Company Announcement
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31 AUGUST 2016

H1 | INTERIM REPORT
1 JANUARY-30 JUNE 2016

STABLE HALF YEAR PERFORMANCE IMPACTED BY NEW REGULATIONS

HIGHLIGHTS FOR 1 JANUARY-30 JUNE 2016

- Reported net sales of DKK 3,199 million (DKK 3,225 million) - organic growth was 0.1%
- Reported EBITDA of DKK 632 million (DKK 634 million) - organic growth was 0.1%
- Net profit of DKK 346 million (DKK 354 million)
- Cash flow from operating activities was DKK 304 million (DKK 429 million)
- Cost optimisation and efficiency programme progressing in accordance with plans
- Guidance for 2016 unchanged: Organic growth in net sales of 1-3% and organic growth in EBITDA of 3-5%. Total capital expenditures around DKK 250 million

HIGHLIGHTS FOR THE SECOND QUARTER OF 2016

- Reported net sales of DKK 1,699 million (DKK 1,748 million) - organic growth was -1.5%
- Reported EBITDA of DKK 366 million (DKK 373 million) - organic growth was -2.7%
- Net profit of DKK 208 million (DKK 206 million)
- Cash flow from operating activities was DKK 452 million (DKK 408 million)

STATEMENT BY CEO NIELS FREDERIKSEN:

“First half of 2016 showed stable overall performance. Our handmade cigar business in the US continued to deliver strong growth based on market share gains. In machine-made cigars our performance was impacted by short-term fluctuations from new legislation in the EU. We continue to deliver on our cost optimisation and efficiency programme, where we see a positive impact on the margin in our machine-made cigar business.

Our second quarter, in particular, was impacted by EU’s Tobacco Products Directive. The late adoption of the directive into national legislation has created short-term fluctuations in the markets and in our production. Noise in the markets is foreseen to continue in the third quarter, but net sales for the second half year are expected to show improved growth rates driven by price increases and a normalisation of the current fluctuations and stock movements in TPD related markets.”

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GROUP FINANCIAL HIGHLIGHTS AND KEY RATIOS [1]

DKK million	Q2 2016	Q2 2015	H1 2016	H1 2015	Year 2015
INCOME STATEMENT					
Net sales	1,699	1,748	3,199	3,225	6,732
Gross profit	840	870	1,579	1,587	3,239
EBITDA	366	373	632	634	1,247
EBIT	296	302	493	492	941
Net financial items (excl. share of profit of ass. companies)	-24	-32	-40	-28	-67
Profit before tax	275	273	459	469	884
Income taxes	-68	-67	-113	-115	-216
Net profit	208	206	346	354	668
BALANCE SHEET					
Total assets			14,162	14,375	14,544
Equity			8,660	9,492	8,998
Net interest-bearing debt (NIBD)			3,379	2,866	3,011
Investment in property, plant and equipment	80	80	134	110	210
Total capital expenditures	87	86	148	124	236
CASH FLOW STATEMENT					
Cash flow from operating activities	452	408	304	429	1,285
Cash flow from investing activities	-83	-84	-139	-120	-229
Free cash flow	369	324	165	310	1,057
KEY RATIOS					
Net sales growth	-2.8%		-0.8%		9.9%
Gross margin	49.4%	49.8%	49.4%	49.2%	48.1%
EBITDA margin	21.5%	21.4%	19.8%	19.6%	18.5%
Effective tax percentage	24.5%	24.4%	24.6%	24.5%	24.5%
Equity ratio			61.1%	66.0%	61.9%
Organic net sales growth [2]	-1.5%		0.1%		0.3%
Adjusted gross margin [3]	49.9%	49.8%	49.6%	49.4%	48.7%
Organic EBITDA growth [4]	-2.7%		0.1%		2.2%
Adjusted EBITDA [5] (DKK million)	374	392	653	658	1,385
Adjusted EBITDA margin [6]	22.0%	22.4%	20.4%	20.4%	20.5%
NIBD / Adjusted EBITDA			2.4	2.1	2.2
ROIC					7.4%
ROIC ex. goodwill and trademarks from 2010 merger					13.3%
Basic earnings per share (DKK)	2.1	2.1	3.5	3.5	6.7
Diluted earnings per share (DKK)	2.1	2.1	3.5	3.5	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

SECOND QUARTER 2016

NET SALES

In the second quarter, reported net sales decreased by -2.8% to DKK 1,699 million (DKK 1,748 million). Currency translation impacted net sales negatively by -1.3%. Organic growth in net sales was -1.5%.

In handmade cigars we continued to grow volumes, while the price/mix impact was negative driven by new launches, product mix and promotion activities in the trade. In machine-made cigars, pipe tobacco and fine-cut tobacco, a positive price/mix development could only partly off-set a negative volume development.

Handmade cigars showed strong organic growth of 6.5% whereas machine-made cigars, pipe tobacco and fine-cut tobacco had negative organic growth of -3.7%, -14.8% and -5.7%, respectively. Our category “Other” showed organic growth of 2.6%.

