

Company Announcement
No. 21/2016

25 May 2016

Interim report for the period 1 January - 31 March 2016

Continued Strong Performance in US Handmade Cigars - Optimisation and Efficiency Programme Progresses According to Plan

Underlying total performance in the first quarter in accordance with our expectations – full-year organic growth guidance maintained.

Highlights for the first quarter of 2016:

- Reported net sales of DKK 1,499 million (DKK 1,477 million) – organic growth 1.9%
- Reported EBITDA of DKK 266 million (DKK 260 million) - organic growth 4.1%
- Profitability improvement leading to adjusted EBITDA margin of 18.6% (18.0%)
- Cost optimisation and efficiency programme progressing in accordance with plans
- Net profit of DKK 138 million (DKK 148 million)
- Cash flow from operating activities was DKK -148 million (DKK 22 million)
- Guidance for 2016 unchanged: Organic growth in net sales of 1-3% and organic growth in EBITDA of 3-5%. Capital expenditure around DKK 250 million.

Statement by CEO Niels Frederiksen:

“2016 has started well with continued strong performance in our US handmade cigar business and progress in our cost optimisation and efficiency programme is according to plan. We are pleased to deliver growth in net sales and EBITDA in line with our 2016 guidance and medium term outlook.

Deadline for the national implementation of the new EU Tobacco Products Directive (TPD) was 20 May 2016. We have prepared thoroughly and taken the opportunity to try to turn the new legislation into a competitive advantage for us. The implementation of the new rules in our business has been complicated by a late adoption of the national legislation in the EU member states. We believe that we have prepared well for the transition to the new regulation, but the impact of the new EU legislation on the market place remains to be seen.”

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GROUP FINANCIAL HIGHLIGHTS AND KEY RATIOS¹

DKK million	Q1 2016	Q1 2015	Year 2015
INCOME STATEMENT			
Net sales	1,499	1,477	6,732
Gross profit	739	716	3,239
EBITDA	266	260	1,247
EBIT	197	190	941
Net financial items (excl. share of profit of ass. companies)	-16	4	-67
Profit before tax	183	196	884
Income taxes	-45	-48	-216
Net profit	138	148	668
BALANCE SHEET			
Total assets	14,208	14,686	14,544
Equity	8,882	9,499	8,998
Net interest-bearing debt (NIBD)	3,191	3,232	3,011
Investment in property, plant and equipment	53	30	210
Total capital expenditures	60	38	236
CASH FLOW STATEMENT			
Cash flow from operating activities	-148	22	1,285
Cash flow from investing activities	-56	-36	-229
Free cash flow	-204	-14	1,057
KEY RATIOS			
Net sales growth	1.5%		9.9%
Gross margin	49.3%	48.5%	48.1%
EBITDA margin	17.7%	17.6%	18.5%
Effective tax percentage	24.7%	24.6%	24.5%
Equity ratio	62.5%	64.7%	61.9%
Organic net sales growth ²	1.9%		0.3%
Adjusted gross margin ³	49.3%	48.9%	48.7%
Organic EBITDA growth ⁴	4.1%		2.2%
Adjusted EBITDA ⁵ (DKK million)	279	266	1,385
Adjusted EBITDA margin ⁶	18.6%	18.0%	20.5%
NIBD / Adjusted EBITDA	2.3	2.5	2.2
ROIC			7.4%
ROIC ex. goodwill and trademarks from 2010 merger			13.3%
Earnings per share (DKK)	1.4	1.5	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

Net sales

Reported net sales increased by 1.5% to DKK 1,499 million (DKK 1,477 million). Organic net sales growth was 1.9% as currency movements had a small negative impact on the quarter. Due to seasonality in net sales, Q1 is normally a low quarter versus remaining quarters. The underlying business has in the first quarter of 2016 delivered a positive price/mix impact across all core categories and a good overall volume impact driven by the growth in handmade cigars and fine-cut tobacco.

Handmade cigars and fine-cut tobacco showed strong organic growth of 14.4% and 23.4%, respectively, whereas our categories machine-made cigars, pipe tobacco and "Other" had negative organic growth of -5.2%, -2.6% and -8.5%, respectively.

The TPD has to some extent started having timing impacts due to planning of the production up to and after the effective date 20 May 2016. At this point in time, the timing impacts are not expected to affect net sales for the full year, but affect quarterly shipments and stock levels in Q1-Q3.

