Company Announcement
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9M | INTERIM REPORT
1 JANUARY-30 SEPTEMBER 2016

STRONG EBITDA AND CASH FLOW - ACCELERATED EFFICIENCY PROGRAMME

HIGHLIGHTS FOR 1 JANUARY-30 SEPTEMBER 2016

The first nine months showed stable overall performance with improving underlying EBITDA margin and continued strong cash flow. Focus on implementing new regulations in EU and the US as well as delivering on our optimisation and efficiency programme.

- Reported net sales of DKK 4,938 million (DKK 4,965 million) - organic growth was 0.0%
- Reported EBITDA of DKK 960 million (DKK 939 million) - organic growth was 1.9%
- Net profit of DKK 498 million (DKK 493 million)
- Free cash flow was DKK 792 million (DKK 731 million)

HIGHLIGHTS FOR THE THIRD QUARTER OF 2016

EBITDA and cash flow improved significantly in a quarter where net sales remained flat. Efficiency and cost optimisation programme was accelerated and today we announce new initiatives with annual savings of DKK 60-65 million.

- Reported net sales of DKK 1,740 million (DKK 1,741 million) - organic growth was -0.2%
- Reported EBITDA of DKK 328 million (DKK 305 million) - organic growth was 4.9%
- Net profit of DKK 152 million (DKK 139 million)
- Free cash flow was DKK 627 million (DKK 421 million)

FINANCIAL GUIDANCE 2016

- We expect 2016 total net sales to be on the same level as last year implying an organic growth of 0% (previously 1-3%).
- We maintain our guidance for organic growth in adjusted EBITDA of 3-5% and capital expenditures of approximately DKK 250 million.

STATEMENT BY CEO NIELS FREDERIKSEN:

"I am pleased that we delivered significant improvements in EBITDA and a continued strong cash flow in the quarter. This is driven by the impact from our optimisation and efficiency programme, which progresses well. Our cost programme has been accelerated by one year, and today we announce new initiatives to improve our operating model. We will optimise our sales and support functions and merge our supply chain for machine-made cigars, pipe tobacco and fine-cut tobacco into one.

Our nine-month net sales performance has been stable. Our US handmade cigars business continues to grow and outperform the market. Net sales have been impacted across all categories from fluctuations following new FDA regulations in the US and the late adoption of new EU regulations in to national legislation."

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GROUP FINANCIAL HIGHLIGHTS AND KEY RATIOS[1]

DKK million	Q3 2016	Q3 2015	YTD 2016	YTD 2015	Year 2015
INCOME STATEMENT					
Net sales	1,740	1,741	4,938	4,965	6,732
Gross profit	797	831	2,375	2,417	3,239
EBITDA	328	305	960	939	1,247
EBIT	220	219	712	711	941
Net financial items (excl. share of profit of ass. companies)	-23	-32	-63	-60	-67
Profit before tax	200	189	659	658	884
Income taxes	-48	-49	-161	-164	-216
Net profit	152	139	498	493	668
BALANCE SHEET					
Total assets			14,046	14,231	14,544
Equity			8,789	8,689	8,998
Net interest-bearing debt (NIBD)			2,768	3,323	3,011
Investment in property, plant and equipment	22	44	156	153	210
Total capital expenditures	51	48	198	172	236
CASH FLOW STATEMENT					
Cash flow from operating activities	671	467	975	897	1,285
Cash flow from investing activities	-45	-46	-184	-166	-229
Free cash flow	627	421	792	731	1,057
KEY RATIOS					
Net sales growth	-0.1%		-0.5%		9.9%
Gross margin	45.8%	47.7%	48.1%	48.7%	48.1%
EBITDA margin	18.9%	17.5%	19.4%	18.9%	18.5%
Effective tax percentage	23.9%	26.2%	24.4%	25.0%	24.5%
Equity ratio			62.6%	61.1%	61.9%
Organic net sales growth[2]	-0.2%		0.0%		0.3%
Adjusted gross margin[3]	49.4%	49.7%	49.5%	49.5%	48.7%
Organic EBITDA growth[4]	4.9%		1.9%		2.2%
Adjusted EBITDA[5] (DKK million)	412	393	1,065	1,051	1,385
Adjusted EBITDA margin[6]	23.7%	22.5%	21.6%	21.1%	20.5%
NIBD / Adjusted EBITDA			2.0	2.3	2.2
ROIC					7.4%
ROIC ex. goodwill and trademarks from 2010 merger					13.3%
Basic earnings per share (DKK)	1.5	1.4	5.0	4.9	6.7
Diluted earnings per share (DKK)	1.5	1.4	5.0	4.9	6.7
Dividend per share (DKK)					14.0
Pay-out ratio[7]					209.7%

1. See definition in the Annual Report 2015.
2. Organic net sales growth is defined as growth in net sales excluding non-recurring items and impact from currencies and acquisitions.
3. Adjusted gross margin is defined as gross profit excluding non-recurring items as a percentage of net sales excluding non-recurring items.
4. Organic EBITDA growth is defined as growth in EBITDA excluding non-recurring items and impact from currencies and acquisitions.
5. Adjusted EBITDA is defined as EBITDA excluding non-recurring items.
6. Adjusted EBITDA margin is defined as adjusted EBITDA as a percentage of net sales, excluding non-recurring items.
7. 2015 includes paid interim dividend and ordinary dividend for 2015.

