Company Announcement
No. 20/2020

Copenhagen, 28 August 2020

Interim report, 1 January-30 June 2020

Scandinavian Tobacco Group A/S reports strong Q2 results

For the second quarter of 2020, Scandinavian Tobacco Group delivered better than expected results with positive growth in net sales, earnings and free cash flow before acquisitions. The results were driven by increased consumption of handmade cigars and a strong volume growth in the US online business.

Q2 2020 highlights

- Net sales grew organically by 4.6% to DKK 2,097 million (DKK 1,782 million).
- EBITDA before special items was DKK 489 million (DKK 398 million) after 19.1% organic growth. The EBITDA margin was 23.3% (22.3%).
- Earnings Per Share (EPS) was DKK 3.1 (DKK 2.2) adjusted for special items.
- Free cash flow before acquisitions improved to DKK 425 million (DKK 243 million).
- Agio Cigars, which was acquired on January 2, 2020 contributed as planned.
- In the first 6 months of 2020, net sales grew 4.9% organically to DKK 3,852 million (DKK 3,212 million), and EBITDA before special items grew 21.0% organically to DKK 815 million (DKK 637 million) with free cash flow before acquisitions improving to DKK 547 million (DKK 316 million).

COVID-19 resilient business – raised guidance

The negative impact of the COVID-19 pandemic on Scandinavian Tobacco Group's business has been less profound than anticipated earlier in the year. Tobacco consumption across markets and categories has displayed significant resilience and increased consumption of handmade cigars brought on by the change in consumer behaviour in the US is likely to continue for the rest of the year.

While visibility around the financial outlook remains lower than normal and financial performance in the quarter was positively impacted by phasing in certain markets, the Group raised its 2020 full-year guidance on 14 August 2020 (see also Company Announcement no. 17, 2020) based on the year-to-date numbers, a strong performance in the month of July, a successful initial integration of Agio Cigars and assuming no material disruptions to the Groups supply-chain.

- EBITDA: Organic growth >9% (previously: >2%)
- Free cash flow before acquisitions: >DKK 1,000 million (previously: ~DKK 850 million)

CEO Niels Frederiksen: *"Our strong performance in the quarter is based on an overall increased consumption of handmade cigars in the US as more people work from home and by the skills and hard work of our employees around the world who have been working diligently to mitigate the impacts of the pandemic and keep the business moving forward. Additionally, a successful initial integration of Agio Cigars and the continued execution of Fuelling the Growth are also positively affecting our cost efficiency in the quarter."*

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A conference call will be held on 31 August 2020 at 10.00 CEST. Dial-in information and an accompanying presentation will be available at investor.st-group.com around 09:00 CEST.

Key Figures

DKK million	Q2 2020	Q2 2019	6M 2020	6M 2019	Year 2019
INCOME STATEMENT					
Net sales[1]	2,097	1,782	3,852	3,212	6,719
Gross profit before special items[1]	940	832	1,721	1,479	3,142
EBITDA before special items	489	398	815	637	1,513
Special items	-78	-20	-234	-44	-133
EBIT	304	280	370	399	977
Net financial items[2]	-2	-22	-45	-26	-45
Profit before tax	305	262	332	381	949
Income taxes	-52	-57	-57	-83	-201
Net profit	254	205	274	298	748
BALANCE SHEET					
Total assets			14,911	13,660	13,872
Equity			8,664	8,547	9,103
Net interest-bearing debt (NIBD)			3,995	3,184	2,330
Investment in property, plant and equipment	58	14	91	31	94
Total capital expenditures	71	33	106	52	122
CASH FLOW STATEMENT					
Cash flow from operating activities	494	274	649	363	1,300
Cash flow from investing activities	-69	-31	-1,662	-48	-50
Free cash flow	425	243	-1,013	316	1,250
Free cash flow before acquisitions	425	243	547	316	1,187
KEY RATIOS[3]					
Net sales growth	17.6%	2.1%	20.0%	7.0%	2.4%
Gross margin before special items[1]	44.8%	46.7%	44.7%	46.0%	46.8%
EBITDA margin before special items[1]	23.3%	22.3%	21.1%	19.8%	22.5%
Effective tax percentage	16.9%	21.9%	17.3%	21.9%	21.2%
Equity ratio			58.1%	62.6%	65.6%
Cash conversion	143.1%	109.6%	127.4%	95.7%	118.6%
Organic net sales growth	4.6%	-0.9%	4.9%	-1.3%	-2.5%
Organic EBITDA growth	19.1%	5.5%	21.0%	6.2%	7.1%
NIBD / EBITDA before special items			2.4	2.3	1.5
ROIC			7.6%	6.4%	8.2%
ROIC ex. Goodwill			12.4%	10.3%	13.5%
Earnings per share adj. special items (DKK)	3.1	2.2	4.6	3.3	8.5
Basic earnings per share (DKK)	2.5	2.0	2.7	3.0	7.5
Diluted earnings per share (DKK)	2.5	2.0	2.7	3.0	7.5
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. See note 1 for restatement of historical net sales and gross profit figures and related ratios.
2. Excl. share of profit of associated companies.
3. See definition/explanation of financial ratios in note 5.8 in the Annual Report 2019.

