Company Announcement
No. 15/2017
17 MAY 2017

3M | INTERIM REPORT
1 JANUARY-31 MARCH 2017

NET SALES GROWTH AND EBITDA IMPACTED BY IT IMPLEMENTATION IN CIGARS INTERNATIONAL - FULL YEAR GUIDANCE REVISED

HIGHLIGHTS FOR THE FIRST QUARTER

We have guided for negative net sales and adjusted EBITDA growth in the first quarter.

- Reported net sales were DKK 1,379 million (DKK 1,499 million) – organic growth was negative at 9.5%
- Reported EBITDA was DKK 201 million (DKK 266 million) – organic growth was negative at 22.4%
- Net profit was DKK 75 million (DKK 138 million)
- Free cash flow was DKK 48 million (DKK -204 million)

FINANCIAL GUIDANCE 2017

As earlier communicated, the implementation of a new IT infrastructure in Cigars International has impacted our online and catalogue retailer's ability to process orders and to run campaigns and promotions to customers. Where we had expected this to be resolved by now, we conclude that the business will be further impacted in the second quarter returning to normalisation during the course of the third quarter.

In addition, we did not see the expected pick-up in net sales for machine-made cigars in April 2017.

Based on the above, we revise our guidance for 2017. We now expect slightly negative net sales growth (previously flat organic net sales) and negative growth in adjusted EBITDA of 4-8% (previously positive at 1-3%) for the full year.

The Board of Directors will continue to evaluate the distribution of excess cash to shareholders in relation to the third-quarter announcement in November 2017.

STATEMENT BY CEO NIELS FREDERIKSEN:

"As previously guided, we delivered negative net sales and EBITDA growth in the first quarter due to the implementation of the new IT infrastructure in Cigars International and current total market development in machine-made cigars. We work diligently to resolve our issues in Cigars International that are of a temporary nature. Despite this set-back we remain confident in our business model and we continue to focus on cost optimisation and investing in our brands and future growth opportunities."

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Scandinavian Tobacco Group - Key Figures[1]

DKK million	Q1 17	Q1 16	2016
INCOME STATEMENT			
Net sales	1,379	1,499	6,746
Gross profit	648	739	3,225
EBITDA	201	266	1,279
EBIT	117	197	957
Net financial items (excl. share of profit of ass. companies)	-22	-16	-72
Profit before tax	98	183	895
Income taxes	-24	-45	-213
Net profit	75	138	681
BALANCE SHEET			
Total assets	14,235	14,208	14,264
Equity	9,297	8,882	9,273
Net interest-bearing debt (NIBD)	2,386	3,191	2,469
Investment in property, plant and equipment	17	53	190
Total capital expenditures	27	60	235
CASH FLOW STATEMENT			
Cash flow from operating activities	73	-148	1,358
Cash flow from investing activities	-25	-56	-219
Free cash flow	48	-204	1,139
KEY RATIOS			
Net sales growth	-8.0%	1.5%	0.2%
Gross margin	47.0%	49.3%	47.8%
EBITDA margin	14.5%	17.7%	19.0%
Effective tax percentage	24.2%	24.7%	23.8%
Equity ratio	65.3%	62.5%	65.0%
Cash conversion	28.2%	-27.8%	122.4%
Organic net sales growth	-9.5%	1.9%	0.4%
Adjusted gross margin	47.4%	49.3%	49.1%
Organic EBITDA growth	-22.4%	4.1%	4.0%
Adjusted EBITDA (DKK million)	212	279	1,440
Adjusted EBITDA margin	15.4%	18.6%	21.4%
NIBD / Adjusted EBITDA	1.7	2.3	1.7
ROIC			7.8%
ROIC ex. goodwill and trademarks from 2010 merger			14.2%
Basic earnings per share (DKK)	0.7	1.4	6.8
Diluted earnings per share (DKK)	0.7	1.4	6.8
Dividend per share (DKK)			5.5
Pay-out ratio			80.7%

1. See definition/explanation of financial ratios in note 5.7 in the Annual Report 2016.

FINANCIAL HIGHLIGHTS

FIRST QUARTER 2017

NET SALES

In the quarter, reported net sales amounted to DKK 1,379 million (DKK 1,499 million), for an 8.0% decline. Organic growth was negative at 9.5%.

