Tobacco & Accessories (ST&A)							
Net sales	410	363	450	447	419	360	1,677
Gross profit before special items	218	178	255	236	218	173	882
EBITDA before special items	142	101	163	147	136	98	545
Net sales growth	-2.1%	0.7%	-12.0%	-3.7%	-8.0%	-6.7%	-7.7%
Organic net sales growth	-1.6%	1.6%	-5.0%	6.3%	0.5%	7.4%	1.9%
Gross margin before special items	53.2%	49.1%	56.7%	52.7%	52.0%	48.0%	52.6%
EBITDA margin before special items	34.6%	27.9%	36.3%	32.9%	32.5%	27.1%	32.5%
Group costs							
EBITDA before special items	-25	-21	-20	-23	-30	-24	-96
ORGANIC GROWTH COMPOSITION							
Volume impact (%)							
Handmade cigars (NAO&R)	3.9%	1.4%	-4.3%	4.1%	3.4%	5.2%	1.6%
Handmade cigars (NAB)	-8.6%	-4.6%	-5.2%	10.2%	-3.5%	7.2%	1.8%
Machine-made cigars (MMC)	-4.6%	0.6%	-10.7%	-9.9%	-3.0%	-7.2%	-7.8%
Price/mix impact (%)							
Handmade cigars (NAO&R)	-1.5%	-0.1%	6.0%	3.8%	5.7%	2.0%	4.9%
Handmade cigars (NAB)	-1.1%	2.9%	1.6%	-1.6%	5.2%	-4.4%	0.9%
Machine-made cigars (MMC)	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 June 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 June 2019 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 30 June 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, 29 August 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 JUNE

DKK million	Note	Q2 2019	Q2 2018 ex. IFRS 16	6M 2019	6M 2018 ex. IFRS 16
Net sales	2	1,817.8	1,779.8	3,281.5	3,064.9
Cost of goods sold	2	-944.4	-926.8	-1,723.7	-1,599.1
Gross profit before special items	2	873.4	853.0	1,557.8	1,465.8
Other external costs	2	-288.9	-307.6	-544.9	-532.3
Staff costs	2	-186.6	-199.8	-375.7	-389.3
Earnings before interest, tax, depreciation, amortisation and special items (EBITDA before special items)	2	397.9	345.6	637.2	544.2
Depreciation and impairment		-53.9	-29.2	-107.1	-58.3
Earnings before interest, tax, amortisation and special items (EBITA before special items)		344.0	316.4	530.1	485.9
Amortisation		-44.1	-47.7	-87.8	-89.4
Earnings before interest, tax and special items (EBIT before special items)		299.9	268.7	442.3	396.5
Special items, costs	3	-20.2	-10.6	-43.8	-13.7
Earnings before interest and tax (EBIT)		279.7	258.1	398.5	382.8
Share of profit of associated companies, net of tax		4.6	5.4	8.6	9.7
Financial income		8.9	21.4	27.3	35.0
Financial costs		-31.1	-20.4	-53.5	-49.1
Profit before tax		262.1	264.5	380.9	378.4
Income taxes		-57.4	-59.2	-83.4	-85.2
Net profit for the period		204.7	205.3	297.5	293.2
Earnings per share					
Basic earnings per share (DKK)		2.0	2.1	3.0	2.9
Diluted earnings per share (DKK)		2.0	2.1	3.0	2.9
OTHER COMPREHENSIVE INCOME					
<i>Items that will be recycled subsequently to the Consolidated Income Statement, when specific conditions are met:</i>					
Cash flow hedges, deferred gains/losses incurred during the period		-15.3	-1.4	-31.9	19.6
Tax of cash flow hedges		3.3	0.2	7.0	-4.4
Foreign exchange adjustments on net investments in foreign operations		-83.1	323.5	50.6	161.8
Other comprehensive income for the period, net of tax		-95.1	322.3	25.7	177.0
Total comprehensive income for the period		109.6	527.6	323.2	470.2