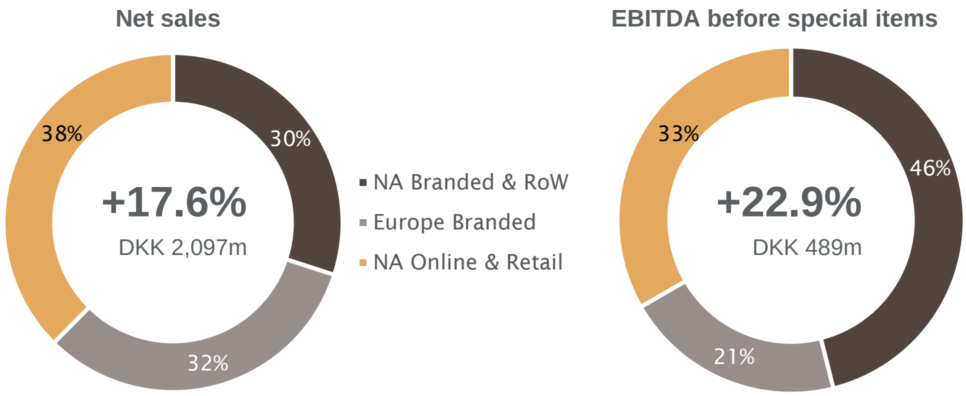
Business overview Q2 2020

The Group delivered solid 5% organic growth in net sales to DKK 2,097 million based on strong growth in North America Online & Retail and moderate negative organic growth in North America Branded & Rest of World and Europe Branded. Reported growth was 18% driven by the acquisition of Agio Cigars. Earnings and profitability improved significantly driven by a better product mix, strong operational performance due to increased volume and increased efficiency following continued progress of Fuelling the Growth initiatives and the Agio Cigars integration. EBITDA before special items grew 19% organically to DKK 489 million entailing an EBITDA margin before special items of 23.3%. Special items came to DKK -78 million (DKK -20 million) mainly comprised by the integration of Agio Cigars, see note 3. The Group's free cash flow before acquisitions improved to DKK 425 million (DKK 243 million) in the second quarter of 2020 partly due to timing of payables and as of 30 June 2020, the leverage ratio was 2.4x.

The negative impact on the business from the COVID-19 pandemic has been smaller than anticipated as overall consumption of tobacco products have demonstrated stronger than expected resilience and have in some markets turned positive.

Following the integration of Agio Cigars, the Group changed its organisational and reporting structure introducing three commercial divisions: Division North America Branded & Rest of World, Division North America Online & Retail and Division Europe Branded. See also Company Announcement no. 18 from 18 August 2020.

Divisional split Q2 2020



Group net sales and EBITDA Q2 2020

Table 1: Net sales

DKK million	Q2 2020	Q2 2019	Change in %
Net sales[1]	2,097	1,782	17.6%
Acquisitions		249	
Divestments		-30	
Currency development	-3		
Organic net sales	**2,093**	**2,001**	**4.6%**

1. See note 1 for restatement of historical net sales figures and related ratios.

Table 2: EBITDA

DKK million	Q2 2020	Q2 2019	Change in %
EBITDA b.s.i.	489	398	22.9%
Acquisitions	23	44	
Divestments		-8	
Currency development	6		
Organic EBITDA	**518**	**435**	**19.1%**

COVID-19
During the second quarter, the demand for our product categories proved resilient to the impacts of COVID-19. In handmade cigars, smoking tobacco in North America and machine-made cigars in some European markets the development in demand has improved leaving the overall impact for the Group better than expected for the quarter. However, the long-term impact on consumer behaviour remains uncertain with loading in several markets continuing to lower visibility.

In North American Online & Retail, the online operation experienced an increase in the amount of active customers and increased order sizes on the back of the temporary closure of most brick and mortar stores in many states. By the end of the quarter the demand from brick and mortar retail stores started to improve, while overall supply of premium cigars started to narrow and as a result driving down inventories throughout the supply-chain.

Agio Cigars
The integration of Agio Cigars moved from planning to implementation in the second quarter and is progressing as planned. The integration is on track to deliver total net synergies of an estimated DKK 225 million by the end of 2022. The expectation for cost savings to contribute with about DKK 70-80 million in 2020 remain unchanged. During the initial steps of the integration market shares and net sales in the businesses acquired are largely unchanged.

Special costs of DKK 70 million has been expensed in the second quarter. The expectation is maintained that total special costs until end of 2022 will be at the level of DKK 450 million with cash impact and DKK 109 million in non-cash impairments. The latter were expensed in the first quarter of the year.

Initiation of share buy-back programme
It has been decided to initiate the previously announced share buy-back programme at a total value of up to DKK 300 million. The purpose of the share buy-back is to adjust the capital structure and meet obligations in relation to the Group’s share-based incentive programme. The share buy-back programme will be executed from 31 August 2020 to 26 February 2021 at the latest and will be executed as a Safe Harbour program. See Company Announcement no 21 from 28 August 2020 for further details.

Financial guidance for 2020

As communicated in Company Announcement no. 17, 14 August 2020 the financial guidance has been revised to expectations of

- EBITDA: Organic growth > 9% (previously >2%)
- Free cash flow before acquisitions >DKK 1,000 million (previously ~DKK 850 million)

The guidance is based on assumptions that the change in consumer behaviour in the US will continue for the rest of the year, no major second wave developments and no material disruptions to our supply-chain occur. Furthermore, the Group continues to 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 the Fuelling the Growth restructuring program. The second half financial performance is anticipated to be negatively affected by the adverse impacts from phasing in the first half and an increase in the cost base as markets normalises.

Special costs are expected to be about DKK 415-435 million for the full year. This is divided by cash costs in relation to the integration of Agio Cigars of DKK 250-270 million, a non-cash impairment charge of DKK 109 million for the closure of facilities in Moca (DO), Duizel (NL) and Eersel (NL) and DKK 55 million in relation to Fuelling the Growth and the closure of the facility in Tucker (US).

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%.

It has been decided to consolidate the ERP landscape into one global ERP platform in a project called One Process. One Process will only require immaterial investments in 2020 while the scope of investments in the years to come will be communicated as details of the implementation have been finalised.

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.