FINANCIAL HIGHLIGHTS

THIRD QUARTER 2016

NET SALES

In the third quarter, reported net sales of DKK 1,740 million (DKK 1,741 million) were in line with the same period last year. Adjusted for exchange rate fluctuations and non-recurring items, organic growth was -0.2%. The negative organic growth was impacted by a backlog of DKK 21 million at the end of September 2016. The backlog is a result of supply shortage of packaging materials compliant with the new EU Tobacco Products Directive following the late implementation of the EU regulation into national legislation.

Our handmade cigars category continued to grow both in volumes and prices and showed an organic growth of 4.1%. The machine-made cigars category was negatively impacted by the backlog and inventory reductions at our distributor in France, resulting in a negative organic growth of -4.1%. Our pipe tobacco category had a negative organic growth of -7.6% while our fine-cut tobacco category delivered a strong organic growth of 11.9%. The backlog of DKK 21 million was primarily related to machine-made cigars and fine-cut tobacco.

GROSS PROFIT AND MARGIN

In the quarter, reported gross profit decreased by -4.1% to DKK 797 million (DKK 831 million) with a gross margin of 45.8% (47.7%). The gross margin is negatively impacted by DKK 63 million of non-recurring costs primarily related to the planned consolidation of cigar factories in Europe which was announced on 22 September 2016. Adjusted for non-recurring costs, which mainly were related to the restructuring in 2016 and TPD implementation in 2015, gross margin was 49.4% (49.7%).

EBITDA

In the quarter, reported EBITDA increased by 7.5% to DKK 328 million (DKK 305 million). Adjusted EBITDA was at DKK 412 million (DKK 393 million) delivering an organic growth of 4.9%. The positive development in EBITDA compared to the same quarter last year was mainly driven by reduced logistic expenses, a different spending pattern of sales and marketing expenses as well as other income which more than off-set the small drop in adjusted gross profit.

Reported EBITDA margin was 18.9% (17.5%) and adjusted for non-recurring items, the EBITDA margin was 23.7% (22.5%).

PROFIT BEFORE TAX

Net financial items (excluding profit from associated companies) were DKK -23 million (DKK -32 million). The development was mainly due to lower currency losses in the third quarter 2016 compared to same quarter 2015 and lower interest expenses.

Profit before tax increased to DKK 200 million (DKK 189 million). Tax rate for the period was 23.9% compared to 26.2% in the same period last year.

NET PROFIT

Reported net profit increased to DKK 152 million (DKK 139 million).

CASH FLOW

In line with our ambition to continuously improve working capital and increase our free cash flow, we have used a receivable transfer agreement to sell selected trade receivables on a non-recourse basis. This resulted in a reduction of the days of sale outstanding with a positive impact on the net working capital and a cash in-flow of DKK 151 million in the quarter. Adjusted for this in-flow, our free cash flow from ordinary course of business increased by DKK 55 million or 13% compared to same period last year driven by the continued positive development in net working capital with the addition of increased earnings performance in the quarter and timing of tax payments.

Adjustments to Net Sales, Gross Profit and EBITDA

DKKm	Q1 16	Q2 16	Q3 16	Q3 15	YTD 16	YTD 15
Net sales						
Reported	1,499	1,699	1,740	1,741	4,938	4,965
Non-recurring items	0	0	0	7	0	7
Net sales, adjusted	**1,499**	**1,699**	**1,740**	**1,748**	**4,938**	**4,972**
Gross profit						
Reported	739	840	797	831	2,375	2,417
Non-recurring items	0	8	63	39	71	44
Gross profit, adjusted	**739**	**847**	**860**	**869**	**2,446**	**2,461**
EBITDA						
Reported	266	366	328	305	960	939
Non-recurring items	13	8	83	88	105	112
EBITDA, adjusted	**279**	**374**	**412**	**393**	**1,065**	**1,051**

1 JANUARY-30 SEPTEMBER 2016

NET SALES

In the first nine months, reported net sales decreased by -0.5% to DKK 4,938 million (DKK 4,965 million) while organic net sales growth was flat (0.0%). The organic growth was negatively impacted by a temporary shortage of new TPD compliant packaging materials following the late implementation of the new EU regulation into national legislation. The shortage resulted in a backlog of DKK 21 million by the end of September 2016.

Handmade cigars and fine-cut tobacco showed strong organic growth in net sales of 7.6% and 8.9%, respectively. Organic growth was negative by -4.2% in machine-made cigars, -8.6% in pipe tobacco and -4.2% in our category “Other”.

GROSS PROFIT AND MARGIN

Gross profit decreased by -1.7% to DKK 2,375 million (DKK 2,417 million). Reported gross margin decreased to 48.1% (48.7%). The gross margin was negatively impacted by a DKK 71 million non-recurring cost related to the consolida-tion of our European cigar factories and TPD implementation cost. Adjusted for these non-recurring costs, gross mar-gin was flat at 49.5% (49.5%) as the positive impact from the optimisation and efficiency programme was off-set by negative impact from lower volumes.

EBITDA

Reported EBITDA increased by 2.3% to DKK 960 million (DKK 939 million). Adjusted EBITDA increased to DKK 1,065 million (DKK 1,051 million). Organic growth was positive by 1.9%.

Reported EBITDA margin grew to 19.4% (18.9%). Adjusted EBITDA margin increased to 21.6% (21.1%).

PROFIT BEFORE TAX

Net financial items (excluding profit from associated companies) were DKK -63 million (DKK -60 million). The devel-opment is mainly due to increased interest expenses explained by the new capital structure from September 2015.

Profit before tax of DKK 659 million (DKK 658 million) was in line with last year. Tax rate for the period was 24.4% compared to 25.0% in same period last year.

NET PROFIT

Reported net profit increased to DKK 498 million (DKK 493 million).