Gross profit and margin

Reported gross profit increased by 3.2% to DKK 739 million (DKK 716 million) with a gross margin of 49.3% (48.5%). Adjusted for non-recurring items gross margin was 49.3% (48.9%).

The increased gross margin was driven by margin improvements in both handmade cigars, pipe tobacco and in particular machine-made cigars.

The cost efficiency programme is progressing according to plan supporting the margin improvement within machine-made cigars. The plan is to reduce the run rate of the cost base from 2014 on a like-for-like basis by DKK 140 million by the end of 2018. 10% of the total run rate reduction was realised at the end of 2015, and the reduction is expected to be further reduced to 40% of the DKK 140 million target by the end of 2016.

EBITDA

Reported EBITDA increased by 2.2% to DKK 266 million (DKK 260 million). Organic growth in EBITDA was 4.1%. The period was impacted by non-recurring items of DKK 13 million (DKK 5 million) related to IPO transaction costs and the preparations for the TPD.

Reported EBITDA margin was 17.7% (17.6%). Adjusted for non-recurring items EBITDA margin was 18.6% (18.0%).

Adjustments to Net Sales, Gross Profit and EBITDA

DKKm	Q1 16	Q1 15	2015
Net sales			
Reported	1,499	1,477	6,732
Non-recurring items	0	0	7
Net sales, adjusted	1,499	1,477	6,739
Gross profit			
Reported	739	716	3,239
Non-recurring items	0	5	44
Gross profit, adjusted	739	721	3,282
EBITDA			
Reported	266	260	1,247
Non-recurring items	13	5	138
EBITDA, adjusted	279	266	1,385

Profit before tax

Net financial items (excluding profit from associated companies) was DKK -16 million (DKK 4 million). The development is mainly due to currency gains driven by the increase in the USD vs. DKK exchange rate which had a positive impact on Q1 2015.

Profit before tax decreased to DKK 183 million (DKK 196 million).

Net profit

Reported net profit decreased by 6.7% to DKK 138 million (DKK 148 million) as the growth in EBITDA could not fully compensate for the negative development in financial items.

Earnings per share

Earnings per share (EPS) for the first quarter were DKK 1.4 (DKK 1.5). Fully diluted EPS were DKK 1.4 (DKK 1.5).

Cash flow

Due to seasonality of the underlying business and the timing of certain annual payments, the Group does not traditionally generate positive cash flow in the first quarter.

Cash flow from operating activities in the first quarter of 2016 showed an outflow of DKK -148 million (DKK 22 million) on the back of a high cash inflow in the fourth quarter of 2015. The period was impacted by an expected rebound in net working capital due to delivery of raw tobacco and stock building ahead of the TPD implementation date. The period also included a payout of non-recurring transaction bonuses related to the listing of the company in February.

Free cash flow amounted to DKK -204 million (DKK -14 million).

Capital expenditures amounted to DKK 60 million (DKK 38 million) including DKK 28 million of TPD related investments.

Net interest-bearing debt

Net interest-bearing debt was DKK 3,191 million by 31 March 2016 (DKK 3,011 million by 31 December 2015). The increase is due to the cash outflow as mentioned above. The leverage ratio measured as net interest-bearing debt/adjusted EBITDA was 2.3x against 2.2x at year-end 2015.

Business Highlights

Cost optimisation and efficiency programme

Our cost optimisation and efficiency programme progresses and delivers according to our plan. Complexity reduction continue reducing our cost base and it remains the ambition to have the run rate at the end of 2016 reduced by 40% of the DKK 140 million in total cost savings.

In 2015, we exceeded our target for reductions in inventories by more than DKK 100 million as total inventories were reduced by DKK 225 million. The additional reductions were due to delayed deliveries of raw tobacco from our suppliers and the temporary impact on the inventory and production planning ahead of the TPD, where old non-compliant packaging materials have been reduced to a minimum. The reduction in inventories is now back on the expected trend line for the working capital reduction programme, but still with some temporary movements during the period caused by the TPD implementation. Hence, we estimate that the combined reduction in inventories versus 2014 on a like-for-like basis will be around DKK 250 million by the end of 2016 equal to 50% of the DKK 500 million reduction programme. By year-end 2017 and 2018, accumulated reductions in inventories are expected to be around DKK 400 million and DKK 500 million, respectively.