Divisional update

North America Online & Retail

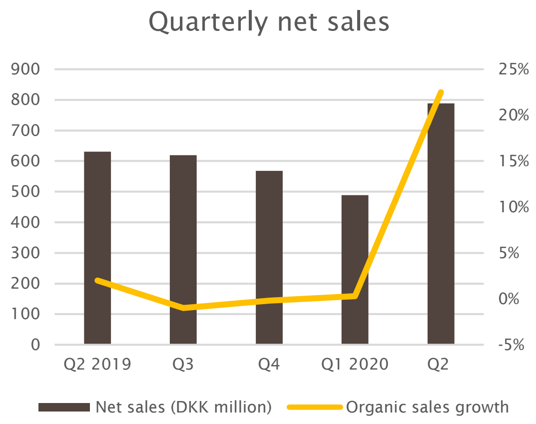
The North American online channel experienced an increase in the number of active customers and an increase in average order size compared with the first quarter of 2020. Recently conducted market research suggests that overall consumption of handmade cigars has increased during the COVID-19 outbreak despite temporary closures of many brick and mortar retail stores and cigar lounges. Following the gradual reopening in recent months, the online growth rate has slowed somewhat, while remaining at higher levels than last year. Online commercial initiatives continued throughout the quarter with modernisation and upgrades of website platforms.

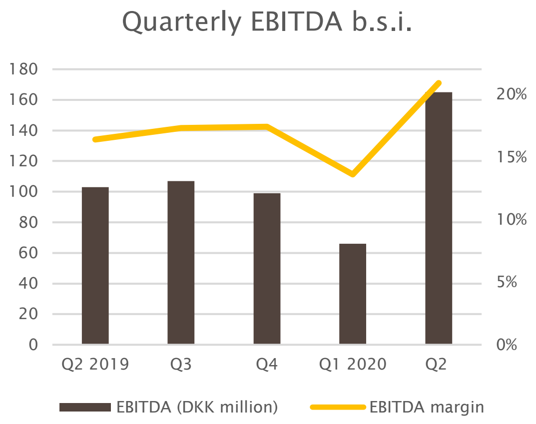
The four brick and mortar retail stores in Pennsylvania and Texas have been impacted by state mandated closures and currently operate well below normal activity level.

The construction of Cigars International's three new super stores in Florida and Texas are – despite COVID-19 - progressing as planned. The Texas store in Fort Worth opened on 22 July and it is expected that the remaining two stores in Florida will open during 2020.

The division is expected to show continued positive organic growth during the second half of the year as consumers are believed to only partly return to brick and mortar retail stores this year.

Quarterly development, Q2 2019-Q2 2020





Net sales increased by 25% to DKK 788 million during the quarter composed by a 22% positive organic net sales growth and a positive exchange rate effect of 3%. The organic development was driven by a significant positive contribution from handmade cigars in the online channel.

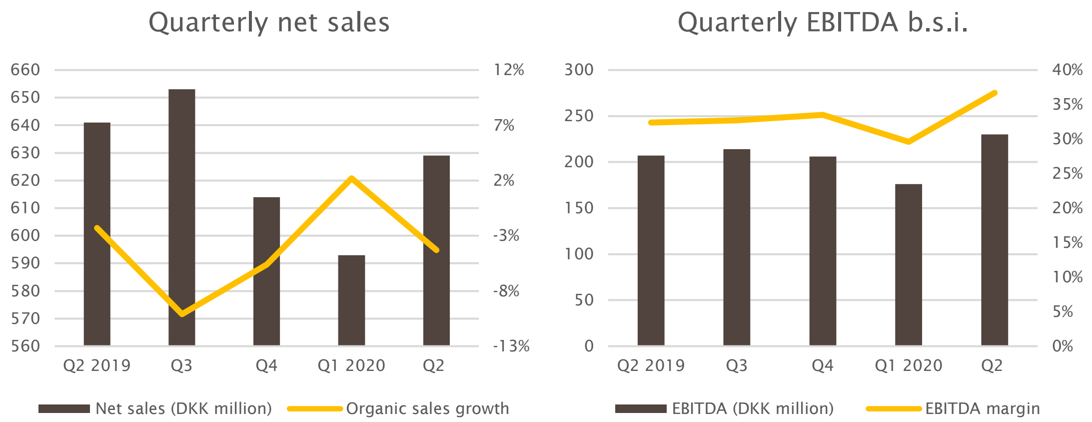
EBITDA before special items increased by 60% to DKK 165 million with an EBITDA margin before special items of 20.9% (16.4%). The margin improvement is driven by lower promotional and marketing expenses as well as continued benefits from the integration of Thompson Cigars and Fuelling the Growth impacts.

First six months of 2020
Net sales for the first six months of 2020 increased by 16% to 1,277 million and organic growth was 13%. Gross profit before special items increased by 15% to 493 million and the gross margin was 38.6% (38.9%). EBITDA before special items increased by 57% to DKK 231 million with an EBITDA margin of 18.1% (13.3%).

North America Branded & RoW

Organic net sales growth was negative for the second quarter with decline in most product categories during April and May in North America, but with an improvement in June as countries started to reopen. The almost complete closure of the brick and mortar retail channel in the US reduced total volumes of handmade cigars for the division despite an increased demand from the online channel. The division sales of handmade cigars to the retail channel are traditionally higher compared with the sales to the online channel. Smoking tobacco realised positive growth, although the underlying consumption of pipe tobacco and fine-cut continues its structural decline.

Quarterly development, Q2 2019-Q2 2020



Net sales was marginally lower at DKK 629 million during the quarter composed by a 4% negative organic net sales growth and a positive exchange rate effect of 2%. The organic development was driven by a significant decline in volumes of handmade cigars due to closures in the retail channel, which could not be off-set by improved pricing and stronger volumes to the online channel. Net sales was negatively impacted by loadings of machine-made cigars in Canada in the first quarter as well as the division has been significantly impacted by COVID-19 related close-down of borders and travel retail.

EBITDA before special items increased by 11% to DKK 230 million with an EBITDA margin before special items of 36.7% (32.4%). The margin improvement was realised with an improved gross margin driven by product mix and an improved OPEX ratio which decreased due to lower sales and marketing spending and general efficiency improvements.