EARNINGS PER SHARE

Earnings per share (EPS) for the first nine months were DKK 5.0 (DKK 4.9). Fully diluted EPS were DKK 5.0 (DKK 4.9).

CASH FLOW

It is a key priority to ensure a strong cash flow performance, and we continue to see a very strong cash in-flow from operating activities ending at DKK 975 million (DKK 897 million) in the first nine months of 2016. The cash in-flow was as mentioned impacted by an in-flow of DKK 151 million related to a transfer agreement regarding selected trade receivables. Furthermore, operating cash flow benefitted from the ongoing stock reduction programme and timing of tax payments and refunds.

Free cash flow amounted to DKK 792 million (DKK 731 million).

Capital expenditures amounted to DKK 198 million (DKK 172 million) including DKK 85 million (DKK 74 million) of TPD related investments. The estimated full-year TPD investment amounts to DKK 100 million for 2016.

The net working capital reduction programme, which aims to reduce inventories by DKK 500 million on a like-for-like basis at the end of 2018 compared to 2014, is progressing ahead of plans and the current progress shows an accumulated reduction year-to-date of more than DKK 300 million. We now expect to deliver closer to 2/3 of the total programme at the end of this year versus our original plan where half of the programme was to be delivered at the end of 2016. The total inventory reduction target of DKK 500 million end of 2018 remains unchanged, but the net working capital programme will on top of the inventory reduction benefit from the transfer agreement regarding selected trade receivables balances, as this will reduce the days of sales outstanding.

The period includes an ordinary dividend payment of DKK 500 million in April 2016, related to the 2015 earnings. The amount represented approximately 75% of 2015 net profit and was in line with the dividend policy according to which the annual dividend payment should constitute at least 70% of net profit.

CAPITAL STRUCTURE AND NET INTEREST-BEARING DEBT

On 16 September 2016 we ended our share buy-back programme which was announced on 30 May 2016. Following the programme we own 412,462 treasury shares at 30 September 2016, corresponding to 0.4% of the total share capital. The total transaction value was DKK 45.5 million.

Net interest-bearing debt was DKK 2,768 million by 30 September 2016 (DKK 3,011 million by 31 December 2015). The decrease was mainly driven by the strong free cash flow partly offset by the ordinary dividend payment and the share buy-back programme. The leverage ratio by 30 September 2016 measured as net interest-bearing debt/adjusted EBITDA was 2.0x compared to 2.2x at year-end 2015.

BUSINESS HIGHLIGHTS

COST OPTIMISATION AND EFFICIENCY PROGRAMME

We continue to make progress in our 140/500 cost optimisation and efficiency programme and accelerate the total cost savings of DKK 140 million by one year. Furthermore, we have identified additional opportunities to improve our operating model and gain synergies.

140/500 cost optimisation and efficiency programme

Our 140/500 programme includes five levers primarily focused on the machine-made cigars, pipe tobacco and fine-cut tobacco categories:

1. Simplification of product portfolio
2. Reduction of material costs
3. Production footprint optimisation
4. Production efficiency
5. Integrated planning

The simplification of our product portfolio for the mass-market business commenced in 2015 and is now completed. The reduction of material costs initiative progresses as planned. In September 2016, we initiated the next step of our production footprint optimisation when we announced the intent to reduce the number of production sites in the Group from 14 to 12 by transferring production from our factories in Nykøbing and Wuustwezel to our remaining production facilities. The production efficiency and integrated planning projects are still in the pipeline. We are on target to deliver 40% of the DKK 140 million as a run-rate by the end of 2016.

In connection with the announcement of the close down of two of the cigar factories in Europe, we have recognized DKK 73 million of non-recurring costs and DKK 38 million of impairments in the third quarter. We expect additional DKK 10 million of non-recurring costs to be expensed during fourth quarter 2016. The remaining part of non-recurring costs (up to DKK 7 million) and impairments (up to DKK 27 million) will be expensed during 2017.

Following the acceleration of our 140/500 cost optimisation and efficiency programme, we expect to achieve our planned run rate reduction of DKK 140 million on a like-for-like basis by the end of 2017, which is one year ahead of our original plan.

Our working capital reduction target of DKK 500 million by the end of 2018 remains unchanged, but with an accelerated timing where we now estimate to deliver close to 2/3 of the total target by the end of 2016.

New cost optimisation announcement

As we analyse our business, additional opportunities for improving our operating model emerge. By merging our supply chains for machine-made cigars, pipe tobacco and fine-cut tobacco into one supply chain and by optimising our sales and support functions, we have identified an optimisation potential of estimated DKK 60-65 million on an annual run-rate basis. The synergies include a head count reduction of up to 150 employees, and emerge from simplified processes, elimination of double functions and a reduction of management layers. The changes will be fully implemented during 2017 with a full-year effect in 2018 and will incur non-recurring costs of up to a total of DKK 90 million. The costs, which mainly cover severance payments, are expected to be expensed in 2016 with approximately DKK 25-30 million and in 2017 with approximately DKK 60-65 million.

The initiatives improve our financial performance and support our medium-term guidance of an annual 3-5% organic growth in adjusted EBITDA through the cycle.