In the quarter, our net sales as well as our production planning were impacted by the transition to the new EU Tobacco Products Directive which caused short-term fluctuations in the market. Pipe tobacco net sales were impacted by volume drop related to the Middle East and the adverse macro-economic situation in Nigeria. In fine-cut tobacco, our negative net sales development was mainly caused by timing of shipments to Norway.

The recent impact from implementation of the TPD is likely to continue to impact the production planning, the timing of shipments and the stock levels at our own sites as well as in the trade in Q1-Q3.

GROSS PROFIT AND MARGIN

In the quarter, reported gross profit decreased by -3.5% to DKK 840 million (DKK 870 million) with a gross margin of 49.4% (49.8%). Adjusted for non-recurring items, which were related to the TPD implementation, gross margin was 49.9% (49.8%).

Adjusted gross margin developed positively in both handmade and machine-made cigars, whereas pipe tobacco and fine-cut tobacco were impacted by the unfavourable volume developments in the quarter.

EBITDA

In the quarter, reported EBITDA decreased by -1.9% to DKK 366 million (DKK 373 million). Organic growth in EBITDA was -2.7%. The period was impacted by non-recurring items related to the TPD preparations of DKK 8 million (in 2015: DKK 19 million related to IPO transaction costs).

Reported EBITDA margin was 21.5% (21.4%). Adjusted for non-recurring items EBITDA margin was 22.0% (22.4%).

PROFIT BEFORE TAX

Net financial items (excluding profit from associated companies) were DKK -24 million (DKK -32 million). The development is mainly due to currency gains in Q2 2016 compared to currency losses in Q2 2015.

Profit before tax increased to DKK 275 million (DKK 273 million). Tax rate for the period was 24.5% in line with the same period last year.

NET PROFIT

Reported net profit increased to DKK 208 million (DKK 206 million).

Adjustments to Net Sales, Gross Profit and EBITDA

DKKm	Q2 16	Q2 15	H1 16	H1 15	2015
Net sales					
Reported	1,699	1,748	3,199	3,225	6,732
Non-recurring items	0	0	0	0	7
Net sales, adjusted	**1,699**	**1,748**	**3,199**	**3,225**	**6,739**
Gross profit					
Reported	840	870	1,579	1,587	3,239
Non-recurring items	8	0	8	5	44
Gross profit, adjusted	**847**	**870**	**1,586**	**1,592**	**3,282**
EBITDA					
Reported	366	373	632	634	1,247
Non-recurring items	8	19	21	24	138
EBITDA, adjusted	**374**	**392**	**653**	**658**	**1,385**

1 JANUARY-30 JUNE 2016

NET SALES

In the first six months, reported net sales decreased by -0.8% to DKK 3,199 million (DKK 3,225 million). Organic growth in net sales was 0.1%.

Handmade cigars and fine-cut tobacco showed strong organic growth in net sales of 9.8% and 7.3%, respectively. Organic growth was negative by -4.3% in machine-made cigars, -9.1% in pipe tobacco and -2.7% in our category “Other”.

In the handmade cigar category we grew volumes by 11.3% and had a negative price/mix of -1.5%. Price/mix impact contributed positively by 1.9% in machine-made cigars, 1.1% in pipe tobacco and 6.4% in fine-cut tobacco. Machine-made cigars and pipe tobacco had negative volume impact on organic growth of -6.2% and -10.2%, respectively, whereas positive volume development from fine-cut tobacco impacted organic growth by 0.9%.

GROSS PROFIT AND MARGIN

Gross profit decreased by -0.5% to DKK 1,579 million (DKK 1,587 million). Reported gross margin increased to 49.4% (49.2%), whereas adjusted gross margin increased to 49.6% (49.4%).

Our optimisation and cost efficiency programme progressed 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 40% of the planned run rate reduction is expected to be realised by the end of 2016.

EBITDA

Reported EBITDA was at level with the same period last year at DKK 632 million (DKK 634 million) with an organic growth of 0.1%.

Reported EBITDA margin grew to 19.8% (19.6%). Adjusted EBITDA margin stood at 20.4% (20.4%).

PROFIT BEFORE TAX

Net financial items (excluding profit from associated companies) were DKK -40 million (DKK -28 million). The development is mainly due to less currency gains in 2016 compared to last year and increased interest expenses explained by the new capital structure from September 2015.

Profit before tax showed a drop of DKK 10 million to DKK 459 million (DKK 469 million). Tax rate for the period was 24.6% in line with same period last year.

NET PROFIT

Reported net profit decreased to DKK 346 million (DKK 354 million).

EARNINGS PER SHARE

Earnings per share (EPS) for the first six months stood at DKK 3.5 (DKK 3.5). Fully diluted EPS were DKK 3.5 (DKK 3.5).

CASH FLOW

Cash flow from operating activities in the first six months of 2016 was DKK 304 million (DKK 429 million) on the back of a high cash inflow in the fourth quarter of 2015. The period was impacted by stock building ahead of the TPD implementation date and a pay-out of non-recurring transaction bonuses related to the listing of the company in February 2016. Timing of tax payments had a positive impact on the first six months compared to the same period last year.