Net sales breakdown:

DKKm	Q1 2017	Q1 2016	Q1 2017	Q1 2016
Handmade cigars	401	424	29%	28%
Machine-made cigars	523	599	38%	40%
Pipe tobacco	131	138	10%	9%
Fine-cut tobacco	126	152	9%	10%
Other	197	187	14%	13%
Total	**1,379**	**1,499**	**100%**	**100%**

In the quarter, our performance was impacted by Cigars International's implementation of new IT infrastructure including ERP and warehouse management systems. The implementation has constrained Cigars International's ability to run campaigns and promotions to existing and new customers, invoicing, customer service and inventory management and thereby a negative impact on net sales. As a result, our handmade cigars category reported negative organic growth of 8.6%. Machine-made cigars reported negative organic growth of 12.5%. Net sales of machine-made cigars were impacted by the total market decline and by specific issues related to mounting competition in Canada and inventory movements in France. Pipe tobacco and fine-cut tobacco reported negative organic growth of 6.4% and 18.4%, respectively, while our "Other" category showed positive organic growth of 3.4%.

GROSS PROFIT AND GROSS MARGIN

The reported gross profit was DKK 648 million (DKK 739 million), a drop of 12.3%. Gross profit was mainly impacted by negative sales growth and the costs related to implementing the optimisation and efficiency programmes. Adjusted for non-recurring items of DKK 5 million, gross profit was down by 11.6%.

Adjusted gross margin was 47.4%, down 1.9 ppts from 49.3% in the same period of last year. Adjusted gross margin was negatively impacted by lower volumes and exchange rate developments, mainly in GBP which impacted the gross margin by 0.6ppt.

NON-RECURRING ITEMS

DKKm	Q1 2017			Q1 2016		
	Reported	Non-Recurring Items	Adjusted	Reported	Non-Recurring Items	Adjusted
Net Sales	1,379	-	1,379	1,499	-	1,499
Gross Profit	648	5	653	739	-	739
Gross-margin	47.0%		47.4%	49.3%		49.3%
EBITDA	201	11	212	266	13	279
EBITDA-margin	14.5%		15.4%	17.7%		18.6%

REPORTED EBITDA

DKKm	Q1 2017	Q1 2016
EBITDA Reported	**201**	**266**
TPD related costs	2	2
FDA related costs	4	-
Restructuring, optimisation and effiency programmes	5	-
Cost related to Initial Public Offering (IPO)	-	11
EBITDA Adjusted	**212**	**279**

EBITDA

EBITDA ended at DKK 201 million (DKK 266 million), down 24.6%. The improvement in OPEX only partly offset the negative developments in net sales and gross profit. OPEX was down by DKK 26 million to DKK 447 million (DKK 473 million). The positive development in OPEX was driven by the optimisation and efficiency programmes we initiated in 2016 in combination with lower spend on freight and marketing costs.

The reported EBITDA margin was 14.5% (17.7%), a decrease of 3.2 ppts. Adjusted EBITDA was DKK 212 million (DKK 279 million), a 24.1% drop driven by the lower net sales. In the quarter, organic EBITDA growth was negative at 22.4%

NET PROFIT

Net profit was DKK 75 million (DKK 138 million), a 46.0% drop driven by the lower net sales and gross profit and partly off-set by the lower OPEX and income taxes. In addition, the reported net profit included non-recurring impairment costs of DKK 9 million related to the closure of factories taking place this year.

CASH FLOW

The free cash flow in the first quarter was DKK 48 million for a cash conversion rate of 28.2%, compared to a free cash outflow of DKK 204 million and a cash conversion rate of minus 27.8% in the first quarter of 2016. The improvement comes from a higher operating cash flow driven by a persistent focus on net working capital and the positive impact of VAT and tax refunds related to prior years and the settlement of disputes with the authorities.

CAPITAL STRUCTURE AND NET INTEREST-BEARING DEBT

At 31 March 2017, we had net interest-bearing debt of DKK 2,386 million corresponding to a ratio of 1.7x vs. adjusted EBITDA (based on the last four rolling quarters). According to our financial policy, the target ratio of net interest bearing debt vs. adjusted EBITDA is 2.5x. The ratio will increase at the end of April 2017 in connection with the payment of the ordinary dividend of DKK 550 million.

BUSINESS HIGHLIGHTS

OPTIMISATION AND EFFICIENCY PROGRAMMES

Our optimisation and efficiency programmes announced in 2015 continued to deliver according to plan. In the quarter, the savings effect was diluted by the drop in volumes. The majority of the expected savings for 2017 will crystallise in the third and fourth quarters as the number of production sites will be reduced from 14 to 12 in the third quarter of 2017.