ASSETS

DKK million	30 Jun 2019	30 Jun 2018 ex. IFRS 16	31 Dec 2018 ex. IFRS 16
Goodwill	4,578.4	4,497.5	4,561.8
Trademarks	2,890.3	2,987.3	2,922.6
IT software	66.8	94.3	75.9
Other intangible assets	294.0	321.0	308.8
Total intangible assets	7,829.5	7,900.1	7,869.1
Property, plant and equipment	1,402.7	1,228.7	1,219.5
Investments in associated companies	148.5	137.9	143.7
Deferred income tax assets	126.4	103.9	120.2
Other financial fixed assets	3.2	33.0	22.3
Total non-current assets	9,510.3	9,403.6	9,374.8
Inventories	2,742.1	2,715.8	2,598.7
Trade receivables	843.4	700.1	854.1
Other receivables	87.0	84.8	76.7
Corporate tax	133.1	161.2	121.2
Prepayments	59.7	88.8	66.8
Cash and cash equivalents	284.6	154.7	310.8
Total current assets	4,149.9	3,905.4	4,028.3
Total assets	13,660.2	13,309.0	13,403.1

CONSOLIDATED BALANCE SHEET

EQUITY AND LIABILITIES

DKK million	30 Jun 2019	30 Jun 2018 ex. IFRS 16	31 Dec 2018 ex. IFRS 16
Share capital	100.0	100.0	100.0
Reserve for hedging	-17.9	19.2	7.0
Reserve for currency translation	792.9	642.2	742.3
Treasury shares	-35.0	-40.5	-40.5
Retained earnings	7,707.4	7,628.3	8,009.4
Total equity	8,547.4	8,349.2	8,818.2
Bank loans	2,961.6	3,008.3	2,658.1
Deferred income tax liabilities	522.4	596.5	515.7
Pension obligations	249.9	245.5	240.8
Other provisions	27.6	29.1	33.7
Leasing liabilities	143.5	0.0	0.0
Other liabilities	37.3	22.2	27.4
Total non-current liabilities	3,942.3	3,901.6	3,475.7
Trade payables	315.6	377.3	377.1
Corporate tax	119.1	171.7	132.4
Other provisions	67.6	11.5	104.1
Leasing liabilities	71.9	0.0	0.0
Other liabilities	596.3	497.7	495.6
Total current liabilities	1,170.5	1,058.2	1,109.2
Total liabilities	5,112.8	4,959.8	4,584.9
Total equity and liabilities	13,660.2	13,309.0	13,403.1

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY – 30 JUNE

DKK million	Q2 2019	Q2 2018 ex. IFRS 16	6M 2019	6M 2018 ex. IFRS 16
Net profit for the period	204.7	205.3	297.5	293.2
Depreciation, amortisation and impairment	98.0	76.9	194.9	147.7
Adjustments	107.1	52.4	154.8	84.1
Changes in working capital	-2.8	-78.5	-91.8	-146.5
Special items, paid	-64.4	-10.0	-90.2	-21.5
Cash flow from operating activities before financial items	342.6	246.1	465.2	357.0
Financial income received	18.2	54.4	57.4	68.0
Financial costs paid	-36.0	-16.7	-59.7	-69.1
Cash flow from operating activities before tax	324.8	283.8	462.9	355.9
Tax payments	-50.7	-38.6	-99.7	-155.9
Cash flow from operating activities	274.1	245.2	363.2	200.0
Acquisitions	0.0	-388.6	0.0	-388.6
Investment in intangible assets	-18.4	-4.2	-20.9	-11.1
Investment in property, plant and equipment	-14.4	-30.0	-31.0	-56.4
Sale of property, plant and equipment	0.0	0.2	0.0	0.4
Dividend from associated companies	2.1	1.5	4.3	3.5
Cash flow from investing activities	-30.7	-421.1	-47.6	-452.2
Free cash flow	243.4	-175.8	315.6	-252.1
Repayment of lease liabilities	-23.8	0.0	-45.6	0.0
Revolving credit facility	298.5	223.5	298.5	372.3
Dividend payment	-598.0	-572.9	-598.0	-572.9
Cash flow from financing activities	-323.3	-349.4	-345.1	-200.6
Net cash flow for the period	-79.9	-525.2	-29.5	-452.7
Cash and cash equivalents, net at 1 April / 1 January	367.8	671.2	310.8	605.2
Exchange gains/losses on cash and cash equivalents	-3.3	8.7	3.3	2.3
Net cash flow for the period	-79.9	-525.2	-29.5	-452.7
Cash and cash equivalents, net at 30 June	284.6	154.7	284.6	154.7