First six months of 2020

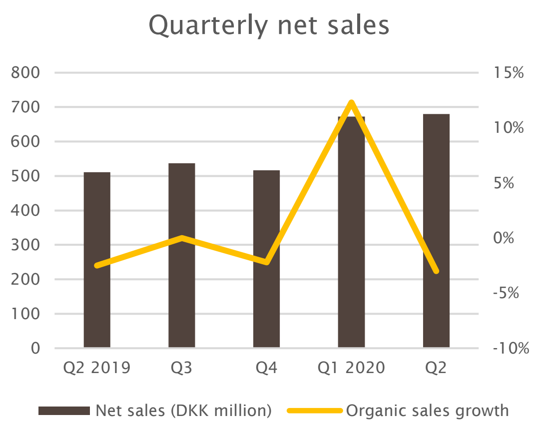
Net sales for the first six months of 2020 increased by 5% to 1,222 million and organic growth was negative by 1.3%. Gross profit before special items increased by 8% to 615 million and the gross margin was 50.3% (48.6%) primarily driven by product mix and price increases. EBITDA before special items increased by 18% to DKK 406 million with an EBITDA margin of 33.2% (29.5%).

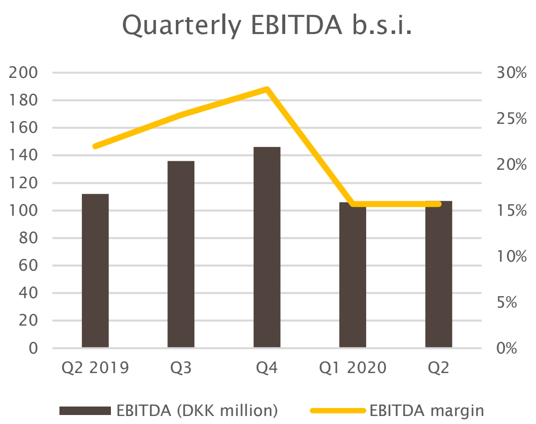
Europe Branded

The acquisition of Agio Cigars, which was acquired 2 January 2020, has primarily impacted Europe Branded with important contributions to market share of machine-made cigars in France, the Netherlands, Belgium, Italy, Germany and Spain.

The overall market for machine-made cigars has so far showed a stronger resilience to the COVID-19 impacts than expected and with like-for-like increases in market shares, the development in net sales has been better than expected. The combined market share in the largest European markets (France, Belgium, the Netherlands, UK, Germany, Spain and Italy) was 33.3% versus 32.7% in the first quarter of 2020 and 32.9% in the fourth quarter of 2019.

Quarterly development, Q2 2019-Q2 2020





Net sales increased by 33% to DKK 680 million during the quarter composed by a 3% negative organic net sales growth and a 36% positive impact from the acquisition of Agio Cigars. The organic development was driven by negative COVID-19 impacts and impacts from phasing in the first quarter of the year.

EBITDA before special items decreased by 5% to DKK 107 million with an EBITDA margin before special items of 15.7% (22.0%). 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 EBITDA margin (19.0%) decreased versus last year due to a declining gross margin driven by market mix, partly offset by efficiency improvements.

First six months of 2020

Net sales for the first six months of 2020 increased by 44% to 1,353 million and organic growth was 4.0%. Gross profit before special items increased by 27% to 613 million and the gross margin was 45.3% (51.2%) impacted by a fair value adjustment relating to Agio Cigars inventories of DKK 62 million. EBITDA before special items increased by 11% to DKK 212 million with an EBITDA margin of 15.7% (20.5%). Excluding the fair value adjustment the EBITDA margin was 20.3% (20.5%).

Quarterly Financial Data

	2020		2019			2020	2019	2019
DKK million	Q2	Q1	Q4	Q3	Q2	6M	6M	12M
Reported data								
Net sales[1]	2,097	1,756	1,699	1,808	1,782	3,852	3,212	6,719
Gross profit before special items[1]	940	781	810	854	832	1,721	1,479	3,142
EBITDA before special items	489	326	430	446	398	815	637	1,513
Special items	-78	-155	29	-118	-20	-234	-44	-133
EBIT	304	66	350	229	280	370	399	977
Net financial items	-2	-43	-3	-16	-22	-45	-26	-45
Profit before tax	305	26	351	217	262	332	381	949
Income taxes	-52	-6	-72	-45	-57	-57	-83	-201
Net profit	254	21	279	172	205	274	298	748
Other financial key data								
Organic EBITDA growth	19.1%	23.9%	10.6%	5.4%	5.5%	21.0%	6.2%	7.1%
Organic net sales growth	4.6%	5.3%	-2.8%	-4.2%	-0.9%	4.9%	-1.3%	-2.5%
Gross margin before special items[1]	44.8%	44.5%	47.7%	47.2%	46.7%	44.7%	46.0%	46.8%
EBITDA margin before special items[1]	23.3%	18.5%	25.3%	24.7%	22.3%	21.1%	19.8%	22.5%
Free cash flow before acquisitions	425	122	368	503	243	547	316	1,187
North America Online & Retail								
Net sales	788	489	568	619	631	1,277	1,104	2,291
Gross profit before special items	310	183	211	242	252	493	430	883
EBITDA before special items	165	66	99	107	103	231	147	353
Net sales growth	24.9%	3.4%	3.0%	3.6%	8.3%	15.7%	28.6%	14.2%
Organic net sales growth	22.5%	0.3%	-0.2%	-1.0%	2.0%	13.0%	2.1%	0.7%
Gross margin before special items	39.3%	37.5%	37.1%	39.2%	40.0%	38.6%	38.9%	38.5%
EBITDA margin before special items	20.9%	13.6%	17.4%	17.3%	16.4%	18.1%	13.3%	15.4%
North America Branded & RoW								
Net sales	629	593	614	653	641	1,222	1,169	2,436
Gross profit before special items	329	286	305	321	319	615	568	1,195
EBITDA before special items	230	176	206	214	207	406	345	764
Net sales growth	-1.9%	12.3%	-4.1%	-8.0%	0.3%	4.5%	-1.9%	-4.1%
Organic net sales growth	-4.3%	2.2%	-5.6%	-10.1%	-2.3%	-1.3%	-4.2%	-6.2%
Gross margin before special items	52.4%	48.1%	49.6%	49.3%	49.8%	50.3%	48.6%	49.0%
EBITDA margin before special items	36.7%	29.6%	33.5%	32.7%	32.4%	33.2%	29.5%	31.4%
Europe Branded								
Net sales	680	673	517	537	511	1,353	939	1,992
Gross profit before special items	301	312	294	290	261	613	481	1,065
EBITDA before special items	107	106	146	136	112	212	192	474
Net sales growth	33.1%	57.4%	-1.8%	-0.1%	-2.4%	44.2%	-1.3%	-1.3%
Organic net sales growth	-3.0%	12.3%	-2.2%	0.0%	-2.5%	4.0%	-1.5%	-1.3%
Gross margin before special items	44.2%	46.4%	56.9%	54.0%	51.1%	45.3%	51.2%	53.4%
EBITDA margin before special items	15.7%	15.7%	28.2%	25.4%	22.0%	15.7%	20.5%	23.8%
Group costs								
EBITDA before special items	-13	-23	-21	-11	-25	-35	-47	-79