In the quarter, we recognised DKK 5 million in non-recurring costs and DKK 9 million in impairment charges related to our optimisation programmes announced last year. We still expect to spend around DKK 50 million in non-recurring costs under the two programmes in 2017 and to incur most of that amount in the third quarter of 2017.

Our working capital target to reduce inventories by DKK 500 million relative to 2014 by the end of 2017 remains on track. In the quarter, inventories temporarily increased by DKK 186 million to DKK 3,010 million at the end of March 2017 compared with DKK 2,824 million at 31 December 2016, the change being mainly driven by seasonality and an inventory build-up ahead of an excise tax increase in the UK. We expect to reach our DKK 500 million target by the end of 2017, one year ahead of the original plan.

IMPROVED ROUTE TO MARKET IN SWEDEN

In the quarter, we terminated our promotion and distribution agreement with British American Tobacco (BAT) in Sweden. Starting on 1 September 2017, a newly established STG sales company will be in charge of selling our cigars, pipe tobacco and fine-cut tobacco in the Swedish market.

The changed route to market in Sweden is intended to grow our business and bring us in a position to lead the cigar, pipe tobacco and fine-cut markets in Sweden. We have established the Swedish sales company by reallocating the costs otherwise spent on sales promotion .

FDA REGULATIONS

Our preparation for compliance with the FDA’s Deeming Regulations is progressing according to plan. The FDA has recently announced that it intends to defer enforcement of all deadlines set for 10 May 2017 or later for newly regulated products, which include cigars and pipe tobacco among others, for three months.

The litigation initiated by several cigar-related associations challenging the legality of the Deeming Regulations is still pending.

PENDING CAFÉ CRÈME LAWSUIT IN FRANCE AND APPROVAL OF CONTIGENCY BRAND

In France, the lawsuit we have filed before the supreme administrative court, the Conseil d’Etat, is still pending. The lawsuit challenges the ban on the Café Crème brand name which the French authorities have issued and which is intended to take effect in February 2018.

In May, French authorities approved our contingency brand for Café Crème.

Key Data Per Category

	Q1 17	Q1 16	Change	2016
Net sales (DKKm)				
Handmade cigars	401	424	-5.5%	2,067
Machine-made cigars	523	599	-12.6%	2,593
Pipe tobacco	131	138	-4.8%	569
Fine-cut tobacco	126	152	-16.8%	652
Other	197	187	5.5%	864
Group total	**1,379**	**1,499**	**-8.0%**	**6,746**
Gross profit (DKKm)				
Handmade cigars	171	183	-6.7%	903
Machine-made cigars	260	326	-20.4%	1,280
Pipe tobacco	79	83	-5.1%	346
Fine-cut tobacco	73	87	-16.2%	378
Other	66	60	9.8%	318
Group total	**648**	**739**	**-12.3%**	**3,225**
Organic net sales growth (%)				
Handmade cigars	-8.6%	14.4%		7.2%
Machine-made cigars	-12.5%	-4.7%		-3.9%
Pipe tobacco	-6.4%	-2.4%		-8.9%
Fine-cut tobacco	-18.4%	23.6%		13.3%
Other	3.4%	-10.4%		-3.6%
Group total	**-9.5%**	**1.9%**		**0.4%**
Volume impact (%)				
Handmade cigars	-6.5%	14.1%		7.4%
Machine-made cigars	-13.0%	-6.9%		-6.0%
Pipe tobacco	-6.8%	-4.5%		-10.6%
Fine-cut tobacco	-23.7%	17.4%		7.1%
Other	-	-		-
Group total	**-**	**-**		**-**
Price/Mix impact (%)				
Handmade cigars	-2.2%	0.3%		-0.2%
Machine-made cigars	0.5%	2.2%		2.2%
Pipe tobacco	0.4%	2.1%		1.7%
Fine-cut tobacco	5.3%	6.3%		6.2%
Other	-	-		-
Group total	**-**	**-**		**-**
Gross margin (%)				
Handmade cigars	42.7%	43.3%	-0.6%	43.7%
Machine-made cigars	49.6%	54.5%	-4.8%	49.3%
Pipe tobacco	60.3%	60.5%	-0.2%	60.8%
Fine-cut tobacco	57.4%	57.0%	0.4%	57.9%
Other	33.2%	31.9%	1.3%	36.8%
Group total	**47.0%**	**49.3%**	**-2.3%**	**47.8%**
Adjusted Gross margin (%)*				
Machine-made cigars	50.6%	54.5%	-3.8%	52.6%
Pipe tobacco	60.3%	60.5%	-0.2%	61.2%
Fine-cut tobacco	57.4%	57.0%	0.4%	58.3%
Group total	**47.4%**	**49.3%**	**-1.9%**	**49.1%**