Late national implementation of the EU Tobacco Products Directive

On 20 May 2016, the regulation in the new EU Tobacco Products Directive took effect in the majority of the EU member states. We have prepared for the new EU directive since it was adopted in the EU two years ago. We believe that we are well prepared, and in our adaptation to the new regulation we have aimed to create a competitive advantage for the Group.

Preparations for the new EU regulation have been complicated by the fact that the EU member states have been very late in their implementation of the directive into national legislation. This has left us with uncertainties until the last moment. A few countries have even passed the 20 May deadline without having adopted a law.

FDA Deeming Regulation

On 10 May 2016, the US Food and Drug Administration (FDA) published its regulation on cigars and pipe tobacco as well as other tobacco products not previously regulated, the so-called Deeming Regulation. So far, the FDA's regulatory power has only been extended to cigarettes, fine-cut tobacco and smokeless tobacco products.

The regulations have been awaited since the FDA published its proposed regulations in the summer of 2014 followed by a commentary period that ended in August 2014.

The following are some of the key elements of the FDA regulation as it applies to cigars and pipe tobacco:

- The FDA has maintained 15 February 2007 as the so-called grandfather date. This means that cigars and pipe tobacco products introduced after that date must be found by the FDA to be substantially equivalent to a product that was in the market at the 2007 grandfather date. In order to be allowed to continue to market products introduced after the grandfather date, manufacturers will have to file documentation with the FDA and obtain FDA's clearance to market the products.
- Health warnings must be placed on product packages and advertisements.
- A prohibition of free samples.

Mail-order and internet sales of cigars and pipe tobacco will continue to be permitted.

We are currently assessing the implications of the Deeming Regulation. This includes an assessment of our ability to potentially challenge the legality of the 2007 grandfather date. The final impact of the Deeming Regulation depends on a number of factors, some of which are outside our control, e.g. the outcome of potential legal proceedings.

Irrespective of the uncertainties that currently exist, we believe that we are well prepared to handle the requirements that the new regulatory framework sets for us as well as for the cigar and pipe tobacco industry in general. Our adaptation to the new rules has started and will continue with high activity in the coming period.

Key Data Per Category

	Q1 16	Q1 15	Change	2015
Net sales (DKKm)				
Handmade cigars	424	372	13.9%	1,935
Machine-made cigars	599	629	-4.8%	2,702
Pipe tobacco	138	143	-3.2%	629
Fine-cut tobacco	152	127	19.7%	583
Other	187	206	-9.4%	882
Group total	1,499	1,477	1.5%	6,732
Gross profit (DKKm)				
Handmade cigars	183	160	14.8%	843
Machine-made cigars	326	326	0.0%	1,372
Pipe tobacco	83	86	-2.9%	378
Fine-cut tobacco	87	76	13.9%	342
Other	60	69	-12.8%	304
Group total	739	716	3.2%	3,239
Organic net sales growth (%)				
Handmade cigars	14.4%	-		7.9%
Machine-made cigars	-5.2%	-		-2.3%
Pipe tobacco	-2.6%	-		1.6%
Fine-cut tobacco	23.4%	-		-1.3%
Other	-8.5%	-		-4.5%
Group total	1.9%	-		0.3%
Volume impact (%)				
Handmade cigars	14.1%	-		6.6%
Machine-made cigars	-6.9%	-		-5.7%
Pipe tobacco	-4.5%	-		-5.1%
Fine-cut tobacco	17.4%	-		-6.0%
Other	-	-		-
Group total	-	-		-
Price/Mix impact (%)				
Handmade cigars	0.3%	-		1.3%
Machine-made cigars	1.7%	-		3.4%
Pipe tobacco	1.9%	-		6.7%
Fine-cut tobacco	6.0%	-		4.7%
Other	-	-		-
Group total	-	-		-
Gross margin (%)				
Handmade cigars	43.3%	42.9%	0.3%	43.6%
Machine-made cigars	54.5%	51.9%	2.6%	50.8%
Pipe tobacco	60.5%	60.3%	0.2%	60.1%
Fine-cut tobacco	57.0%	59.8%	-2.9%	58.5%
Other	31.9%	33.2%	-1.3%	34.5%
Group total	49.3%	48.5%	0.8%	48.1%