Key Data Per Category

	Q1 16	Q2 16	Q3 16	Q3 15	Change	YTD 16	YTD 15	Change
Net sales (DKKm)								
Handmade cigars	424	536	576	555	3.8%	1,536	1,439	6.8%
Machine-made cigars	599	647	653	679	-3.9%	1,898	1,991	-4.7%
Pipe tobacco	138	140	138	150	-8.0%	416	459	-9.5%
Fine-cut tobacco	152	148	168	152	10.9%	468	439	6.7%
Other	187	229	205	205	0.0%	620	637	-2.6%
Group total	**1,499**	**1,699**	**1,740**	**1,741**	**-0.1%**	**4,938**	**4,965**	**-0.5%**
Gross profit (DKKm)								
Handmade cigars	183	241	253	248	1.9%	677	627	8.0%
Machine-made cigars	326	338	277	329	-15.8%	941	1,018	-7.5%
Pipe tobacco	83	87	87	96	-9.1%	257	287	-10.3%
Fine-cut tobacco	87	85	99	89	11.5%	271	265	2.1%
Other	60	89	80	69	16.7%	229	220	4.0%
Group total	**739**	**840**	**797**	**831**	**-4.1%**	**2,375**	**2,417**	**-1.7%**
Organic net sales growth (%)								
Handmade cigars *	14.4%	6.5%	4.1%	-		7.6%	8.2%	
Machine-made cigars *	-4.7%	-3.8%	-4.1%	-		-4.2%	-2.9%	
Pipe tobacco *	-2.4%	-14.8%	-7.6%	-		-8.6%	-2.7%	
Fine-cut tobacco *	23.6%	-5.6%	11.9%	-		8.9%	2.1%	
Other *	-10.4%	-0.1%	-2.3%	-		-4.2%	-8.8%	
Group total	**1.9%**	**-1.5%**	**-0.2%**	**-**		**0.0%**	**-0.6%**	
Volume impact (%)								
Handmade cigars *	14.1%	9.3%	2.0%	-		7.7%	5.9%	
Machine-made cigars *	-6.9%	-5.5%	-7.0%	-		-6.4%	-6.3%	
Pipe tobacco *	-4.5%	-15.1%	-9.7%	-		-10.1%	-9.5%	
Fine-cut tobacco *	17.4%	-12.2%	6.6%	-		2.9%	-2.3%	
Other *	-	-	-	-		-	-	
Group total	**-**	**-**	**-**	**-**		**-**	**-**	
Price/Mix impact (%)								
Handmade cigars *	0.3%	-2.8%	2.0%	-		-0.1%	2.3%	
Machine-made cigars *	2.2%	1.7%	2.8%	-		2.2%	3.4%	
Pipe tobacco *	2.1%	0.3%	2.2%	-		1.5%	6.8%	
Fine-cut tobacco *	6.3%	6.5%	5.3%	-		6.0%	4.4%	
Other *	-	-	-	-		-	-	
Group total	**-**	**-**	**-**	**-**		**-**	**-**	
Gross margin (%)								
Handmade cigars	43.3%	45.0%	43.8%	44.7%	-0.8%	44.1%	43.6%	0.5%
Machine-made cigars	54.5%	52.2%	42.5%	48.4%	-6.0%	49.6%	51.1%	-1.5%
Pipe tobacco	60.5%	62.0%	63.3%	64.0%	-0.8%	61.9%	62.5%	-0.6%
Fine-cut tobacco	57.0%	57.4%	59.0%	58.7%	0.4%	57.8%	60.4%	-2.6%
Other	31.9%	39.0%	39.2%	33.6%	5.6%	36.9%	34.6%	2.3%
Group total	**49.3%**	**49.4%**	**45.8%**	**47.7%**	**-1.9%**	**48.1%**	**48.7%**	**-0.6%**

* In 2015, net sales included other non-product sales such as license fees distributed to each segment. Non-product sales is not directly related to own volumes and sales of products and therefore all non-product sales has been moved to the "Other" segment in 2016. To show the organic development per segment correctly on a like-for-like basis, the Q1 and Q2 organic percentages per segment have been adjusted to remove the effect of the other income reclassification. Total company organic growth percentages are unchanged.

CATEGORY UPDATE

HANDMADE CIGARS

The majority of our sales of handmade cigars are concentrated in the US where we operate through our two US businesses, General Cigar and Cigars International. General Cigar is a branded business manufacturing and selling to wholesalers and retailers. Cigars International is our online and catalogue retailer.

Handmade cigars

DKK MILLION	Q3 16	Q3 15	YTD 16	YTD 15	2015
Net sales	576	555	1,536	1,439	1,935
Reported growth	3.8%	25.5%	6.8%	30.0%	27.9%
Organic growth	4.1%	-	7.6%	8.2%	7.9%
Gross profit	253	248	677	627	843
Gross margin	43.8%	44.7%	44.1%	43.6%	43.6%

In the third quarter, reported net sales increased by 3.8% to DKK 576 million (DKK 555 million). Organic growth in net sales was 4.1%.

Price/mix impact was positive by 2.0% and volume impact was 2.0%.

Our handmade cigar business continued its strong performance. The quarter was somewhat impacted by FDA activities in every part of the value chain. Both Cigars International and General Cigar contributed to the volume growth and price management was a priority throughout the organisation, whereby the category delivered another quarter of solid growth on the back of a strong first half year.

The gross profit increased by 1.9% to 253 million (DKK 248 million). Overall gross margin for the quarter was slightly lower versus last year (43.8% vs. 44.7%) driven by lower margins on selected new launches and by General Cigar's key stone pricing initiative that aims at growing its share in the retail channel. We still see the benefit of synergies between our US sales platforms, having a positive impact on the overall gross profit development.

In addition to the strong performance in the US, the handmade cigar category continued to deliver a double digit growth outside the US, but still from a low base.

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In the nine-month period, reported net sales increased by 6.8% to DKK 1,536 million (DKK 1,439 million). Organic growth was 7.6%.