** Adjusted for non-recurring items*

CATEGORY UPDATE

HANDMADE CIGARS

Handmade cigars

DKK MILLION	Q1 17	Q1 16	2016
Net sales	401	424	2,067
Reported growth	-5.5%	13.9%	6.8%
Organic growth	-8.6%	14.4%	7.2%
Gross profit	171	183	903
Gross margin, %	42.7%	43.3%	43.7%

Reported net sales declined to DKK 401 million (DKK 424 million). Organic growth in net sales was negative at 8.6%.

The price/mix impact was negative at 2.2% and the volume impact was negative at 6.5%.

Our handmade cigars business was negatively impacted by Cigars International's implementation of a new IT infrastructure including ERP and warehouse management systems. In the quarter, the implementation and transition to new working procedures caused significant temporary disruptions of ability to run campaigns and promotions to our existing and new customers, invoicing, customer service and inventory management in our online and catalogue retail business.

The number of active customers continued to grow in the quarter, although at a slightly slower pace as Cigars International was unable to run the usual volume of campaigns.

In the quarter, gross profit was down by DKK 12 million to DKK 171 million as costs related to winning back activities including through discounts and expedited shipping went up. The gross margin was 42.7% (43.3%).

IT related operational issues persisted after the quarter and have not yet been fully resolved.

MACHINE-MADE CIGARS

Machine-made cigars

DKK MILLION	Q1 17	Q1 16	2016
Net sales	523	599	2,593
Reported growth	-12.6%	-4.8%	-4.0%
Organic growth *	-12.5%	-4.7%	-3.9%
Gross profit	260	326	1,280
Gross margin, %	49.6%	54.5%	49.3%
Gross margin, % adjusted *	50.6%	54.5%	52.6%

* Adjusted for non-recurring items

Reported net sales were at DKK 523 million (DKK 599 million), an organic decline of 12.5%.

The price/mix impact was positive at 0.5%, whereas the volume impact was negative at 13.0%.

The total market decline we experienced during 2016 continued during the first quarter of 2017. In the quarter, the performance by machine-made cigars was impacted by this overall market decline in our major markets and by specific issues in France and Canada.

In France, our distributor Logista continued to lower their inventories of our products in connection with the transition to the new TPD 2 products. This inventory reduction accounts for approx. half of the drop in net sales in the category. This situation is expected to normalise in the coming quarters.

In Canada, we experienced mounting competition in the first quarter. The situation seems to persist, and it has had a negative impact on the price/mix performance of our total category as well as a negative impact on our volumes.

Gross profit was DKK 260 million (DKK 326 million). Our cost optimisation and efficiency programme continues to deliver. In the quarter, the programme was unable to offset the tough comparison with the 2016 figures and the significant negative volume impact mainly driven by the specific issues in France and Canada which are both high-margin markets. The gross margin was 49.6% (54.5%). The adjusted gross margin was 50.6% (54.5%).

PIPE TOBACCO

Pipe tobacco

DKK MILLION	Q1 17	Q1 16	2016
Net sales	131	138	569
Reported growth	-4.8%	-3.2%	-9.5%
Organic growth	-6.4%	-2.4%	-8.9%
Gross profit	79	83	346
Gross margin, %	60.3%	60.5%	60.8%
Gross margin, % adjusted *	60.3%	60.5%	61.2%

* Adjusted for non-recurring items

Reported net sales were down by DKK 7 million to DKK 131 million. Organic growth was negative at 6.4%.

The price/mix impact was positive at 0.4%, whereas the volume impact was negative at 6.8%.

In traditional pipe tobacco, we managed to offset the effect of lower volumes by effectively managing prices. In the US, our sales of dual-usage pipe tobacco continued to grow, diluting our price/mix in the category. Volumes in the category were impacted by the challenging economic environments in Nigeria and the Middle East which have impacted the pipe tobacco category since the second quarter of 2016.

Gross profit was DKK 79 million (DKK 83 million) leaving reported and adjusted gross margins at last year’s level (60.3% vs. 60.5%).