1. See note 1 for restatement of historical net sales and gross profit figures and related ratios.

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 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 30 June 2020 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 30 June 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, 28 August 2020

EXECUTIVE MANAGEMENT

Niels Frederiksen
CEO

Marianne Rørslev Bock
CFO

BOARD OF DIRECTORS

Nigel Northridge
CHAIRMAN

Henrik Brandt
VICE-CHAIRMAN

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Dianne Neal Blixt

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Claus Gregersen

Lindy Larsen

Hanne Malling

Mogens Olsen

STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY - 30 JUNE

CONSOLIDATED INCOME STATEMENT

DKK million	Note	Q2 2020	Q2 2019	6M 2020	6M 2019
Net sales	**1, 2**	**2,096.5**	**1,782.3**	**3,852.2**	**3,211.5**
Cost of goods sold	1, 2	-1,156.5	-949.9	-2,131.1	-1,733.0
Gross profit before special items	**1, 2**	**940.0**	**832.4**	**1,721.1**	**1,478.5**
Other external costs	1, 2	-216.0	-247.9	-463.8	-465.6
Staff costs	2	-234.9	-186.6	-442.7	-375.7
Earnings before interest, tax, depreciation, amortisation and special items (EBITDA before special items)	**2**	**489.1**	**397.9**	**814.6**	**637.2**
Depreciation and impairment		-65.8	-53.9	-126.6	-107.1
Earnings before interest, tax, amortisation and special items (EBITA before special items)		**423.3**	**344.0**	**688.0**	**530.1**
Amortisation and impairment		-41.3	-44.1	-84.6	-87.8
Earnings before interest, tax and special items (EBIT before special items)		**382.0**	**299.9**	**603.4**	**442.3**
Special items, costs and impairment	3	-78.4	-20.2	-233.8	-43.8
Earnings before interest and tax (EBIT)		**303.6**	**279.7**	**369.6**	**398.5**
Share of profit of associated companies, net of tax		4.2	4.6	7.1	8.6
Financial income		21.0	8.9	36.1	27.3
Financial costs		-23.4	-31.1	-81.0	-53.5
Profit before tax		**305.4**	**262.1**	**331.8**	**380.9**
Income taxes		-51.7	-57.4	-57.4	-83.4
Net profit for the period		**253.7**	**204.7**	**274.4**	**297.5**
Earnings per share					
Basic earnings per share (DKK)		2.5	2.0	2.7	3.0
Diluted earnings per share (DKK)		2.5	2.0	2.7	3.0
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		-1.9	-15.3	-11.8	-31.9
Tax of cash flow hedges		0.4	3.3	2.6	7.0
Foreign exchange adjustments on net investments in foreign operations		-137.3	-83.1	-100.1	50.6
Other comprehensive income for the period, net of tax		**-138.8**	**-95.1**	**-109.3**	**25.7**
Total comprehensive income for the period		**114.9**	**109.6**	**165.1**	**323.2**

Net sales

For the second quarter of 2020, net sales was DKK 2,097 million (DKK 1,782 million). Adjusted for the acquisition of Agio Cigars and the divested sales activities in Slovenia and Croatia by DKK 219 million and a positive exchange rate impact by DKK 3 million, the organic growth in net sales was positive by 4.6%. For the first six months of 2020, net sales came to DKK 3,852 million (DKK 3,212 million).

Profit

Gross profit before special items for the second quarter of 2020 was DKK 940 million (DKK 832 million) driven by Agio Cigars and the positive organic growth in net sales. The gross margin before special items was 44.8% (46.7%) with increasing margins in North America Branded & RoW, stable margins in North America Online & Retail and declining margins in Europe Branded with the consolidation of Agio Cigars impacting negatively to margins.

Operating expenses for the second quarter increased to DKK 451 million (DKK 435 million) driven by Agio Cigars. The OPEX ratio decreased to 21.5% (24.4%) driven by the integration of Agio Cigars and underlying cost efficiencies and savings from the Fuelling the Growth program.

EBITDA before special items for the second quarter of 2020 amounted to DKK 489 million (DKK 398 million). The development is explained by a positive contribution from acquisitions and divestments, net of DKK 14 million as well as a positive impact of cost efficiency improvements. Organic EBITDA growth was 19.1%.