Category Update

Handmade cigars

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

DKK MILLION	Q1 16	Q1 15	2015
Net sales	424	372	1,935
Reported growth	13.9%	33.7%	27.9%
Organic growth	14.4%	-	7.9%
Gross profit	183	160	843
Gross margin	43.3%	42.9%	43.6%

Net sales increased by 13.9% to DKK 424 million (DKK 372 million). Currencies had a modest negative impact by 0.5%. Organic growth in net sales was 14.4%. Price/mix contributed by 0.3% and the volume impact was 14.1%. Both General Cigar and Cigars International contributed to the strong volume increase. It is our impression that the total US market for handmade cigars has increased in volume during the quarter supported by the good weather conditions. Pricing remains positive on individual brands partly offset by mix impacts holding back the overall price/mix improvement.

Gross profit increased by 14.8% to DKK 183 million (DKK 160 million). Gross margin improved to 43.3% (42.9%).

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.

DKK MILLION	Q1 16	Q1 15	2015
Net sales	599	629	2,702
Reported growth	-4.8%	11.4%	4.1%
Organic growth	-5.2%	-	-2.3%
Gross profit	326	326	1,372
Gross margin, %	54.5%	51.9%	50.8%
Gross margin, adjusted	54.5%	52.7%	52.2%

Net sales decreased by 4.8% to DKK 599 million (DKK 629 million). Organic growth in net sales was -5.2%. Price/mix contributed by 1.7% and the volume impact was -6.9%. The volume decline was primarily related to certain key markets like Belgium, the UK and France. The Russian market contributed with positive growth as the distribution of Captain Black has started to normalise. The volume decline in the category has been impacted by timing of shipments in selected EU markets and underlying decline in total market volumes in the mature markets.

Price increases have in general been positive following the historical trend partly offset by a minor adverse mix impact.

Gross profit was unchanged at DKK 326 million (DKK 326 million). Gross margins improved to 54.5% (51.9%) as the impact from cost savings starts to contribute positively.

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.

DKK MILLION	Q1 16	Q1 15	2015
Net sales	138	143	629
Reported growth	-3.2%	5.0%	10.6%
Organic growth	-2.6%	-	1.6%
Gross profit	83	86	378
Gross margin	60.5%	60.3%	60.1%

Net sales decreased by 3.2% to DKK 138 million (DKK 143 million). Organic growth in net sales was -2.6% as currencies had a negative impact by 0.6%. The volume impact was -4.5% and price/mix contributed by 1.9%. Volumes were negatively impacted by timing of shipments in selected EU markets, whereas the US has shown a positive volume development driven by the dual-usage pipe tobacco. Price/mix has continued the historical trend in mature markets for traditional pipe tobacco, but has been negatively impacted by the growth in dual-usage pipe tobacco and the adverse macroeconomic situation in Nigeria, which has put pricing as well as volumes in this market under considerable pressure.

Gross profit decreased by 2.9% to DKK 83 million (DKK 86 million) and margins improved to 60.5% (60.3%).

Fine-cut tobacco

We are market leader in the US, Israel and Denmark, and we have significant positions in Norway and Switzerland.

DKK MILLION	Q1 16	Q1 15	2015
Net sales	152	127	583
Reported growth	19.7%	4.8%	3.9%
Organic growth	23.4%	-	-1.3%
Gross profit	87	76	342
Gross margin	57.0%	59.8%	58.5%

Net sales increased by 19.7% despite an adverse currency effect of 3.7% leaving the organic growth in net sales at 23.4%. Volume impact was 17.4% primarily due to sales at the Danish/German border being normalised versus Q1 2015, and the volumes in the German market continuing to grow strongly.

Price/mix contributed with 6.0% with strong performance in most key markets.

Gross profit was up by DKK 11 million to DKK 87 million, although the gross margin decreased to 57.0% (59.8%). The margin decline is due to geographical mix changes.

Other

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

DKK MILLION	Q1 16	Q1 15	2015
Net sales	187	206	882
Reported growth	-9.4%	-2.2%	-0.6%
Organic growth	-8.5%	-	-4.5%
Gross profit	60	69	304
Gross margin	31.9%	33.2%	34.5%

Net sales declined by 9.4% with organic growth down by 8.5%. The category was negatively impacted by lower sales of contract manufactured tobacco due to timing of shipments to Germany and Norway and overall lower sales of fire products and accessories.

Gross profit decreased by DKK 9 million to DKK 60 million (DKK 69 million).