FINE-CUT TOBACCO

Fine-cut tobacco

DKK MILLION	Q1 17	Q1 16	2016
Net sales	126	152	652
Reported growth	-16.8%	19.7%	11.8%
Organic growth	-18.4%	23.6%	13.3%
Gross profit	73	87	378
Gross margin, %	57.4%	57.0%	57.9%
Gross margin, % adjusted *	57.4%	57.0%	58.3%

* Adjusted for non-recurring items

Reported net sales were DKK 126 million (DKK 152 million), an organic decline of 18.4%.

The price/mix impact was positive at 5.3%, while the volume impact was negative at 23.7%.

We continued to grow our volumes and market share in Germany. Volumes were negatively impacted by the timing of shipments to Norway in the quarter and a tough comparison to the first quarter of 2016 where the timing of shipments to the Danish-German cross-border trade worked in our favour.

Gross profit was DKK 73 million (DKK 87 million). Reported and adjusted gross margins increased by 0.4 ppt to 57.4%.

OTHER

Other

DKK MILLION	Q1 17	Q1 16	2016
Net sales	197	187	864
Reported growth	5.5%	-9.4%	-2.0%
Organic growth	3.4%	-10.4%	-3.6%
Gross profit	66	60	318
Gross margin, %	33.2%	31.9%	36.8%

Reported net sales increased by DKK 10 million to DKK 197 million, equal to 3.4% organic growth.

Gross profit increased by DKK 6 million to DKK 66 million (DKK 60 million). The gross margin increased to 33.2% (31.9%) driven by improved pricing in our contract manufacturing.

ANNUAL GENERAL MEETING

At the Annual General Meeting held on 26 April 2017, the shareholders approved a dividend of DKK 5.50 per share, for a total dividend pay-out of DKK 550 million.

The shareholders re-elected Nigel Northridge, Søren Bjerre-Nielsen, Dianne Neal Blixt, Conny Karlsson, Luc Missorten and Henning Kruse Petersen and elected Henrik Brandt as members of the Board of Directors.

The Board of Directors has appointed Nigel Northridge as Chairman of the Board of Directors and Henrik Brandt as Vice-Chairman.

EVENTS AFTER THE REPORTING PERIOD

Changes to the Executive Management

On 1 May 2017, Rob Zwarts resigned from his position as Executive Vice President Special Projects and member of the Executive Management of Scandinavian Tobacco Group A/S. Rob Zwarts, who is nearing the age of retirement, will be available to the company until May 2018 in a role as employed ad hoc adviser. The retirement plans for Rob Zwarts are as announced in connection with the IPO of Scandinavian Tobacco Group A/S on Nasdaq Copenhagen in February 2016.

Also on 1 May 2017, Hanne Berg joined Scandinavian Tobacco Group A/S as Chief HR Officer & Senior Vice President. Hanne Berg will serve on the Executive Management (not as a registered member). Hanne Berg holds a M.Sc. in Business Administration and Law from Aarhus School of Business, Denmark. She has served in various HR roles with the LEGO Group for the past ten years, most recently as Vice President.

No other events have occurred since 31 March 2017 which are expected to have a material impact on the financial position of the Group.

FINANCIAL GUIDANCE 2017

As earlier communicated, the implementation of a new IT infrastructure in Cigars International has impacted our online and catalogue retailer’s ability to process orders and to run campaigns and promotions to customers. Where we had expected this to be resolved by now, we conclude that the business will be further impacted in the second quarter returning to normalisation during the course of the third quarter.

In addition, we did not see the expected pick-up in net sales for machine-made cigars in April 2017.

Based on the above, we revise our guidance for 2017. We now expect slightly negative net sales growth (previously flat organic net sales) and negative growth in adjusted EBITDA of 4-8% (previously positive at 1-3%) for the full year.

The Board of Directors will continue to evaluate the distribution of excess cash to shareholders in relation to the third-quarter announcement in November 2017.

Other financial expectations are unchanged:

- Financial expenses, excluding currency losses or gains, are expected to be in the range of DKK 70-80 million
- The effective tax rate is expected to be in the range of 24-25%
- Maintenance CAPEX is expected to be approx. DKK 150 million
- We expect remaining non-recurring costs from our ongoing cost optimisation and efficiency programmes of approx. DKK 50 million

ADDITIONAL INFORMATION

FINANCE CALENDAR FOR 2017

Interim report Q2 2017:	24 August 2017
Interim report Q3 2017:	8 November 2017

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 development and results to differ materially from the expectations laid out in this report.