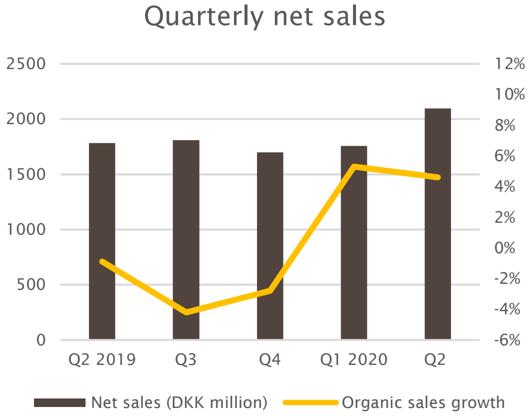
EBITDA margin before special items for the second quarter of 2020 was 23.3% (22.3%).

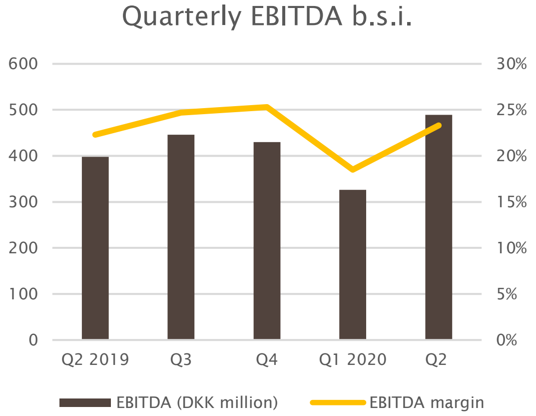
During the quarter DKK 78 million (DKK 20 million) has been expensed as special items. Special items relating to Fuelling the Growth was DKK 1 million (DKK 12 million) with the total special items for Fuelling the Growth still seen at up to a total of DKK 250 million. DKK 70 million has been expensed in relation to the integration of Agio Cigars and DKK 7 million in relation to the closure of the factory in Tucker (US). See note 3 for an overview of special items.

Net profit was DKK 254 million (DKK 205 million). Earnings per share (EPS) were DKK 2.5 (DKK 2.0). EPS adjusted for special items net of tax were DKK 3.1 (DKK 2.2).

For the first six months of 2020, gross profit before special items was DKK 1,721 million (DKK 1,479 million) with a gross margin of 44.7% (46.0%). EBITDA before special items was DKK 815 million (DKK 637 million) with an EBITDA margin of 21.1% (19.8%) Special items were DKK 234 million (DKK 44 million), net profit was DKK 274 million (DKK 298 million) with EPS adjusted for special items net of tax at DKK 4.6 (DKK 3.3).

Quarterly development, Q2 2019-Q2 2020





CONSOLIDATED BALANCE SHEET

ASSETS

DKK million	**30 Jun 2020**	**30 Jun 2019**	**31 Dec 2019**
INTANGIBLE ASSETS			
Goodwill	5,119.3	4,578.4	4,629.8
Trademarks	3,219.1	2,890.3	2,840.2
IT software	56.7	66.8	45.7
Other intangible assets	263.5	294.0	281.1
Total intangible assets	**8,658.6**	**7,829.5**	**7,796.8**
Property, plant and equipment	1,425.8	1,402.7	1,323.7
Investments in associated companies	158.3	148.5	155.9
Deferred income tax assets	147.5	126.4	136.3
Other financial fixed assets	0.0	3.2	1.7
Total non-current assets	**10,390.2**	**9,510.3**	**9,414.4**
Inventories	3,022.8	2,742.1	2,530.0
Trade receivables	964.5	843.4	800.6
Other receivables	81.9	87.0	93.6
Corporate tax	102.2	133.1	82.0
Prepayments	53.4	59.7	53.9
Cash and cash equivalents	295.7	284.6	897.5
Total current assets	**4,520.5**	**4,149.9**	**4,457.6**
Total assets	**14,910.7**	**13,660.2**	**13,872.0**

CONSOLIDATED BALANCE SHEET

EQUITY AND LIABILITIES

DKK million	Note	30 Jun 2020	30 Jun 2019	31 Dec 2019
Share capital		100.0	100.0	100.0
Reserve for hedging		-24.3	-17.9	-15.1
Reserve for currency translation		814.3	792.9	914.4
Treasury shares		-30.8	-35.0	-35.0
Retained earnings		7,804.8	7,707.4	8,138.4
Total equity		**8,664.0**	**8,547.4**	**9,102.7**
Bank loans	4	3,644.0	2,961.6	2,682.1
Deferred income tax liabilities		625.6	522.4	516.7
Pension obligations		295.8	249.9	281.7
Other provisions		23.0	27.6	18.5
Leasing liabilities		141.9	143.5	159.8
Other liabilities		37.1	37.3	31.4
Total non-current liabilities		**4,767.4**	**3,942.3**	**3,690.2**
Credit facilities		84.0	0.0	0.0
Trade payables		474.5	315.6	334.0
Corporate tax		98.6	119.1	121.5
Other provisions		67.2	67.6	38.4
Leasing liabilities		67.9	71.9	67.0
Other liabilities		687.1	596.3	518.2
Total current liabilities		**1,479.3**	**1,170.5**	**1,079.1**
Total liabilities		**6,246.7**	**5,112.8**	**4,769.3**
Total equity and liabilities		**14,910.7**	**13,660.2**	**13,872.0**

Equity

Total shareholders' equity as at 30 June 2020 amounted to DKK 8,664 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 30 June 2020 the equity ratio was 58.1% (65.6% on 31 December 2019).

Net interest bearing debt

Net interest-bearing debt decreased by DKK 449 million to DKK 3,995 million versus the end of Q1 2020. The leverage ratio (net interest-bearing debt to LTM EBITDA before special items) decreased to 2.4x (2.8x at 31 March 2020 and 1.5x at 31 December 2019). The decrease was driven by cash flow generated in the quarter.