Annual General Meeting

At the annual general meeting on 26 April 2016 it was approved to distribute a dividend of DKK 5.00 per share, a total of DKK 500 million.

The general meeting re-elected Jørgen Tandrup, Søren Bjerre-Nielsen, Dianne Neal Blixt, Marlene Forsell, Conny Karlsson, Luc Missorten and Henning Kruse Petersen and elected Nigel Northridge as members of the Board of Directors. The Board of Directors appointed Jørgen Tandrup as chairman of the Board of Directors and Nigel Northridge as vice chairman.

Other events after the reporting period

No events have occurred since 31 March 2016 which are expected to have any material impact on the financial position of the Group.

Outlook

The financial guidance for 2016 is maintained. Confirmed by the development in the first quarter of the year, the organic growth in adjusted net sales is expected to be in the range 1-3%, the organic growth in adjusted EBITDA is expected to be in the range 3-5% and the capital expenditure is expected to be around DKK 250 million.

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 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 31 March 2016 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 31 March 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, 25 May 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

CHAIRMAN

Nigel Northridge

VICE CHAIRMAN

Conny Karlsson

Marlene Forsell

Søren Bjerre-Nielsen

Henning Kruse Petersen

Luc Missorten

Dianne Neal Blixt

Charlotte Lückstadt Nielsen

Kurt Asmussen

Hermod Hvid

Hanne Malling

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY - 31 MARCH

CONSOLIDATED INCOME STATEMENT

DKK million	Note	Q1 2016	Q1 2015
Net sales	2	1,499.4	1,476.6
Cost of goods sold	2	-760.2	-760.3
Gross profit	2	739.2	716.3
Other external costs		-264.4	-257.1
Staff costs		-209.1	-199.3
Other income		0.2	0.4
Earnings before interest, tax, depreciation and amortisation (EBITDA)		265.9	260.3
Depreciation and impairment		-27.2	-25.7
Earnings before interest, tax and amortisation (EBITA)		238.7	234.6
Amortisation		-41.7	-44.5
Earnings before interest and tax (EBIT)		197.0	190.1
Share of profit of associated companies, net of tax		2.3	2.5
Financial income		12.4	26.7
Financial costs		-28.4	-22.9
Profit before tax		183.3	196.4
Income taxes		-45.2	-48.4
Net profit for the period		138.1	148.0
Earnings per share			
Earnings per share (DKK)		1.4	1.5
Diluted earnings per share (DKK)		1.4	1.5
OTHER COMPREHENSIVE INCOME			
<i>Items that will be recycled subsequently to the Consolidated Income Statement, when specific conditions are met:</i>			
Cash flow hedges, deferred gains/(losses) incurred during the period		-40.7	-8.2
Tax of hedging instruments		9.0	1.0
Foreign exchange rate adjustments		-222.7	698.4
Other comprehensive income for the period, net of tax		-254.4	691.2
Total comprehensive income for the period		-116.3	839.2

CONSOLIDATED BALANCE SHEET

ASSETS

DKK million	31 Mar 2016	31 Dec 2015
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Goodwill	4,387.7	4,504.2
Trademarks	3,265.1	3,331.5
IT software	68.4	69.5
Other intangible assets	225.1	230.7
Total intangible assets	7,946.3	8,135.9
PROPERTY, PLANT AND EQUIPMENT		
Land and buildings	659.5	672.0
Plant and machinery	345.8	356.6
Equipment, tools and fixtures	89.6	92.2
Leasehold improvements	43.5	46.7
Construction in progress	190.8	152.3
Total property, plant and equipment	1,329.2	1,319.8
OTHER NON-CURRENT ASSETS		
Investments in associated companies	124.5	126.1
Deferred income tax assets	130.4	135.4
Other financial fixed assets	0.6	0.6
Total other non-current assets	255.5	262.1
Total non-current assets	9,531.0	9,717.8
CURRENT ASSETS		
Inventories	3,107.2	2,998.5
RECEIVABLES		
Trade receivables	790.4	828.8
Other receivables	127.1	101.6
Prepaid corporate tax	181.1	226.0
Prepayments	64.7	62.4
Total receivables	1,163.3	1,218.8
Cash and cash equivalents	406.2	608.8
Total current assets	4,676.7	4,826.1
Total assets	14,207.7	14,543.9