MANAGEMENT STATEMENT

The Board of Directors and the Executive Management have today considered and approved the interim report of Scandinavian Tobacco Group A/S for the period 1 January – 31 March 2017.

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

In our opinion, the interim consolidated financial statements give a true and fair view of the Group's assets, liabilities and financial position at 31 March 2017 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 31 March 2017.

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.

Soeborg, 17 May 2017

EXECUTIVE MANAGEMENT

Niels Frederiksen
CEO

Sisse Fjelsted Rasmussen
CFO

Christian Hother Sørensen
EXECUTIVE VICE PRESIDENT,
SALES & MARKETING

Vincent Crepy
EXECUTIVE VICE PRESIDENT,
SUPPLY CHAIN

BOARD OF DIRECTORS

Nigel Northridge
CHAIRMAN

Henrik Brandt
VICE-CHAIRMAN

Søren Bjerre-Nielsen

Dianne Neal Blixt

Conny Karlsson

Luc Missorten

Henning Kruse Petersen

Kurt Asmussen

Lindy Larsen

Hanne Malling

Charlotte Lückstadt Nielsen

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY - 31 MARCH

CONSOLIDATED INCOME STATEMENT

DKK million	Note	Q1 2017	Q1 2016
Net sales	2	**1,378.9**	**1,499.4**
Cost of goods sold	2	-730.9	-760.2
Gross profit	2	**648.0**	**739.2**
Other external costs		-248.8	-264.4
Staff costs		-198.6	-209.1
Other income		0.0	0.2
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**200.6**	**265.9**
Depreciation and impairment		-41.4	-27.2
Earnings before interest, tax and amortisation (EBITA)		**159.2**	**238.7**
Amortisation		-41.9	-41.7
Earnings before interest and tax (EBIT)		**117.3**	**197.0**
Share of profit of associated companies, net of tax		2.6	2.3
Financial income		5.5	12.4
Financial costs		-27.0	-28.4
Profit before tax		**98.4**	**183.3**
Income taxes		-23.8	-45.2
Net profit for the period		**74.6**	**138.1**
Earnings per share			
Basic earnings per share (DKK)		0.7	1.4
Diluted earnings per share (DKK)		0.7	1.4
OTHER COMPREHENSIVE INCOME			
Items that will not be recycled subsequently to the Consolidated Income Statement:			
Actuarial gains and losses on pension obligations		-1.6	0.0
Tax of actuarial gains and losses on pension obligations		0.5	0.0
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		14.9	-40.7
Tax of hedging instruments		-4.6	9.0
Foreign exchange rate adjustments		-62.7	-222.7
Other comprehensive income for the period, net of tax		**-53.5**	**-254.4**
Total comprehensive income for the period		**21.1**	**-116.3**

CONSOLIDATED BALANCE SHEET

ASSETS

DKK million	31 Mar 2017	31 Mar 2016	31 Dec 2016
NON-CURRENT ASSETS			
INTANGIBLE ASSETS			
Goodwill	4,553.5	4,387.7	4,592.0
Trademarks	3,216.5	3,265.1	3,259.6
IT software	96.7	68.4	85.5
Other intangible assets	198.1	225.1	204.5
Total intangible assets	**8,064.8**	**7,946.3**	**8,141.6**
PROPERTY, PLANT AND EQUIPMENT			
Land and buildings	612.8	659.5	622.1
Plant and machinery	535.7	345.8	555.6
Equipment, tools and fixtures	76.9	89.6	83.5
Leasehold improvements	44.9	43.5	46.7
Construction in progress	46.9	190.8	48.5
Total property, plant and equipment	**1,317.2**	**1,329.2**	**1,356.4**
OTHER NON-CURRENT ASSETS			
Investments in associated companies	137.4	124.5	134.6
Deferred income tax assets	132.2	130.4	137.2
Other financial fixed assets	13.6	0.6	0.0
Total other non-current assets	**283.2**	**255.5**	**271.8**
Total non-current assets	**9,665.2**	**9,531.0**	**9,769.8**
CURRENT ASSETS			
Inventories	**3,010.1**	**3,107.2**	**2,824.1**
RECEIVABLES			
Trade receivables	625.3	790.4	700.4
Other receivables	53.9	127.1	116.9
Corporate tax	162.3	181.1	210.4
Prepayments	100.0	64.7	71.8
Total receivables	**941.5**	**1,163.3**	**1,099.5**
Cash and cash equivalents	**617.9**	**406.2**	**570.3**
Total current assets	**4,569.5**	**4,676.7**	**4,493.9**
Total assets	**14,234.7**	**14,207.7**	**14,263.7**