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY - 30 JUNE

DKK million	**Q2 2020**	**Q2 2019**	**6M 2020**	**6M 2019**
Net profit for the period	253.7	204.7	274.4	297.5
Depreciation, amortisation and impairment	107.1	98.0	320.5	194.9
Adjustments	160.8	107.1	286.6	154.8
Changes in working capital	108.8	-2.8	29.2	-91.8
Special items, paid	-65.2	-64.4	-86.8	-90.2
Cash flow from operating activities before financial items	**565.2**	**342.6**	**823.9**	**465.2**
Financial income received	20.1	18.2	78.0	57.4
Financial costs paid	-55.7	-36.0	-146.9	-59.7
Cash flow from operating activities before tax	**529.6**	**324.8**	**755.0**	**462.9**
Tax payments	-35.2	-50.7	-106.4	-99.7
Cash flow from operating activities	**494.4**	**274.1**	**648.6**	**363.2**
Acquisitions	0.0	0.0	-1,560.1	0.0
Investment in intangible assets	-12.7	-18.4	-15.1	-20.9
Investment in property, plant and equipment	-58.4	-14.4	-90.5	-31.0
Dividend from associated companies	2.1	2.1	4.0	4.3
Cash flow from investing activities	**-69.0**	**-30.7**	**-1,661.7**	**-47.6**
Free cash flow	**425.4**	**243.4**	**-1,013.1**	**315.6**
Repayment of lease liabilities	-17.9	-23.8	-37.0	-45.6
Other financing	1.8	0.0	6.9	0.0
New external funding	0.0	298.5	5,344.2	298.5
Repayment bank loans	-626.3	0.0	-4,374.3	0.0
Dividend payment	0.0	-598.0	-608.3	-598.0
Cash flow from financing activities	**-642.4**	**-323.3**	**331.5**	**-345.1**
Net cash flow for the period	**-217.0**	**-79.9**	**-681.6**	**-29.5**
Cash and cash equivalents, net at 1 April / 1 January	428.5	367.8	897.5	310.8
Exchange gains/losses on cash and cash equivalents	0.2	-3.3	-4.2	3.3
Net cash flow for the period	-217.0	-79.9	-681.6	-29.5
Cash and cash equivalents, net at 30 June	**211.7**	**284.6**	**211.7**	**284.6**

Cash flows

Cash flow from operations before changes in working capital in the second quarter of 2020 was DKK 386 million (DKK 277 million). The increase was driven by the improved operational results.

Working capital in the second quarter of 2020 contributed positively to the cash flow by DKK 109 million (DKK -3 million). The decrease in working capital in the second quarter of 2020 was partly driven by timing of payables.

Cash flow from investing activities amounted to DKK -69 million (DKK -31 million). The increase is driven by the increase in retail investments in the US.

Free cash flow before acquisitions in the second quarter of 2020 was positive by DKK 425 million (DKK 243 million). The cash conversion ratio was 143% (110%).

For the first six months of 2020 cash flow from operations before changes in working capital was DKK 619 million (DKK 455 million). Working capital contributed by DKK 29 million (DKK -92 million). Free cash flow before acquisitions was DKK 547 million (DKK 316 million) and the cash conversion ratio was 127% (96%).

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 30 JUNE 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	**-**	**-**	**-**	**-**	**274.4**	**274.4**
Other comprehensive income						
Cash flow hedges	-	-11.8	-	-	-	**-11.8**
Tax of cash flow hedges	-	2.6	-	-	-	**2.6**
Foreign exchange adjustments on net investments in foreign operations	-	-	-100.1	-	-	**-100.1**
Total other comprehensive income	**-**	**-9.2**	**-100.1**	**-**	**-**	**-109.3**
Total comprehensive income for the period	**-**	**-9.2**	**-100.1**	**-**	**274.4**	**165.1**
Transactions with shareholders						
Share-based payments	-	-	-	-	5.8	**5.8**
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**	**-608.0**	**-603.8**
Equity at 31 June 2020	**100.0**	**-24.3**	**814.3**	**-30.8**	**7,804.8**	**8,664.0**

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**
Comprehensive income for the period						
Net profit for the period	**-**	**-**	**-**	**-**	**297.5**	**297.5**
Other comprehensive income						
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**
Transactions with shareholders						
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**

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 H1 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 H1 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.

Reclassification
As part of changing from four to three reportable segments (see note 2) certain type of expenses have been realigned between markets within the new segments. The alignment of the presentation of these expenses have led to reclassifications between the separate line items in the income statement. The comparison figures have been restated. The impact on the historical figures is stated below.

DKK million	3M 2020 reported	Reclassi-fication	3M 2020 restated	3M 2019 reported	Reclassi-fication	3M 2019 restated
Net sales	**1,790.8**	**-35.1**	**1,755.7**	**1,463.7**	**-34.5**	**1,429.2**
Cost of goods sold	-971.4	-3.2	-974.6	-779.3	-3.8	-783.1
Gross profit before special items	**819.4**	**-38.3**	**781.1**	**684.4**	**-38.3**	**646.1**
Other external costs	-286.1	38.3	-247.8	-256.0	38.3	-217.7
Staff costs	-207.8		-207.8	-189.1		-189.1
Earnings before interest, tax, depreciation, amortisation and special items (EBITDA before special items)	**325.5**	**-**	**325.5**	**239.3**	**-**	**239.3**
Gross margin before special items	45.8%		44.5%	46.8%		45.2%
EBITDA margin before special items	18.2%		18.5%	16.3%		16.7%

NOTE 1 (continued)

Reclassification (continued)

The impact on the restated figures is stated below.