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 30 JUNE 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
<i>Comprehensive income for the period</i>						
Net profit for the period	-	-	-	-	297.5	297.5
<i>Other comprehensive income</i>						
Cash flow hedges	-	-31.9	-	-	-	-31.9
Tax of cash flow hedges	-	7.0	-	-	-	7.0
Foreign exchange adjustments on net investments in foreign operations	-	-	50.6	-	-	50.6
Total other comprehensive income	-	-24.9	50.6	-	-	25.7
Total comprehensive income for the period	-	-24.9	50.6	-	297.5	323.2
<i>Transactions with shareholders</i>						
Share-based payments	-	-	-	-	4.0	4.0
Settlement of vested PSUs	-	-	-	5.5	-5.5	0.0
Dividend paid to shareholders	-	-	-	-	-600.0	-600.0
Dividend, treasury shares	-	-	-	-	2.0	2.0
Total transactions with shareholders	-	-	-	5.5	-599.5	-594.0
Equity at 30 June 2019	100.0	-17.9	792.9	-35.0	7,707.4	8,547.4

1 JANUARY - 30 JUNE 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
<i>Comprehensive income for the period</i>						
Net profit for the period	-	-	-	-	293.2	293.2
<i>Other comprehensive income</i>						
Cash flow hedges	-	19.6	-	-	-	19.6
Tax of cash flow hedges	-	-4.4	-	-	-	-4.4
Foreign exchange adjustments on net investments in foreign operations	-	-	161.8	-	-	161.8
Total other comprehensive income	-	15.2	161.8	-	-	177.0
Total comprehensive income for the period	-	15.2	161.8	-	293.2	470.2
<i>Transactions with shareholders</i>						
Share-based payments	-	-	-	-	3.7	3.7
Dividend paid to shareholders	-	-	-	-	-575.0	-575.0
Dividend, treasury shares	-	-	-	-	2.1	2.1
Total transactions with shareholders	-	-	-	-	-569.2	-569.2
Equity at 30 June 2018	100.0	19.2	642.2	-40.5	7,628.3	8,349.2

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 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 Jun 2019
Right-of-use assets (included in property, plant and equipment)	246.2	214.3
Lease liabilities, non-current (separate line in balance sheet)	165.7	143.5
Lease liabilities, current (separate line in balance sheet)	80.5	71.9

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

<i>DKK million</i>	<i>6M 2019 reported</i>	<i>IFRS 16 impact</i>	<i>6M 2019 excluding IFRS 16</i>	<i>6M 2018 reported</i>	<i>Pro forma IFRS 16 adj.</i>	<i>6M 2018 Pro forma restated</i>
EBITDA before special items	637.2	-45.6	591.6	544.2	40.8	585.0
Depreciation	-107.1	43.1	-64.0	-58.3	-38.7	-97.0
EBIT before special items	442.3	-2.5	439.8	396.5	2.1	398.6
Free cash flow before acquisitions	315.6	-45.6	270.0	136.5	40.8	177.3
Total assets	13,660.2	-214.3	13,445.9	-	-	-
Net interest-bearing debt	3,183.9	-215.4	2,968.5	-	-	-
EBITDA margin before special items	19.4%		18.0%	17.8%		19.1%

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

<i>DKK million</i>	<i>North America Online & Retail</i>	<i>North America Branded</i>	<i>Region MMC</i>	<i>Region ST&A</i>	<i>Group costs / not allocated</i>	<i>Total</i>
EBITDA before special items	160.9	116.0	163.4	243.2	-46.3	637.2
IFRS 16 impact	-10.4	-11.7	-14.8	-5.8	-2.9	-45.6
EBITDA before special items ex. IFRS 16	150.5	104.3	148.6	237.4	-49.2	591.6
EBITDA margin before special items	13.9%	20.3%	20.9%	31.5%		19.4%
EBITDA margin before special items ex. IFRS 16	13.0%	18.2%	19.0%	30.7%		18.0%

NOTE 1(continued)**Special items**

As of January 1, 2019 STG recognise '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 for '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 six months of 2019 and the restated comparison figures for the same period last year is stated below.