CONSOLIDATED BALANCE SHEET

EQUITY AND LIABILITIES

DKK million	31 Mar 2017	31 Mar 2016	31 Dec 2016
Share capital	100.0	100.0	100.0
Reserve for hedging	-17.2	-62.0	-27.5
Reserve for currency translation	1,098.0	788.7	1,160.7
Treasury shares	-45.5	0.0	-45.5
Retained earnings	8,161.2	8,054.9	8,085.2
Total equity	**9,296.5**	**8,881.6**	**9,272.9**
Bank loans	2,717.1	3,291.6	2,730.7
Deferred income tax liabilities	653.2	741.0	637.1
Pension obligations	265.1	221.8	263.8
Other provisions	46.9	42.1	36.3
Other liabilities	29.7	91.7	64.8
Total non-current liabilities	**3,712.0**	**4,388.2**	**3,732.7**
Credit facilities	0.0	1.5	0.0
Trade payables	381.7	327.4	385.5
Corporate tax	177.0	23.6	183.0
Other provisions	98.4	22.1	113.9
Other liabilities	569.1	563.3	575.7
Total current liabilities	**1,226.2**	**937.9**	**1,258.1**
Total liabilities	**4,938.2**	**5,326.1**	**4,990.8**
Total equity and liabilities	**14,234.7**	**14,207.7**	**14,263.7**

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY - 31 MARCH

DKK million	**Q1 2017**	**Q1 2016**
Net profit for the period	74.6	138.1
Adjustments	129.0	118.1
Changes in working capital	-126.0	-294.0
Non-recurring costs, paid	-17.8	-54.9
Cash flow from operating activities before financial items	**59.8**	**-92.7**
Financial income received	5.5	12.4
Financial costs paid	-27.0	-28.4
Cash flow from operating activities before tax	**38.3**	**-108.7**
Tax payments	34.4	-39.0
Cash flow from operating activities	**72.7**	**-147.7**
Investment in intangible assets	-10.5	-7.1
Investment in property, plant and equipment	-16.6	-53.2
Sale of property, plant and equipment	0.0	2.1
Dividend from associated companies	2.0	1.8
Cash flow from investing activities	**-25.1**	**-56.4**
Free cash flow	**47.6**	**-204.1**
Cash flow from financing activities	**0.0**	**0.0**
Net cash flow for the period	**47.6**	**-204.1**
Cash and cash equivalents, net at 1 January	570.3	608.8
Net cash flow for the period	47.6	-204.1
Cash and cash equivalents, net at 31 March	**617.9**	**404.7**

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 31 MARCH 2017

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
Equity at 1 January 2017	**100.0**	**-27.5**	**1,160.7**	**-45.5**	**8,085.2**	**9,272.9**
Comprehensive income for the period						
Net profit for the period	**0.0**	**0.0**	**0.0**	**0.0**	**74.6**	**74.6**
Other comprehensive income						
Cash flow hedges		14.9				**14.9**
Tax of cash flow hedges		-4.6				**-4.6**
Foreign exchange adjustments on net investments in foreign operations			-62.7			**-62.7**
Actuarial gains and losses on pension obligations					-1.6	**-1.6**
Tax of actuarial gains and losses on pension obligations					0.5	**0.5**
Total other comprehensive income	**0.0**	**10.3**	**-62.7**	**0.0**	**-1.1**	**-53.5**
Total comprehensive income for the period	**0.0**	**10.3**	**-62.7**	**0.0**	**73.5**	**21.1**
Transactions with shareholders						
Share-based payments					2.5	**2.5**
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**0.0**	**2.5**	**2.5**
Equity at 31 March 2017	**100.0**	**-17.2**	**1,098.0**	**-45.5**	**8,161.2**	**9,296.5**