DKK million	Q2 2019 reported	Reclassi-fication	Q2 2019 restated	6M 2019 reported	Reclassi-fication	6M 2019 restated
Net sales	**1,817.8**	**-35.5**	**1,782.3**	**3,281.5**	**-70.0**	**3,211.5**
Cost of goods sold	-944.4	-5.5	-949.9	-1,723.7	-9.3	-1,733.0
Gross profit before special items	**873.4**	**-41.0**	**832.4**	**1,557.8**	**-79.3**	**1,478.5**
Other external costs	-288.9	41.0	-247.9	-544.9	79.3	-465.6
Staff costs	-186.6		-186.6	-375.7		-375.7
Earnings before interest, tax, depreciation, amortisation and special items (EBITDA before special items)	**397.9**	**-**	**397.9**	**637.2**	**-**	**637.2**
Gross margin before special items	48.0%		46.7%	47.5%		46.0%
EBITDA margin before special items	21.9%		22.3%	19.4%		19.8%

DKK million	2019 reported	Reclassi-fication	2019 restated
Net sales	**6,870.3**	**-151.3**	**6,719.0**
Cost of goods sold	-3,556.4	-20.1	-3,576.5
Gross profit before special items	**3,313.9**	**-171.4**	**3,142.5**
Other external costs	-1,069.7	171.4	-898.3
Staff costs	-737.1		-737.1
Other income	5.9		5.9
Earnings before interest, tax, depreciation, amortisation and special items (EBITDA before special items)	**1,513.0**	**-**	**1,513.0**
Gross margin before special items	48.2%		46.8%
EBITDA margin before special items	22.0%		22.5%

NOTE 2

SEGMENT INFORMATION AND NET SALES

As part of the integration of Agio Cigars, that changed the organisational structure and moved from four to three commercial divisions, the reportable segments have as of the second quarter of 2020 been changed from four to three.

In order to increase speed to market and unlock synergies, Scandinavian Tobacco Group now conducts commercial activities in three divisions by the integration of the former Smoking Tobacco and Accessories Division into the former North America Branded Division (NAB) and the former Region Machine-made Cigar Division (MMC).
NAB has changed name to Division North America Branded & RoW (Rest of World) and MMC has changed name to Division Europe Branded. The North America Online & Retail Division (NAOR) will remain unchanged except for a move of its cigar wholesale business to Division North America Branded & RoW.

Comparison figures for segments have been restated.

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

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

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

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

6M 2020 DKK million	**North America Online & Retail**	**North America Branded & RoW**	**Europe Branded**	**Group costs / not allocated**	**Total**
Net sales	1,277.1	1,221.9	1,353.2	-	3,852.2
Cost of goods sold	-783.9	-607.0	-740.2	-	-2,131.1
Gross profit before special items	**493.2**	**614.9**	**613.0**	**-**	**1,721.1**
Staff and other external costs	-262.1	-208.7	-400.5	-35.2	-906.5
EBITDA before special items	**231.1**	**406.2**	**212.5**	**-35.2**	**814.6**
Depreciation and impairment				-126.6	-126.6
Amortisation and impairment				-84.6	-84.6
EBIT before special items				**-246.4**	**603.4**
Special items, costs and impairment				-233.8	-233.8
EBIT				**-480.2**	**369.6**
Share of profit of associated companies, net of tax				7.1	7.1
Financial income				36.1	36.1
Financial costs				-81.0	-81.0
Profit before tax				**-518.0**	**331.8**

NOTE 2

SEGMENT INFORMATION AND NET SALES (continued)

6M 2019 DKK million	**North America Online & Retail**	**North America Branded & RoW**	**Europe Branded**	**Group costs / not allo-cated**	**Total**
Net sales	1,104.1	1,168.9	938.5	-	3,211.5
Cost of goods sold	-674.4	-600.7	-457.9	-	-1,733.0
Gross profit before special items	**429.7**	**568.2**	**480.6**	**-**	**1,478.5**
Staff and other external costs	-282.3	-223.5	-288.5	-47.0	-841.3
EBITDA before special items	**147.4**	**344.7**	**192.1**	**-47.0**	**637.2**
Depreciation and impairment				-107.1	-107.1
Amortisation and impairment				-87.8	-87.8
EBIT before special items				**-241.9**	**442.3**
Special items, costs				-43.8	-43.8
EBIT				**-285.7**	**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				**-303.3**	**380.9**

DKK million	**6M 2020**	**6M 2019**
Category split, net sales		
Handmade cigars	1,349.6	1,212.2
Machine-made cigars	1,437.6	1,064.8
Smoking tobacco	547.2	478.0
Accessories and CMA	517.8	456.5
Total net sales	**3,852.2**	**3,211.5**

Licence income and other sales of DKK 20.9 million (DKK 18.8 million) are included in the category 'Accessories and Contract Manufacturing'.

Geographical split, net sales		
Americas	1,936.7	1,729.3
Europe	1,721.8	1,238.7
Rest of World	193.7	243.5
Total net sales	**3,852.2**	**3,211.5**

NOTE 3

SPECIAL ITEMS

DKK million	**6M 2020**	**6M 2019**
Integration and transactions costs (Thompson Cigar)	-	18.6
Integration and transactions costs (Agio Cigars)	108.4	-
Fuelling the Growth program	2.6	25.2
Manufacturing footprint, factory close-down	13.5	-
Impairment tangible assets	109.3	-
Total special items	**233.8**	**43.8**

NOTE 4

BANK LOANS

In the first six month 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	**30 Jun 2020**	**30 Jun 2019**
Financial institutions are recognised in the balance sheet as follows:		
Non-current liabilities	3,644.0	2,961.6
Total	**3,644.0**	**2,961.6**

Currency	**Fixed/ floating**	**Term/ bridge/ revolcing credit fa-cility**	**Maturity date**	**30 Jun 2020**	**30 Jun 2019**
EUR	Floating	Term	Early repaid	-	559.8
EUR	Floating	Term	Early repaid	-	1,119.5
USD	Floating	Term	Early repaid	-	327.9
USD	Floating	Term	Early repaid	-	655.9
EUR	Floating	RCF	Early repaid	-	298.5
EUR	Floating	Bridge	30-09-21	2,235.8	-
EUR	Floating	RCF	31-03-25	409.9	-
USD	Floating	RCF	31-03-25	998.3	-
Total				**3,644.0**	**2,961.6**

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 133 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 'Europe Branded' and 'North America Branded & RoW' 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 six months of 2020 net sales of DKK 477 million with a net result showing a loss of DKK 5 million from the acquisition for the period 2 January 2020 to 30 June 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.