Free cash flow amounted to DKK 165 million (DKK 310 million).

Capital expenditures amounted to DKK 148 million (DKK 124 million) including DKK 78 million (DKK 56 million) of TPD related investments. It is estimated that 2016 full year will include TPD investments of about DKK 100 million.

The inventory reduction programme, which targets to reduce inventories by DKK 500 million on a like-for-like basis compared to 2014, is progressing according to plans, and is supported by the ongoing SKU rationalisation programme.

The period includes an ordinary dividend payment of DKK 500 million, which was paid out to the shareholders in April in relation to the 2015 earnings. The amount represented approx. 75% of 2015 net profit and was in line with our dividend policy stating an annual ordinary dividend payment of at least 70% of net profit.

NET INTEREST-BEARING DEBT

Net interest-bearing debt was DKK 3,379 million by 30 June 2016 (DKK 3,011 million by 31 December 2015). The increase was mainly driven by the net cash outflow in the period driven by the ordinary dividend payment. The leverage ratio measured as net interest-bearing debt/adjusted EBITDA was 2.4x compared to 2.2x at year-end 2015.

BUSINESS HIGHLIGHTS

COST OPTIMISATION AND EFFICIENCY PROGRAMME

Our cost optimisation and efficiency programme progresses and delivers according to plan and the complexity reduction continues to reduce our cost base.

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 a temporary impact on the inventory and production planning ahead of the TPD, where old non-compliant packaging materials were 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.

NEW TOBACCO RELATED REGULATIONS IN THE EU AND THE US

The tobacco industry is faced with constant changes in its regulatory environment. New regulations cause temporary noise in the market place. In dealing with new regulations, we aim at leveraging our knowhow and scale to enhance our competitive advantage.

EU TOBACCO PRODUCTS DIRECTIVE TOOK EFFECT ON 20 MAY

The regulations in the revised EU Tobacco Products Directive took effect in the majority of the EU member states on 20 May 2016. The EU directive was implemented into national legislation very close to the deadline – in some countries even after the deadline.

We were and are well prepared, but preparations were complicated by the very late implementation of the EU directive into national legislation leaving us with uncertainties until the last moment. So far, only a limited number of products compliant with the revised EU Tobacco Products Directive are in the trade and have reached the consumers, which is the reason why consumer reactions remain to be seen.

FDA DEEMING REGULATION TOOK EFFECT ON 8 AUGUST – CHALLENGED BY CIGAR ASSOCIATIONS

The US Food and Drug Administration (FDA) extended its regulation of tobacco products to cigars, pipe tobacco and other previously non-regulated tobacco products when publishing its final regulation on 10 May 2016.

The regulation took effect on 8 August 2016, but has been challenged by several industry players via three major US cigar and tobacco industry associations. The Cigar Association of America, International Premium Cigar and Pipe Retailers Association, and the Cigar Rights of America are asking the District Court for the District of Columbia for a declaratory injunction to "vacate, set aside and enjoin the enforcement of the final regulation". Scandinavian Tobacco Group supports all three industry associations through either memberships or other activities.

Towards the end of the second quarter, manufacturers and retailers have started to push inventory in the cigar category, in particular, and many new products were launched ahead of the implementation date.

We have prepared well to handle the new regulatory framework and aim at using the new regulation to enhance our competitive advantage.

Key Data Per Category

	Q2 16	Q2 15	Change	H1 16	H1 15	Change	2015
Net sales (DKKm)							
Handmade cigars	536	512	4.7%	960	884	8.6%	1,935
Machine-made cigars	647	683	-5.3%	1,246	1,312	-5.1%	2,702
Pipe tobacco	140	167	-16.2%	278	309	-10.2%	629
Fine-cut tobacco	148	160	-7.6%	300	287	4.5%	583
Other	229	226	1.2%	416	432	-3.9%	882
Group total	**1,699**	**1,748**	**-2.8%**	**3,199**	**3,225**	**-0.8%**	**6,732**
Gross profit (DKKm)							
Handmade cigars	241	219	10.0%	424	379	12.0%	843
Machine-made cigars	338	363	-6.9%	664	689	-3.6%	1,372
Pipe tobacco	87	105	-17.3%	170	191	-10.9%	378
Fine-cut tobacco	85	100	-15.3%	172	176	-2.7%	342
Other	89	83	7.2%	149	152	-1.9%	304
Group total	**840**	**870**	**-3.5%**	**1,579**	**1,587**	**-0.5%**	**3,239**
Organic net sales growth (%)							
Handmade cigars	6.5%	-		9.8%	-		7.9%
Machine-made cigars	-3.7%	-		-4.3%	-		-2.3%
Pipe tobacco	-14.8%	-		-9.1%	-		1.6%
Fine-cut tobacco	-5.7%	-		7.3%	-		-1.3%
Other	2.6%	-		-2.7%	-		-4.5%
Group total	**-1.5%**	**-**		**0.1%**	**-**		**0.3%**
Volume impact (%)							
Handmade cigars	9.2%	-		11.3%	-		6.6%
Machine-made cigars	-6.5%	-		-6.2%	-		-5.7%
Pipe tobacco	-15.5%	-		-10.2%	-		-5.1%
Fine-cut tobacco	-10.0%	-		0.9%	-		-6.0%
Other	-	-		-	-		-
Group total	**-**	**-**		**-**	**-**		**-**
Price/Mix impact (%)							
Handmade cigars	-2.7%	-		-1.5%	-		1.3%
Machine-made cigars	2.8%	-		1.9%	-		3.4%
Pipe tobacco	0.7%	-		1.1%	-		6.7%
Fine-cut tobacco	4.3%	-		6.4%	-		4.7%
Other	-	-		-	-		-
Group total	**-**	**-**		**-**	**-**		**-**
Gross margin (%)							
Handmade cigars	45.0%	42.8%	2.2%	44.2%	42.9%	1.4%	43.6%
Machine-made cigars	52.2%	53.1%	-0.9%	53.3%	52.5%	0.8%	50.8%
Pipe tobacco	62.0%	62.9%	-0.9%	61.2%	61.7%	-0.5%	60.1%
Fine-cut tobacco	57.4%	62.5%	-5.1%	57.1%	61.4%	-4.2%	58.5%
Other	39.0%	36.8%	2.2%	35.8%	35.1%	0.7%	34.5%
Group total	**49.4%**	**49.8%**	**-0.4%**	**49.4%**	**49.2%**	**0.2%**	**48.1%**