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 31 MARCH 2016

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Retained earnings	Total
Equity at 1 January 2016	**100.0**	**-30.3**	**1,011.4**	**7,916.8**	**8,997.9**
Comprehensive income for the period					
Net profit for the period	**0.0**	**0.0**	**0.0**	**138.1**	**138.1**
Other comprehensive income					
Cash flow hedges		-40.7			**-40.7**
Tax of cash flow hedges		9.0			**9.0**
Foreign exchange adjustments on net investments in foreign operations			-222.7		**-222.7**
Actuarial gains and losses on pension obligations				0.0	**0.0**
Tax of pension obligations				0.0	**0.0**
Total other comprehensive income	**0.0**	**-31.7**	**-222.7**	**0.0**	**-254.4**
Total comprehensive income for the period	**0.0**	**-31.7**	**-222.7**	**138.1**	**-116.3**
Transactions with shareholders					
Share-based payments				0.0	**0.0**
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Equity at 31 March 2016	**100.0**	**-62.0**	**788.7**	**8,054.9**	**8,881.6**

NOTES

NOTE 1

BASIS OF PREPARATION

The unaudited interim report has been prepared in accordance with IAS 34 and additional Danish disclosure requirements for listed companies.

Significant accounting estimates

The estimates made by STG in the determination of the carrying amounts of assets and liabilities are based on assumptions that are subject to future events. For a description of risks and accounting estimates, see the Annual Report for 2016.

Accounting policies

The interim report has been prepared in accordance with the accounting policies set out in the Annual Report for 2016, with the following additions as a result of the implementation of IFRS 9 'Financial Instruments'.

Amendments to the accounting policies as set out in the Annual Report for 2016

To the description of trade receivables (note 3.4), the following is amended:

Previous (applied on comparison figures): Provisions for bad debts are determined on the basis of an individual assessment of each receivable, and in respect of trade receivables, a provision is also made based on the Group's experience from previous years and aging of the trade receivables.

New (applied on actual figures): Provisions for bad debts are determined by using the simplified expected credit loss model (ECL). The ECLs on trade receivables are estimated by using a matrix by reference to geography, past default experience, analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions in which the debtors operate and an assessment of the forecast direction of developments at the reporting date.

Summary of the Group's implementation of IFRS 9

The Group has applied the exemption given in IFRS 9 and hence does not restate comparative information in the period.

Area	Financial impact
Classification and measurement	The Group does not hold any financial assets or liabilities affected by the new classification and measurement.
Impairment	The use of expected credit loss model has not had any significant financial impact.
General hedge Accounting	Existing hedging relationships all qualify as continuing hedging relationships and continue to be effective.

NOTE 2

SEGMENT INFORMATION

Q1 2017 DKK million	**Hand-made cigars**	**Machine-made cigars**	**Pipe tobacco**	**Fine-cut tobacco**	**Other**	**Not allocated**	**Total**
Net sales	400.7	523.1	131.3	126.5	197.3	0.0	1,378.9
Cost of goods sold	-229.6	-263.4	-52.2	-53.9	-131.8	0.0	-730.9
Gross profit	**171.1**	**259.7**	**79.1**	**72.6**	**65.5**	**0.0**	**648.0**
Other external costs						-248.8	-248.8
Staff costs						-198.6	-198.6
Other income						0.0	0.0
EBITDA						**-447.4**	**200.6**
Depreciation and impairment						-41.4	-41.4
Amortisation						-41.9	-41.9
EBIT						**-530.7**	**117.3**
Share of profit of associated companies, net of tax						2.6	2.6
Financial income						5.5	5.5
Financial costs						-27.0	-27.0
Profit before tax						**-549.6**	**98.4**

NOTE 2
SEGMENT INFORMATION (continued)

Q1 2016 DKK million	**Hand-made cigars**	**Machine-made cigars**	**Pipe tobacco**	**Fine-cut tobacco**	**Other**	**Not allocated**	**Total**
Net sales	424.0	598.5	137.9	152.0	187.0	0.0	1,499.4
Cost of goods sold	-240.6	-272.4	-54.5	-65.4	-127.3	0.0	-760.2
Gross profit	**183.4**	**326.1**	**83.4**	**86.6**	**59.7**	**0.0**	**739.2**
Other external costs						-264.4	-264.4
Staff costs						-209.1	-209.1
Other income						0.2	0.2
EBITDA						**-473.3**	**265.9**
Depreciation						-27.2	-27.2
Amortisation						-41.7	-41.7
EBIT						**-542.2**	**197.0**
Share of profit of associated companies, net of tax						2.3	2.3
Financial income						12.4	12.4
Financial costs						-28.4	-28.4
Profit before tax						**-555.9**	**183.3**

NOTE 3
FINANCIAL INSTRUMENTS

The fair value of financial instruments recognised in the balance sheet at 31 March 2017 amounts to a net liability of DKK 21.7 million (DKK 45.0 million at 31 December 2016).