



Company Announcement

No. 14/2023

Copenhagen, 8 March 2023

Full-year report, 1 January - 31 December 2022

Scandinavian Tobacco Group A/S Reports Full Year 2022 Results in Line with Expectations and Propose a 10% Increase in Dividend Per Share

For the full year of 2022, Scandinavian Tobacco Group A/S (the “Group” or “Scandinavian Tobacco Group”) delivered a 3.5% negative organic EBITDA growth in line with the guidance range of -4% to 0%, free cash-flow before acquisitions at DKK 1.3 billion (DKK 1.1-1.4 billion) and an increase in adjusted Earnings Per Share of 8% (>5%). The EBITDA-margin before special items was 25.9% (27.1%). For the full year of 2023, net sales and EBITDA margin before special items are expected in the range of DKK 9.0-9.3 billion and 24-25%, respectively.

For the fourth quarter of 2022, organic EBITDA increased by 13% with an EBITDA margin before special items at 25.8% (23.5%) and the free cash flow before acquisitions was DKK 530 million. These results were driven by a resilient demand for most product categories, including handmade cigars in the US, price increases across most product categories and continued cost efficiencies.

Q4 Highlights

- Net sales were DKK 2,185 million (DKK 2,012 million) with 1.7% organic growth.
- EBITDA before special items was DKK 563 million (DKK 474 million) with 13.3% organic growth. The EBITDA margin was 25.8% (23.5%).
- Adjusted Earnings Per Share (EPS) were DKK 4.4 (DKK 3.1).
- Free cash flow before acquisitions was DKK 530 million (DKK 307 million).
- Return on Invested Capital (ROIC) was 14.3% (14.5%).
- For the full year of 2022, net sales decreased by 0.8% organically to DKK 8,762 million (DKK 8,233 million), and EBITDA before special items decreased by 3.5% organically to DKK 2,270 million (DKK 2,233 million) with free cash flow before acquisitions at DKK 1,264 million (DKK 1,393 million).
- February 2023, post the close of the quarter, we acquired the Alec Bradley cigar business

CEO Niels Frederiksen: *“In the current environment, I’m pleased we can deliver a solid performance for the fourth quarter and the full year, which is in line with our financial expectations. In a challenging year, we have made good progress on our strategy “Rolling Towards 2025”. Our vision is to become the undisputed and sustainable global leader in cigars and the recent acquisition of the Alec Bradley cigar business brings us one step closer to achieving this. Our ambition of becoming a larger company, to grow our EBITDA margin over time and to generate outstanding cash-flow are all important pillars for creating continuous shareholder value. I am confident we will make further progress in 2023 on our long-term strategy”.*

Dividend for 2022

At the Annual General Meeting on 13 April 2023, the Board of Directors will propose an increase in the ordinary dividend of 10% to DKK 8.25 per share.

Financial Guidance 2023

For the financial year 2023, guidance metric for the Group will be changed. In the financial statements going forward, the Group will report on and publish expectations for reported net sales and EBITDA margin before special items instead of organic EBITDA growth. The new guidance metrics will better reflect the Group's operational performance and will increase transparency from divisional performance to Group level. See page 6 for further details.

- Net sales in the range of DKK 9.0-9.3 billion
- EBITDA margin before special items in the range of 24-25%
- Free cash flow before acquisitions in the range DKK 1.2-1.4 billion
- Adjusted EPS in the range of DKK 14.5-16.5

The Annual Report for 2022 is available for download at: investor.st-group.com.

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A conference call will be held on 9 March 2023 at 10.00 CEST. Dial-in information and an accompanying presentation will be available at investor.st-group.com/investor around 09:00 CEST.