The period showed a high positive volume impact of 7.7% primarily driven by share gains and to some extent also good weather conditions in the first quarter. Price/mix impact was unchanged at -0.1% with a negative development in the first half of the year impacted by lower net sales from shipping in Cigars International and promotional activities in General Cigar and the above mentioned positive development in the third quarter.

Gross profit increased by 8.0% to DKK 677 million (DKK 627 million). Gross margin increased to 44.1% (43.6%).

MACHINE-MADE CIGARS

Our machine-made cigars are predominantly sold in Europe and North America where we hold market leading positions. Our key markets are France, the UK, Belgium, the Netherlands, Spain, Canada and the US.

Machine-made cigars

DKK MILLION	Q3 16	Q3 15	YTD 16	YTD 15	2015
Net sales	653	679	1,898	1,991	2,702
Reported growth	-3.9%	0.1%	-4.7%	5.6%	4.1%
Organic growth *	-4.1%	-	-4.2%	-2.9%	-2.3%
Gross profit	277	329	941	1,018	1,372
Gross margin, %	42.5%	48.4%	49.6%	51.1%	50.8%
Gross margin, adjusted *	52.1%	53.6%	53.2%	53.1%	52.2%

* Adjusted for non-recurring items

In the quarter, reported net sales decreased by -3.9% to DKK 653 million (DKK 679 million). Organic growth in net sales was negative by -4.1%.

Pricing remained good leading to a positive price/mix impact of 2.8% while the volume impact on net sales in machine-made cigars was negative by -7.0%.

The net sales development was impacted by a drop in sales in France driven by a weak total market, stock reductions at our distributor as well as performance issues. Our sales in the UK picked up as expected and our business in Canada continued to gain market shares and deliver growing volumes driven by our strong position following the flavour ban.The Captain Black volumes to Russia were also back on track.

The shipments across the European markets were impacted by TPD related constraints, mainly due to shortage in deliveries of new TPD compliant materials from our suppliers. This caused a backlog at the end of the period corresponding to a negative impact of -2% on net sales of the category in the quarter, which we expect to solve during the fourth quarter.

During the third quarter, we continued to see a somewhat faster decline on total market volumes in a number of our key markets like Belgium, France and the UK.

Gross profit decreased by -15.8% to DKK 277 million (DKK 329 million) implying a reported gross margin of 42.5% (48.4%), which was negatively impacted by non-recurring costs of DKK 63 million mainly related to the restructuring as part of the announced factory consolidation.

Adjusted for non-recurring costs gross profit decreased by -7.5% to DKK 340 million (DKK 368 million) implying an adjusted gross margin at 52.1% (53.6%). The lower production volumes have led to lower gross margins despite the positive impact from our cost efficiency programme.

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In the first nine months, reported net sales decreased by -4.7% to DKK 1,898 million (DKK 1,991 million). Organic growth was negative by -4.2%.

Price/mix impact was positive by 2.2%. Volume impact was negative by -6.4% driven by TPD related fluctuations and negative total market development in some of our bigger key markets.

Gross profit was at DKK 941 million (DKK 1,018 million) with a gross margin of 49.6% (51.1%). Adjusted gross margin improved to 53.2% (53.1%), driven by the cost optimisation programme having a positive impact on the underlying margin, which however was offset by the negative volume development.

PIPE TOBACCO

Our key markets for pipe tobacco are the majority of the European countries, the US and Nigeria. We have leading positions in mature markets for traditional pipe tobacco like the US and Europe where we expect to see continued pressure on volumes.

Pipe tobacco

DKK MILLION	Q3 16	Q3 15	YTD 16	YTD 15	2015
Net sales	138	150	416	459	629
Reported growth	-8.0%	0.9%	-9.5%	6.9%	10.6%
Organic growth	-7.6%	-	-8.6%	-2.7%	1.6%
Gross profit	87	96	257	287	378
Gross margin, %	63.3%	64.0%	61.9%	62.5%	60.1%
Gross margin, adjusted *	63.3%	64.0%	62.0%	62.5%	60.1%

* Adjusted for non-recurring items

In the third quarter, reported net sales decreased by -8.0% to DKK 138 million (DKK 150 million). Organic growth in net sales was negative by -7.6%.

Price/mix impact on net sales was 2.2%. Volume impacted net sales negatively by -9.7%.

Pricing remained healthy in the category but with a negative mix impact from growing volumes of dual-usage pipe tobacco in the US.

Total volumes were negatively impacted by lower sales to Nigeria and the Middle East where we still see a challenging economic environment having a negative impact on pricing and consumer off take.

Gross profit decreased by -9.1% to DKK 87 million (DKK 96 million). Reported gross margin dropped slightly to 63.3% (64.0%) due to a negative impact on production volumes driven by Nigeria.

1 JANUARY-30 SEPTEMBER 2016

In the nine-month period, reported net sales decreased by -9.5% to DKK 416 million (DKK 459 million). Organic growth in net sales was negative by -8.6%.

Price/mix impact contributed positively with 1.5%. Volume impact was -10.1% mainly driven by the lower sales to Nigeria and the Middle East. Pricing for traditional pipe tobacco remains healthy, but growing volumes of dual-usage pipe tobacco dilutes the price/mix impact.

Gross profit was DKK 257 million (DKK 287 million) with a reported gross margin of 61.9% (62.5%) and an adjusted gross margin of 62.0% (62.5%).

FINE-CUT TOBACCO

In fine-cut tobacco we are market leader in the US, Israel and Denmark. In addition, we have significant positions in Norway and Switzerland.