CONSOLIDATED BALANCE SHEET

EQUITY AND LIABILITIES

DKK million	31 Mar 2016	31 Dec 2015
Share capital	100.0	100.0
Reserve for hedging	-62.0	-30.3
Reserve for currency translation	788.7	1,011.4
Retained earnings	8,054.9	7,916.8
Total equity	8,881.6	8,997.9
Bank loans	3,291.6	3,337.9
Deferred income tax liabilities	741.0	735.0
Pension obligations	221.8	241.0
Other provisions	42.1	41.7
Other liabilities	91.7	37.1
Total non-current liabilities	4,388.2	4,392.7
Credit facilities	1.5	0.0
Trade payables	327.4	385.9
Corporate tax liabilities	23.6	79.5
Other provisions	22.1	21.1
Other liabilities	563.3	666.8
Total current liabilities	937.9	1,153.3
Total liabilities	5,326.1	5,546.0
Total equity and liabilities	14,207.7	14,543.9

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
<i>Comprehensive income for the period</i>					
Net profit for the period	0.0	0.0	0.0	138.1	138.1
<i>Other comprehensive income</i>					
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
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
<i>Transactions with shareholders</i>					
Dividend paid				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

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 31 MARCH 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
<i>Comprehensive income for the period</i>					
Net profit for the period	0.0	0.0	0.0	148.0	148.0
<i>Other comprehensive income</i>					
Cash flow hedges		-8.2			-8.2
Tax of cash flow hedges		1.0			1.0
Foreign exchange adjustments on net investments in foreign operations			698.4		698.4
Total other comprehensive income	0.0	-7.2	698.4	0.0	691.2
Total comprehensive income for the period	0.0	-7.2	698.4	148.0	839.2
<i>Transactions with shareholders</i>					
Dividend paid				-427.0	-427.0
Total transactions with shareholders	0.0	0.0	0.0	-427.0	-427.0
Equity at 31 March 2015	100.0	-74.8	1,183.4	8,290.6	9,499.2

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY - 31 MARCH

DKK million	Q1 2016	Q1 2015
Net profit for the period	138.1	148.0
Adjustments	63.2	112.0
Changes in working capital	-294.0	-190.6
Cash flow from operating activities before financial items	-92.7	69.4
Financial income received	12.4	26.7
Financial costs paid	-28.4	-22.9
Cash flow from operating activities before tax	-108.7	73.2
Tax payments	-39.0	-51.4
Cash flow from operating activities	-147.7	21.8
Investment in intangible assets	-7.1	-7.6
Investment in property, plant and equipment	-53.2	-30.0
Sale of property, plant and equipment	2.1	0.4
Dividend from associated companies	1.8	1.4
Cash flow from investing activities	-56.4	-35.8
Instalment bank loan	0.0	-148.9
Dividend payment	0.0	-427.0
Cash flow from financing activities	0.0	-575.9
Net cash flow for the period	-204.1	-589.9
Cash and cash equivalents, net at 1 January	608.8	581.0
Net cash flow for the period	-204.1	-589.9
Cash and cash equivalents, net at 31 March	404.7	-8.9

As per 31 March 2016 the Group had the following unused credit facilities:

Committed	521.6
Uncommitted	338.4
Total	860.0

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 Scandinavian Tobacco Group 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.

NOTE 2

SEGMENT INFORMATION

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 2

SEGMENT INFORMATION (continued)

Q1 2015 DKK million	Hand- made cigars	Machine- made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allocated	Total
Net sales	372.1	628.7	142.5	127.0	206.3	0.0	1,476.6
Cost of goods sold	-212.3	-302.6	-56.6	-51.0	-137.8	0.0	-760.3
Gross profit	159.8	326.1	85.9	76.0	68.5	0.0	716.3
Other external costs						-257.1	-257.1
Staff costs						-199.3	-199.3
Other income						0.4	0.4
EBITDA						-456.0	260.3
Depreciation						-25.7	-25.7
Amortisation						-44.5	-44.5
EBIT						-526.2	190.1
Share of profit of associated companies, net of tax						2.5	2.5
Financial income						26.7	26.7
Financial costs						-22.9	-22.9
Profit before tax						-519.9	196.4

NOTE 3

FINANCIAL INSTRUMENTS

The fair value of financial instruments included in the balance sheet as per 31 March 2016 amounts to a net liability of DKK 82.6 million (DKK 40.7 million on 31 December 2015).