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	Q2 16	Q2 15	H1 16	H1 15	2015
Net sales	536	512	960	884	1,935
Reported growth	4.7%	32.5%	8.6%	33.0%	27.9%
Organic growth	6.5%	-	9.8%		7.9%
Gross profit	241	219	424	379	843
Gross margin	45.0%	42.8%	44.2%	42.9%	43.6%

In the second quarter, reported net sales increased by 4.7% to DKK 536 million (DKK 512 million). Organic growth in net sales was 6.5%.

Price/mix impact was negative by -2.7% whereas the volume impact contributed to net sales growth in handmade cigars by 9.2%.

Both General Cigar and Cigars International contributed to the strong volume development. Cigars International continued to grow the customer base and has also seen an increase in average order value. Price/mix development was impacted by lower net sales from shipping in Cigars International as well as new strategic initiatives and promotion activities from General Cigar focusing on a growing share and a stronger position in the regular retail channel. In addition to the strong performance in the US, the handmade cigar category has delivered a double digit growth in the international sales outside the US, however from a low base.

Despite the negative price/mix impact, gross margin increased to 45.0% (42.8%) driven by the increased collaboration between our businesses in the US. Gross profit increased by 10.0% to DKK 241 million (DKK 219 million).

1 JANUARY-30 JUNE 2016

In the first six months, reported net sales increased by 8.6% to DKK 960 million (DKK 884 million). Organic growth was 9.8%.

The period showed a high positive volume impact of 11.3% driven by share gains and good weather conditions in the first quarter, but a negative price/mix impact of -1.5% driven by some of the same dynamics as in the second quarter performance.

Gross profit increased by 11.9% to DKK 424 million (DKK 379 million). Gross margin increased to 44.2% (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.

Machine-made cigars

DKK MILLION	Q2 16	Q2 15	H1 16	H1 15	2015
Net sales	647	683	1,246	1,312	2,702
Reported growth	-5.3%	6.4%	-5.1%	8.8%	4.1%
Organic growth	-3.7%	-	-4.3%	-	-2.3%
Gross profit	338	363	664	689	1,372
Gross margin, %	52.2%	53.1%	53.3%	52.5%	50.8%
Gross margin, adjusted *	53.3%	53.1%	53.9%	52.9%	52.2%

* Adjusted for non-recurring items in Q2 2016 and 2015

In the quarter, reported net sales decreased by -5.3% to DKK 647 million (DKK 683 million). Organic growth in net sales was negative by -3.7%.

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 -6.5%.

In the second quarter, the volume development was hurt by the short-term fluctuations in the EU markets from the transition to the new Tobacco Products Directive, which took effect in the quarter. We have planned well for the new directive, but late implementation in many markets has to some extend disturbed the production planning and also the order intake in the trade. We have seen a negative impact on shipments in some of our bigger markets like Belgium and France, where our portfolio is most impacted by the SKU rationalisation and the trade takes the time to sell out of old delisted products before they place new orders. Furthermore, we continued to see soft volumes driven by a weak total market development in key markets and performance issues in markets such as France, Finland and the Netherlands.

Against this we have succeeded in delivering a positive volume impact and market share gains in Canada following the implementation of regulation on flavoured cigars at the end of 2015 and we also see continued market share gains in the UK following the implementation of dark market.

Gross profit was at DKK 338 million (DKK 363 million) implying a gross margin of 52.2% (53.1%).

Adjusted gross margin was at 53.3% (53.1%) as impact from our optimisation and cost efficiency programme continued to contribute positively, even though the production planning and overhead absorption in the quarter was hurt by the TPD transition and the lower volumes.