Fine-cut tobacco

DKK MILLION	Q3 16	Q3 15	YTD 16	YTD 15	2015
Net sales	168	152	468	439	583
Reported growth	10.9%	10.6%	6.7%	7.8%	3.9%
Organic growth	11.9%	-	8.9%	2.1%	-1.3%
Gross profit	99	89	271	265	342
Gross margin, %	59.0%	58.7%	57.8%	60.4%	58.5%
Gross margin, adjusted *	59.1%	58.7%	57.9%	60.4%	58.5%

* Adjusted for non-recurring items

Net sales of fine-cut tobacco showed strong growth in the quarter of 10.9% to DKK 168 million (DKK 152 million) on reported numbers with an organic growth of 11.9%.

The organic growth was delivered through both a strong price/mix contribution to net sales of 5.3% and a positive volume impact of 6.6%.

Fine-cut tobacco continues to deliver strong performance with growing volumes in Germany, where we are gaining market shares, and with a strong price development in our key markets.

Gross profit was DKK 99 million (DKK 89 million) with a reported gross margin of 59.0% (58.7%) and an adjusted gross margin of 59.1% (58.7%). The positive margin development is driven by strong pricing in selected key markets partly off-set by a negative impact from market mix.

1 JANUARY-30 SEPTEMBER 2016

In the first nine months, reported net sales increased by 6.7% to DKK 468 million (DKK 439 million). Organic growth in net sales was 8.9%.

Price/mix impact contributed to net sales by 6.0% and volume impact was 2.9%. The category continues to perform very well supported by our efforts to execute effective pricing strategies and drive volume growth through share gains in new markets.

Gross profit was DKK 271 million (DKK 265 million) with a reported gross margin of 57.8% (60.4%) and an adjusted gross margin of 57.9% (60.4%).

OTHER

Our category “Other” comprises several activities including contract manufacturing and distribution of lighters, matches and other smoking accessories as well as fire products.

Other

DKK MILLION	Q3 16	Q3 15	YTD 16	YTD 15	2015
Net sales	205	205	620	637	882
Reported growth	0.0%	-16.0%	-2.6%	-4.6%	-0.5%
Organic growth	-2.3%	-	-4.2%	-8.8%	-4.5%
Gross profit	80	69	229	220	304
Gross margin	39.2%	33.6%	36.9%	34.6%	34.5%

Reported net sales were stable at DKK 205 million (DKK 205 million). Organic growth in net sales was negative by -2.3%.

Gross profit increased by DKK 11 million to DKK 80 million (DKK 69 million). Gross margin increased to 39.2% (33.6%) driven by higher margins in the Australian fire products and improved pricing in our contract manufacturing.

1 JANUARY-30 SEPTEMBER 2016

In the nine-month period, reported net sales decreased by -2.6% to DKK 620 million (DKK 637 million). Organic growth in net sales was negative by -4.2%.

Gross profit increased by DKK 9 million to DKK 229 million (DKK 220 million) with a gross margin of 36.9% (34.6%).

EVENTS AFTER THE REPORTING PERIOD

No events have occurred since 30 September 2016 which is expected to have any material impact on the financial position of the Group.

OUTLOOK

We maintain our guidance for organic growth in adjusted EBITDA of 3-5% and capital expenditures of approximately DKK 250 million.

We expect 2016 total net sales to be on the same level as last year implying an organic growth of 0% (previously 1-3%).

Our revised net sales guidance reflects our current expectations to the full year based on the actual sales performance year to date impacted by the continued challenges in machine-made cigars. The challenges primarily relate to the total market developments and the impact from the late adoption of the new EU Tobacco Products Directive that drags into the fourth quarter interrupting deliveries and market dynamics more than previously anticipated.

ADDITIONAL INFORMATION

FINANCE CALENDAR FOR 2017

Annual Report 2016:	16 March 2017
Annual general meeting:	26 April 2017 at Axelborg, Copenhagen
Interim report Q1 2017:	18 May 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 – 30 September 2016.

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 September 2016 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 30 September 2016.

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 result 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, 3 November 2016

EXECUTIVE MANAGEMENT

Niels Frederiksen
CEO

Sisse Fjelsted Rasmussen
CFO

Christian Hother Sørensen
EXECUTIVE VICE PRESIDENT,
SALES & MARKETING

Vincent Crepy
EXECUTIVE VICE PRESIDENT,
SUPPLY CHAIN

Rob Zwarts
EXECUTIVE VICE PRESIDENT,
SPECIAL PROJECTS

BOARD OF DIRECTORS

Jørgen Tandrup
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Luc Missorten