<i>DKK million</i>	<i>6M 2019 New ac- counting policies</i>	<i>6M 2019 Special items</i>	<i>6M 2019 Previous accoun- ting poli- cies</i>	<i>6M 2018 New ac- counting policies</i>	<i>6M 2018 Special items</i>	<i>6M 2018 Previous accoun- ting poli- cies</i>
Net sales	3,281.5	-	3,281.5	3,064.9	-	3,064.9
Cost of goods sold	-1,723.7	-6.7	-1,730.4	-1,599.1	-	-1,599.1
Gross profit before special items	1,557.8	-6.7	1,551.1	1,465.8	-	1,465.8
Other external costs	-544.9	-18.5	-563.4	-532.3	-6.5	-538.8
Staff costs	-375.7	-18.6	-394.3	-389.3	-7.2	-396.5
EBITDA before special items new¹	637.2	-	-	544.2	-	-
EBITDA previous²	-	-43.8	593.4	-	-13.7	530.5
Depreciation and impairment	-107.1	-	-107.1	-58.3	-	-58.3
Amortisation and impairment	-87.8	-	-87.8	-89.4	-	-89.4
EBIT before special items new³	442.3	-	-	396.5	-	-
Special items, costs	-43.8	43.8	-	-13.7	13.7	-
EBIT previous⁴	398.5	-	398.5	382.8	-	382.8
Share of profit of associated companies, net of tax	8.6	-	8.6	9.7	-	9.7
Financial income	27.3	-	27.3	35.0	-	35.0
Financial costs	-53.5	-	-53.5	-49.1	-	-49.1
Profit before tax	380.9	-	380.9	378.4	-	378.4
Income taxes	-83.4	-	-83.4	-85.2	-	-85.2
Net profit for the period	297.5	-	297.5	293.2	-	293.2

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.

<i>DKK million</i>	<i>2018 New ac- counting policies</i>	<i>2018 Special items</i>	<i>2018 Previous accoun- ting poli- cies</i>
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 new¹	1,304.3	-	-
EBITDA previous²	-	-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 new³	1,003.5	-	-
Special items, costs	-266.0	266.0	-
EBIT previous⁴	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 Growth¹ 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, 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)

6M 2019 DKK million	North America Online & Retail	North America Branded	Region MMC	Region ST&A	Group costs / not allo- cated	Total
Net sales	1,154.8	572.7	780.9	773.1	-	3,281.5
Cost of goods sold	-713.9	-246.5	-386.6	-376.7	-	-1,723.7
Gross profit before special items	440.9	326.2	394.3	396.4	-	1,557.8
Staff and other external costs	-280.0	-210.2	-230.9	-153.2	-46.3	-920.6
EBITDA bef. special items	160.9	116.0	163.4	243.2	-46.3	637.2
Depreciation and impairment					-107.1	-107.1
Amortisation					-87.8	-87.8
EBIT before special items					-241.2	442.3
Special items, costs					-43.8	-43.8
EBIT					-285.0	398.5
Share of profit of associated companies, net of tax					8.6	8.6
Financial income					27.3	27.3
Financial costs					-53.5	-53.5
Profit before tax					-320.6	380.9

6M 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	907.2	584.2	794.1	779.4	-	3,064.9
Cost of goods sold	-573.5	-245.5	-391.7	-388.4	-	-1,599.1
Gross profit before special items	333.7	338.7	402.4	391.0	-	1,465.8
Staff and other external costs	-217.6	-228.4	-265.1	-157.2	-53.3	-921.6
EBITDA bef. special items	116.1	110.3	137.3	233.8	-53.3	544.2
Depreciation and impairment					-58.3	-58.3
Amortisation					-89.4	-89.4
EBIT before special items					-201.0	396.5
Special items, costs					-13.7	-13.7
EBIT					-214.7	382.8
Share of profit of associated companies, net of tax					9.7	9.7
Financial income					35.0	35.0
Financial costs					-49.1	-49.1
Profit before tax					-219.0	378.4

NOTE 2**SEGMENT INFORMATION AND NET SALES (continued)**

DKK million	6M 2019	6M 2018
Category split, net sales		
Handmade cigars	1,221.6	1,031.6
Machine-made cigars	1,090.8	1,090.5
Smoking tobacco	500.3	475.1
Accessories and CMA	468.8	467.7
Total net sales	3,281.5	3,064.9

Licence income and other sales of DKK 18.8 million (DKK 14.8 million) are included in the category 'Accessories and Contract Manufacturing'.

Geographical split, net sales

Americas	1,743.6	1,530.5
Europe	1,271.2	1,276.0
Rest of World	266.7	258.4
Total net sales	3,281.5	3,064.9

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

NOTE 3**SPECIAL ITEMS**

DKK million	6M 2019	6M 2018
Integration and transactions costs (Thompson Cigar)	18.6	13.7
Fuelling the Growth program	25.2	-
Total special items	43.8	13.7

NOTE 4**FINANCIAL INSTRUMENTS**

The fair value of financial instruments included in the balance sheet as per 30 June 2019 amounts to a net liability of DKK 41.6 million (net receivable of DKK 3.5 million on 31 December 2018).