1 JANUARY-30 JUNE 2016

In the first six months, reported net sales decreased by -5.1% to DKK 1,246 million (DKK 1,312 million). Organic growth was -4.3%.

Price/mix impact was positive by 1.9%. Volume impact was negative by -6.2% driven by TPD related fluctuations and negative total market development in some of our bigger key markets, where price increases and market share performance could not off-set the total market impact.

Gross profit was at DKK 664 million (DKK 689 million) implying a gross margin of 53.3% (52.5%). Adjusted gross margin improved to 53.9% (52.9%), driven by the cost optimisation programme, which had a positive margin impact more than off-setting the adverse TPD impact on the production planning and 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	Q2 16	Q2 15	H1 16	H1 15	2015
Net sales	140	167	278	309	629
Reported growth	-16.2%	14.8%	-10.2%	10.2%	10.6%
Organic growth	-14.8%	-	-9.1%	-	1.6%
Gross profit	87	105	170	191	378
Gross margin, %	62.0%	62.9%	61.2%	61.7%	60.1%
Gross margin, adjusted *	62.3%	62.9%	61.4%	61.7%	60.1%

* Adjusted for non-recurring items in Q2 2016

In the second quarter, reported net sales decreased by -16.2% to DKK 140 million (DKK 167 million). Organic growth in net sales was negative by -14.8%.

Price/mix impact on net sales in pipe tobacco was 0.7%. Volume impacted net sales negatively by -15.5%.

Pricing remained healthy for traditional pipe tobacco in our mature markets while the price/mix in the category is negatively impacted by the 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 see oil price driven adverse impact on pricing and consumer off take.

Gross profit decreased by -17.4% to DKK 87 million (DKK 105 million). Reported gross margin dropped to 62.0% (62.9%) and adjusted gross margin dropped to 62.3% (62.9%) as the negative volume development driven by Nigeria had a negative impact on the absorption of indirect production costs.

1 JANUARY-30 JUNE 2016

In the first six months, reported net sales decreased by -10.2% to DKK 278 million (DKK 309 million). Organic growth in net sales was negative by -9.1%.

Price/mix impact contributed 1.1%. Volume impact was -10.2% mainly driven by the lower sales to Nigeria and the Middle East. General pricing for traditional pipe tobacco remains healthy, while growing volumes of dual-usage pipe tobacco dilutes the price/mix impact.

Gross profit was at DKK 170 million (DKK 191 million) implying a reported gross margin of 61.2% (61.7%) and an adjusted gross margin of 61.4% (61.7%).

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	Q2 16	Q2 15	H1 16	H1 15	2015
Net sales	148	160	300	287	583
Reported growth	-7.6%	7.6%	4.5%	6.4%	3.9%
Organic growth	-5.7%	-	7.3%	-	-1.3%
Gross profit	85	100	172	176	342
Gross margin, %	57.4%	62.5%	57.1%	61.4%	58.5%
Gross margin, adjusted *	57.7%	62.5%	57.3%	61.4%	58.5%

* Adjusted for non-recurring items in Q2 2016

In the quarter, net sales decreased by -7.6% to DKK 148 million (DKK 160 million). Organic growth in net sales was -5.7%.

Price/mix contributed to net sales in fine-cut tobacco by 4.3%. Volume impact was -10.0%.

The negative volume impact in the quarter was mainly due to timing of shipments to Norway which is also reflected in the gross margin development. Volumes to the German market continued its strong growth.

Gross profit was at DKK 85 million (DKK 100 million) implying a reported gross margin of 57.4% (62.5%) and an adjusted gross margin of 57.7% (62.5%). The margin decline is mainly driven by the geographical mix changes in the quarter.

The fine-cut category in the EU is also impacted by the TPD implementation and a transition of the production to new machinery in our factory in Holstebro, impacting the production efficiency and thereby the gross margins on short term in Q2-Q3.

1 JANUARY-30 JUNE 2016

In the first six months, reported net sales increased by 4.5% to DKK 300 million (DKK 287 million). Organic growth in net sales was 7.3%.

Price/mix impact contributed to net sales by 6.4% and volume impact was 0.9%. Geographical mix as well as timing of shipments impacted the phasing of the net sales in the first six months with high growth in volumes at the Danish/German border in the first quarter and drop in volumes to Norway in the second quarter. Underlying price/mix and volume development remain healthy.

Gross profit was at DKK 172 million (DKK 176 million) implying a reported gross margin of 57.1% (61.4%) and an adjusted gross margin of 57.3% (61.4%).

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	Q2 16	Q2 15	H1 16	H1 15	2015
Net sales	229	226	416	432	882
Reported growth	1.2%	6.2%	-3.9%	2.1%	-0.5%
Organic growth	2.6%	-	-2.7%		-4.5%
Gross profit	89	83	149	152	304
Gross margin	39.0%	36.8%	35.8%	35.1%	34.5%

Net sales increased by 1.2% to DKK 229 million (DKK 226 million). Organic growth was 2.6%.