Dianne Neal Blixt

Charlotte Lückstadt Nielsen

Kurt Asmussen

Lindy Larsen

Hanne Malling

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY - 30 SEPTEMBER

CONSOLIDATED INCOME STATEMENT

DKK million	Note	Q3 2016	Q3 2015	YTD 2016	YTD 2015
Net sales	2	**1,739.7**	**1,740.9**	**4,938.4**	**4,965.4**
Cost of goods sold	2	-943.1	-910.4	-2,563.1	-2,548.4
Gross profit	2	**796.6**	**830.5**	**2,375.3**	**2,417.0**
Other external costs		-287.1	-247.4	-856.1	-799.7
Staff costs		-185.9	-278.2	-566.8	-679.8
Other income		4.7	0.4	7.9	1.3
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**328.3**	**305.3**	**960.3**	**938.8**
Depreciation and impairment		-65.2	-38.6	-120.8	-90.5
Earnings before interest, tax and amortisation (EBITA)		**263.1**	**266.7**	**839.5**	**848.3**
Amortisation and impairment		-43.5	-48.2	-127.1	-137.5
Earnings before interest and tax (EBIT)		**219.6**	**218.5**	**712.4**	**710.8**
Share of profit of associated companies, net of tax		3.5	2.1	8.8	7.0
Financial income		1.5	0.9	17.4	15.5
Financial costs		-24.5	-32.7	-79.9	-75.5
Profit before tax		**200.1**	**188.8**	**658.7**	**657.8**
Income taxes		-47.9	-49.4	-160.6	-164.4
Net profit for the period		**152.2**	**139.4**	**498.1**	**493.4**
Earnings per share					
Basic earnings per share (DKK)		1.5	1.4	5.0	4.9
Diluted earnings per share (DKK)		1.5	1.4	5.0	4.9
OTHER COMPREHENSIVE INCOME					
Items that will not be recycled subsequently to the Consolidated Income Statement:					
Actuarial gains and losses on pension obligations		0.0	18.1	0.0	18.1
Tax of actuarial gains and losses on pension obligations		0.0	-6.3	0.0	-6.3
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		8.0	13.6	-44.7	22.2
Tax of hedging instruments		-1.8	-3.2	9.8	-6.1
Foreign exchange rate adjustments		-10.0	-64.8	-130.7	407.4
Other comprehensive income for the period, net of tax		**-3.8**	**-42.6**	**-165.6**	**435.3**
Total comprehensive income for the period		**148.4**	**96.8**	**332.5**	**928.7**

CONSOLIDATED BALANCE SHEET

ASSETS

DKK million	30 Sep 2016	31 Dec 2015
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Goodwill	4,440.9	4,504.2
Trademarks	3,238.2	3,331.5
IT software	89.2	69.5
Other intangible assets	209.7	230.7
Total intangible assets	**7,978.0**	**8,135.9**
PROPERTY, PLANT AND EQUIPMENT		
Land and buildings	624.3	672.0
Plant and machinery	370.5	356.6
Equipment, tools and fixtures	83.2	92.2
Leasehold improvements	45.2	46.7
Construction in progress	218.2	152.3
Total property, plant and equipment	**1,341.4**	**1,319.8**
OTHER NON-CURRENT ASSETS		
Investments in associated companies	128.0	126.1
Deferred income tax assets	128.4	135.4
Other financial fixed assets	0.6	0.6
Total other non-current assets	**257.0**	**262.1**
Total non-current assets	**9,576.4**	**9,717.8**
CURRENT ASSETS		
Inventories	**2,893.0**	**2,998.5**
RECEIVABLES		
Trade receivables	662.0	828.8
Other receivables	104.0	101.6
Prepaid corporate tax	111.5	226.0
Prepayments	67.8	62.4
Total receivables	**945.3**	**1,218.8**
Cash and cash equivalents	**631.6**	**608.8**
Total current assets	**4,469.9**	**4,826.1**
Total assets	**14,046.3**	**14,543.9**

CONSOLIDATED BALANCE SHEET

EQUITY AND LIABILITIES

DKK million	30 Sep 2016	31 Dec 2015
Share capital	100.0	100.0
Reserve for hedging	-65.2	-30.3
Reserve for currency translation	880.7	1,011.4
Treasury shares	-45.5	0.0
Retained earnings	7,918.8	7,916.8
Total equity	**8,788.8**	**8,997.9**
Bank loans	3,087.8	3,337.9
Deferred income tax liabilities	742.1	735.0
Pension obligations	229.0	241.0
Other provisions	43.7	41.7
Other liabilities	92.2	37.1
Total non-current liabilities	**4,194.8**	**4,392.7**
Trade payables	371.0	385.9
Corporate tax liabilities	56.2	79.5
Other provisions	76.3	21.1
Other liabilities	559.2	666.8
Total current liabilities	**1,062.7**	**1,153.3**
Total liabilities	**5,257.5**	**5,546.0**
Total equity and liabilities	**14,046.3**	**14,543.9**

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY - 30 SEPTEMBER

DKK million	Q3 2016	Q3 2015	YTD 2016	YTD 2015
Net profit for the period	152.2	139.4	498.1	493.4
Adjustments	211.8	197.2	409.5	475.8
Changes in working capital	320.2	167.8	175.7	100.7
Cash flow from operating activities before financial items	**684.2**	**504.4**	**1,083.3**	**1,069.9**
Financial income received	1.5	0.9	17.4	15.5
Financial costs paid	-24.5	-32.7	-79.9	-75.5
Cash flow from operating activities before tax	**661.2**	**472.6**	**1,020.8**	**1,009.9**
Tax payments	9.9	-5.3	-45.6	-113.2
Cash flow from operating activities	**671.1**	**467.3**	**975.2**	**896.7**
Investment in intangible assets	-28.5	-4.3	-42.6	-18.3
Investment in property, plant and equipment	-22.1	-43.5	-155.6	-153.2
Sale of property, plant and equipment	4.5	0.5	9.8	1.5
Dividend from associated companies	1.6	1.3	4.7	4.2
Cash flow from investing activities	**-44.5**	**-46.0**	**-183.7**	**-165.8**
Free cash flow	**626.6**	**421.3**	**791.5**	**730.9**
New funding from financial institutions	0.0	3,311.4	0.0	3,311.4
Revolving credit facility	-335.2	-186.5	-223.2	-148.9
Instalment and repayments bank loans	0.0	-2,585.6	0.0	-2,864.4
Dividend payment	0.0	-900.0	-500.0	-1,327.0
Purchase of treasury shares	-23.5	0.0	-45.5	0.0
Cash flow from financing activities	**-358.7**	**-360.7**	**-768.7**	**-1,028.9**
Net cash flow for the period	**267.9**	**60.6**	**22.8**	**-298.0**
Cash and cash equivalents, net at 1 July / 1 January	363.7	222.4	608.8	581.0
Net cash flow for the period	267.9	60.6	22.8	-298.0
Cash and cash equivalents, net at 30 September	**631.6**	**283.0**	**631.6**	**283.0**