The development in the category was driven by a normalised level of contract manufacturing together with a favourable sales mix in the second quarter.

Gross profit increased by DKK 6 million to DKK 89 million (DKK 83 million). Gross margin was 39.0% (36.8%).

1 JANUARY-30 JUNE 2016

In the first six months, reported net sales decreased by -3.9% to DKK 416 million (DKK 432 million). Organic growth in net sales was negative by -2.7%.

In the first quarter, 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. Second quarter was positively impacted by a favourable sales mix.

Gross profit was at DKK 149 million (DKK 152 million) implying a gross margin of 35.8% (35.1%).

EVENTS AFTER THE REPORTING PERIOD

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

OUTLOOK

The financial guidance for 2016 is maintained. 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.

The net sales in the second half of 2016 is expected to show improved growth rates driven by price increases and a normalisation of the current fluctuations and stock movements in TPD related markets. Furthermore, we continue to see strong performance in our handmade cigars category and see our machine-made cigars category being positively impacted in the second half from growth in our Canada business, the timing of deliveries in UK and our new set-up around Captain Black in Russia.

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 June 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 June 2016 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 30 June 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, 31 August 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

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Dianne Neal Blixt

Charlotte Lückstadt Nielsen

Kurt Asmussen

Lindy Larsen

Hanne Malling

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY - 30 JUNE

CONSOLIDATED INCOME STATEMENT

DKK million	Note	Q2 2016	Q2 2015	H1 2016	H1 2015
Net sales	2	**1,699.3**	**1,747.9**	**3,198.7**	**3,224.5**
Cost of goods sold	2	-859.8	-877.7	-1,620.0	-1,638.0
Gross profit	2	**839.5**	**870.2**	**1,578.7**	**1,586.5**
Other external costs		-304.6	-295.2	-569.0	-552.3
Staff costs		-171.8	-202.3	-380.9	-401.6
Other income		3.0	0.5	3.2	0.9
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**366.1**	**373.2**	**632.0**	**633.5**
Depreciation and impairment		-28.4	-26.2	-55.6	-51.9
Earnings before interest, tax and amortisation (EBITA)		**337.7**	**347.0**	**576.4**	**581.6**
Amortisation		-41.9	-44.8	-83.6	-89.3
Earnings before interest and tax (EBIT)		**295.8**	**302.2**	**492.8**	**492.3**
Share of profit of associated companies, net of tax		3.0	2.4	5.3	4.9
Financial income		5.3	0.0	17.7	20.4
Financial costs		-28.8	-31.9	-57.2	-48.5
Profit before tax		**275.4**	**272.6**	**458.6**	**469.0**
Income taxes		-67.5	-66.6	-112.7	-115.0
Net profit for the period		**207.9**	**206.0**	**345.9**	**354.0**
Earnings per share					
Basic earnings per share (DKK)		2.1	2.1	3.5	3.5
Diluted earnings per share (DKK)		2.1	2.1	3.5	3.5
OTHER COMPREHENSIVE INCOME					
Items that will be recycled subsequently to the Consolidated Income Statement, when specific conditions are met:					
Cash flow hedges, deferred gains/(losses) incurred during the period		-12.0	16.8	-52.7	8.6
Tax of hedging instruments		2.6	-3.9	11.6	-2.9
Foreign exchange rate adjustments		102.0	-226.2	-120.7	472.2
Other comprehensive income for the period, net of tax		**92.6**	**-213.3**	**-161.8**	**477.9**
Total comprehensive income for the period		**300.5**	**-7.3**	**184.1**	**831.9**

CONSOLIDATED BALANCE SHEET

ASSETS

DKK million	30 Jun 2016	31 Dec 2015
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Goodwill	4,449.9	4,504.2
Trademarks	3,261.5	3,331.5
IT software	68.3	69.5
Other intangible assets	217.1	230.7
Total intangible assets	**7,996.8**	**8,135.9**
PROPERTY, PLANT AND EQUIPMENT		
Land and buildings	661.4	672.0
Plant and machinery	374.9	356.6
Equipment, tools and fixtures	87.4	92.2
Leasehold improvements	43.2	46.7
Construction in progress	219.1	152.3
Total property, plant and equipment	**1,386.0**	**1,319.8**
OTHER NON-CURRENT ASSETS		
Investments in associated companies	126.0	126.1
Deferred income tax assets	130.6	135.4
Other financial fixed assets	0.6	0.6
Total other non-current assets	**257.2**	**262.1**
Total non-current assets	**9,640.0**	**9,717.8**
CURRENT ASSETS		
Inventories	**3,034.4**	**2,998.5**
RECEIVABLES		
Trade receivables	798.9	828.8
Other receivables	98.0	101.6
Prepaid corporate tax	161.2	226.0
Prepayments	65.8	62.4
Total receivables	**1,123.9**	**1,218.8**
Cash and cash equivalents	**363.7**	**608.8**
Total current assets	**4,522.0**	**4,826.1**
Total assets	**14,162.0**	**14,543.9**

CONSOLIDATED BALANCE SHEET

EQUITY AND LIABILITIES

DKK million	30 Jun 2016	31 Dec 2015
Share capital	100.0	100.0
Reserve for hedging	-71.4	-30.3
Reserve for currency translation	890.7	1,011.4
Treasury shares	-22.1	0.0
Retained earnings	7,762.8	7,916.8
Total equity	**8,660.0**	**8,997.9**
Bank loans	3,422.9	3,337.9
Deferred income tax liabilities	758.3	735.0
Pension obligations	225.8	241.0
Other provisions	43.5	41.7
Other liabilities	98.0	37.1
Total non-current liabilities	**4,548.5**	**4,392.7**
Trade payables	338.2	385.9
Corporate tax liabilities	32.6	79.5
Other provisions	19.8	21.1
Other liabilities	562.9	666.8
Total current liabilities	**953.5**	**1,153.3**
Total liabilities	**5,502.0**	**5,546.0**
Total equity and liabilities	**14,162.0**	**14,543.9**

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 30 JUNE 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**	**345.9**	**345.9**
Other comprehensive income						
Cash flow hedges		-52.7				**-52.7**
Tax of cash flow hedges		11.6				**11.6**
Foreign exchange adjustments on net investments in foreign operations			-120.7			**-120.7**
Total other comprehensive income	**0.0**	**-41.1**	**-120.7**	**0.0**	**0.0**	**-161.8**
Total comprehensive income for the period	**0.0**	**-41.1**	**-120.7**	**0.0**	**345.9**	**184.1**
Transactions with shareholders						
Purchase of treasury shares				-22.1		**-22.1**
Share-based payments					0.1	**0.1**
Dividend paid					-500.0	**-500.0**
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**-22.1**	**-499.9**	**-522.0**
Equity at 30 June 2016	**100.0**	**-71.4**	**890.7**	**-22.1**	**7,762.8**	**8,660.0**

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 30 JUNE 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**	**354.0**	**354.0**
Other comprehensive income					
Cash flow hedges		8.6			**8.6**
Tax of cash flow hedges		-2.9			**-2.9**
Foreign exchange adjustments on net investments in foreign operations			472.2		**472.2**
Total other comprehensive income	**0.0**	**5.7**	**472.2**	**0.0**	**477.9**
Total comprehensive income for the period	**0.0**	**5.7**	**472.2**	**354.0**	**831.9**
Transactions with shareholders					
Dividend paid				-427.0	**-427.0**
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**-427.0**	**-427.0**
Equity at 30 June 2015	**100.0**	**-61.9**	**957.2**	**8,496.6**	**9,491.9**

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY - 30 JUNE

DKK million	Q2 2016	Q2 2015	H1 2016	H1 2015
Net profit for the period	207.8	206.0	345.9	354.0
Adjustments	134.5	166.6	197.7	278.6
Changes in working capital	149.5	123.5	-144.5	-67.1
Cash flow from operating activities before financial items	**491.8**	**496.1**	**399.1**	**565.5**
Financial income received	5.3	1.0	17.7	20.4
Financial costs paid	-28.8	-32.9	-57.2	-48.5
Cash flow from operating activities before tax	**468.3**	**464.2**	**359.6**	**537.4**
Tax payments	-16.5	-56.5	-55.5	-107.9
Cash flow from operating activities	**451.8**	**407.7**	**304.1**	**429.5**
Investment in intangible assets	-7.0	-6.4	-14.1	-14.0
Investment in property, plant and equipment	-80.3	-79.7	-133.5	-109.7
Sale of property, plant and equipment	3.2	0.6	5.3	1.0
Dividend from associated companies	1.3	1.5	3.1	2.9
Cash flow from investing activities	**-82.8**	**-84.1**	**-139.2**	**-119.9**
Draw on revolving credit facility	112.0	186.5	112.0	37.6
Installment bank loans	0.0	-278.8	0.0	-278.8
Dividend payment	-500.0	0.0	-500.0	-427.0
Purchase of treasury shares	-22.0	0.0	-22.0	0.0
Cash flow from financing activities	**-410.0**	**-92.3**	**-410.0**	**-668.2**
Net cash flow for the period	**-41.0**	**231.3**	**-245.1**	**-358.6**
Cash and cash equivalents, net at 1 April / 1 January	404.7	-8.9	608.8	581.0
Net cash flow for the period	-41.0	231.3	-245.1	-358.6
Cash and cash equivalents, net at 30 June	**363.7**	**222.4**	**363.7**	**222.4**

As per 30 June 2016 the Group had the following unused credit facilities:	
Committed	341.2
Uncommitted	409.1
Total	**750.3**

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 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 below additions as a result of implementation of new Incentive Programs and launch of a related Share Buy-back Programme, as described in company announcement No. 22/2016 and No. 28/2016.

Additions to the accounting policies as set out in the Annual Report for 2015
To the description of Equity under "Other general accounting policies" the following is added:
Cost of acquisition and proceeds from sale of treasury shares are recognised in reserve for treasury shares. Dividends received in relation to treasury shares are recognised in retained earnings.