As per 30 September 2016 the Group had the following unused credit facilities:

Committed	745.1
Uncommitted	341.2
Total	**1,086.3**

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 30 SEPTEMBER 2016

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
Equity at 1 January 2016	**100.0**	**-30.3**	**1,011.4**	**0.0**	**7,916.8**	**8,997.9**
Comprehensive income for the period						
Net profit for the period	**0.0**	**0.0**	**0.0**	**0.0**	**498.1**	**498.1**
Other comprehensive income						
Cash flow hedges		-44.7				**-44.7**
Tax of cash flow hedges		9.8				**9.8**
Foreign exchange adjustments on net investments in foreign operations			-130.7			**-130.7**
Total other comprehensive income	**0.0**	**-34.9**	**-130.7**	**0.0**	**0.0**	**-165.6**
Total comprehensive income for the period	**0.0**	**-34.9**	**-130.7**	**0.0**	**498.1**	**332.5**
Transactions with shareholders						
Purchase of treasury shares				-45.5		**-45.5**
Share-based payments					3.9	**3.9**
Dividend paid					-500.0	**-500.0**
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**-45.5**	**-496.1**	**-541.6**
Equity at 30 September 2016	**100.0**	**-65.2**	**880.7**	**-45.5**	**7,918.8**	**8,788.8**

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 30 SEPTEMBER 2015

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Retained earnings	Total
Equity at 1 January 2015	**100.0**	**-67.6**	**485.0**	**8,569.6**	**9,087.0**
Comprehensive income for the period					
Net profit for the period	**0.0**	**0.0**	**0.0**	**493.4**	**493.4**
Other comprehensive income					
Cash flow hedges		22.2			**22.2**
Tax of cash flow hedges		-6.1			**-6.1**
Foreign exchange adjustments on net investments in foreign operations			407.4		**407.4**
Actuarial gains and losses on pension obligations				18.1	**18.1**
Tax of pension obligations				-6.3	**-6.3**
Total other comprehensive income	**0.0**	**16.1**	**407.4**	**11.8**	**435.3**
Total comprehensive income for the period	**0.0**	**16.1**	**407.4**	**505.2**	**928.7**
Transactions with shareholders					
Dividend paid				-1,327.0	**-1,327.0**
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**-1,327.0**	**-1,327.0**
Equity at 30 September 2015	**100.0**	**-51.5**	**892.4**	**7,747.8**	**8,688.7**

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 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 2015 Annual Report.

Accounting policies

The interim report has been prepared in accordance with the accounting policies set out in the Annual Report for 2015, with the additions described in the H1 2016 report concerning the new Incentive Programmes and related Share Buy-back Programme.

NOTE 2
SEGMENT INFORMATION

YTD 2016

DKK million	Hand-made cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allocated	Total
Net sales	1,535.8	1,898.4	415.7	468.3	620.2	0.0	4,938.4
Cost of goods sold	-858.9	-957.4	-158.4	-197.4	-391.0	0.0	-2,563.1
Gross profit	**676.9**	**941.0**	**257.3**	**270.9**	**229.2**	**0.0**	**2,375.3**
Other external costs						-856.1	-856.1
Staff costs						-566.8	-566.8
Other income						7.9	7.9
EBITDA						**-1,415.0**	**960.3**
Depreciation and impairment						-120.8	-120.8
Amortisation and impairment						-127.1	-127.1
EBIT						**-1,662.9**	**712.4**
Share of profit of associated companies, net of tax						8.8	8.8
Financial income						17.4	17.4
Financial costs						-79.9	-79.9
Profit before tax						**-1,716.6**	**658.7**

NOTE 2
SEGMENT INFORMATION (continued)

YTD 2015 DKK million	Hand-made cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allocated	Total
Net sales	1,438.7	1,991.5	459.4	439.0	636.8	0.0	4,965.4
Cost of goods sold	-812.1	-973.7	-172.4	-173.7	-416.5	0.0	-2,548.4
Gross profit	**626.6**	**1,017.8**	**287.0**	**265.3**	**220.3**	**0.0**	**2,417.0**
Other external costs						-799.7	-799.7
Staff costs						-679.8	-679.8
Other income						1.3	1.3
EBITDA						**-1,478.2**	**938.8**
Depreciation and impairment						-90.5	-90.5
Amortisation						-137.5	-137.5
EBIT						**-1,706.2**	**710.8**
Share of profit of associated companies, net of tax						7.0	7.0
Financial income						15.5	15.5
Financial costs						-75.5	-75.5
Profit before tax						**-1,759.2**	**657.8**

NOTE 3
RESTRUCTURING

Restructuring expenses impacted EBITDA by DKK 79.6 million and impairment by DKK 38.3 million mainly arising from the intended factory closings in the machine-made cigars segment, announced in September 2016.

NOTE 4
FINANCIAL INSTRUMENTS

The fair value of financial instruments included in the balance sheet as per 30 September 2016 amounts to a net liability of DKK 82.7 million (DKK 40.7 million on 31 December 2015).