To the description of staff costs and remuneration (note 2.2) the following is added:
The value of services received in exchange for granted performance-based share units (PSUs) is measured at fair value at the grant date and recognised in the income statement under staff costs over the vesting period with a corresponding increase in equity.

The fair value of granted PSUs is measured using a generally accepted valuation model taking into consideration the terms and conditions upon which the PSUs were granted.

On initial recognition, an estimate is made of the number of PSUs expected to vest. The estimated number is subsequently revised for changes in the number of PSUs expected to vest due to non-market based vesting conditions.

NOTE 2
SEGMENT INFORMATION

H1 2016

DKK million	**Handmade cigars**	**Machine-made cigars**	**Pipe tobacco**	**Fine-cut tobacco**	**Other**	**Not allocated**	**Total**
Net sales	959.7	1,245.6	277.7	300.1	415.6	0.0	3,198.7
Cost of goods sold	-535.3	-581.7	-107.7	-128.6	-266.7	0.0	-1,620.0
Gross profit	**424.4**	**663.9**	**170.0**	**171.5**	**148.9**	**0.0**	**1,578.7**
Other external costs						-569.0	-569.0
Staff costs						-380.9	-380.9
Other income						3.2	3.2
EBITDA						**-946.7**	**632.0**
Depreciation						-55.6	-55.6
Amortisation						-83.6	-83.6
EBIT						**-1,085.9**	**492.8**
Share of profit of associated companies, net of tax						5.3	5.3
Financial income						17.7	17.7
Financial costs						-57.2	-57.2
Profit before tax						**-1,120.1**	**458.6**

NOTE 2
SEGMENT INFORMATION (continued)

H1 2015 DKK million	Hand-made cigars	Machine-made cigars	Pipe tobacco	Fine-cut tobacco	Other	Not allocated	Total
Net sales	883.6	1,312.1	309.3	287.2	432.3	0.0	3,224.5
Cost of goods sold	-504.8	-623.3	-118.4	-111.0	-280.5	0.0	-1,638.0
Gross profit	**378.8**	**688.8**	**190.9**	**176.2**	**151.8**	**0.0**	**1,586.5**
Other external costs						-552.3	-552.3
Staff costs						-401.6	-401.6
Other income						0.9	0.9
EBITDA						**-953.0**	**633.5**
Depreciation						-51.9	-51.9
Amortisation						-89.3	-89.3
EBIT						**-1,094.2**	**492.3**
Share of profit of associated companies, net of tax						4.9	4.9
Financial income						20.4	20.4
Financial costs						-48.5	-48.5
Profit before tax						**-1,117.4**	**469.1**

NOTE 3
FINANCIAL INSTRUMENTS

The fair value of financial instruments included in the balance sheet as per 30 June 2016 amounts to a net liability of DKK 93.5 million (DKK 40.7 million on 31 December 2015).

NOTE 4

INCENTIVE PROGRAMMES AND SHARE BUY-BACK PROGRAMME

On 27 June 2016, Scandinavian Tobacco Group A/S implemented i) a long-term incentive programme (LTIP) for certain members of the Executive Management and certain members of senior management, and ii) a transition share programme (TSP) for certain members of the Executive Management and certain members of senior management.

The two programmes comprise a total of 166,239 performance share units (PSUs) of which 128,084 PSUs have been granted to members of the Executive Management, and a total of 38,155 PSUs have been granted to certain members of senior management. The number of PSUs granted to each participant in the programme has been based on the average share price of the 10 trading days following the listing of the company on 10 February 2016 on Nasdaq Copenhagen. Further, the participants have received PSUs corresponding to the dividend paid by the company in April 2016.

Upon vesting, each PSU entitles the holder to receive one share in Scandinavian Tobacco Group A/S at no cost. The actual number of shares vesting may range between 0 and 200% of the grant and is determined by the achievement of certain performance indicators in the financial years 2016, 2017 and 2018 for the LTIP and the financial years 2016 and 2017 for the TSP. The maximum total number of vested shares under the programmes is 332,478 shares based on an achieved full performance (200%).

Prior to vesting, holders of PSUs are not entitled to any of the rights which shareholders hold, except from the right to dividends which will be converted into additional PSUs.

Reference is also made to the offering circular published by Scandinavian Tobacco Group A/S on 28 January 2016 and the company's Remuneration Policy as published on the company's website www.st-group.com.

On 30 May 2016, the Board of Directors of Scandinavian Tobacco Group A/S ("STG") decided to initiate a share buy-back programme of up to 412,462 shares, with the purpose of hedging obligations arising from STG's share based incentive schemes.

The share buy-back programme was initiated pursuant to the authorisation granted to the Board of Directors in the company's articles of association which allows for STG's acquisition of its own shares up to a maximum amount of nominally DKK 10m.

The maximum total share buy-back in the period will amount to 412,462 shares (0.4% of the share capital), and the total consideration is maximized at DKK 55m.

The share buy-back programme will end no later than 30 September 2016. STG may terminate the programme at any time.