Key Figures

DKK million	Q4 2022	Q4 2021	FY 2022	FY 2021
INCOME STATEMENT				
Net sales	2,185	2,012	8,762	8,233
Gross profit before special items	1,042	985	4,307	4,113
EBITDA before special items	563	474	2,270	2,233
Special items	103	13	35	-55
EBIT	579	393	1,953	1,814
Net financial items ¹	-47	-16	-137	-77
Profit before tax	541	385	1,856	1,769
Income taxes	-84	-78	-380	-378
Net profit	457	307	1,476	1,391
BALANCE SHEET				
Total assets			15,122	14,584
Equity			9,342	8,968
Net interest-bearing debt (NIBD)			3,629	3,266
Investment in property, plant and equipment	86	55	264	212
Total capital expenditures	111	58	390	240
CASH FLOW STATEMENT				
Cash flow from operating activities	393	311	1,393	1,567
Cash flow from investing activities	137	-8	-132	-178
Free cash flow	530	303	1,261	1,389
Free cash flow before acquisitions	530	307	1,264	1,393
KEY RATIOS²				
Net sales growth	8.6%	4.7%	6.4%	2.8%
Gross margin before special items	47.7%	49.0%	49.2%	50.0%
EBITDA margin before special items	25.8%	23.5%	25.9%	27.1%
Effective tax percentage	15.6%	20.2%	20.5%	21.4%
Equity ratio			61.8%	61.5%
Cash conversion	115.3%	134.7%	87.2%	108.6%
Organic net sales growth	1.7%	1.8%	-0.8%	4.5%
Organic EBITDA growth	13.3%	14.2%	-3.5%	18.4%
NIBD / EBITDA before special items			1.6	1.5
ROIC			14.3%	14.5%
ROIC ex. Goodwill			23.6%	24.3%
Adjusted earnings per share (DKK)	4.4	3.1	16.0	14.8
Basic earnings per share (DKK)	5.2	3.3	16.3	14.6
Diluted earnings per share (DKK)	5.2	3.3	16.2	14.5
Number of shares issued ('000)			93,000	97,500
Number of treasury shares ('000)			5,751	4,526
Number of outstanding shares ('000) ³			90,851	95,689
Share price at balance date (DKK)			122.10	137.30
Dividend per share (DKK)			8.25	7.50
Pay-out ratio			52.0%	52.6%

1. Excl. share of profit of associated companies.

2. See definition/explanation of financial ratios in note 5.8 in the Annual Report 2022.

3. Average number of shares outstanding, including dilutive effect of PSU's.

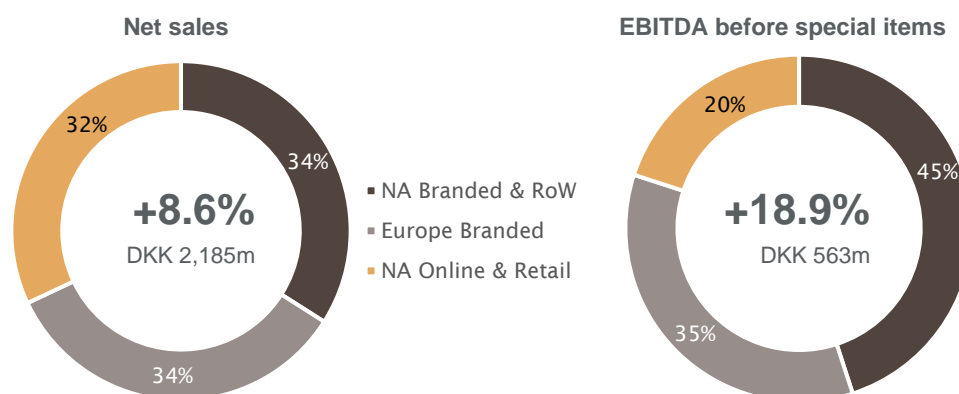
Business overview Q4 2022

In the fourth quarter of 2022, the Group delivered, as expected, improved financial results compared to the fourth quarter of 2021. Reported net sales increased by 9% to DKK 2,185 million and organic net sales increased by 2%. Exchange rates developments and the acquisition of Moderno Opificio Del Sigaro Italiano ("MOSI") impacted net sales positively by DKK 121 million and DKK 18 million respectively. The performance was driven by positive organic net sales growth in North America Branded & Rest of World and in Europe Branded, whereas organic growth was negative in North America Online & Retail. The demand for handmade cigars in the US remains resilient whereas the shift from the online channel to retail earlier in the year continued to impact year-on-year developments negatively for our online business.

The EBITDA margin improved compared with the same quarter last year driven by pricing. EBITDA before special items was DKK 563 million with 13% organic growth resulting in an EBITDA margin before special items of 25.8%. Special items comprise of an income of DKK 103 million (DKK 13 million) relating to a DKK 134 million gain from sale of properties partly offset by special costs relating to OneProcess a.o. Net profit was DKK 457 million (DKK 307 million) with Adjusted Earnings Per Share at DKK 4.4 (DKK 3.1).

The Group's free cash flow before acquisitions was DKK 530 million (DKK 307 million) driven by the operational performance, lower special items and taxes paid as well as proceeds from the sale of properties. The Group's leverage ratio was 1.6 times versus 1.9 times by the end of the third quarter 2022.

Divisional split Q4 2022



Group net sales and EBITDA Q4 2022

Table 1: Net sales

DKK million	Q4 2022	Q4 2021	Change in %
Net sales	2,185	2,012	8.6%
Acquisitions		18	
Currency development	-121		
Organic net sales	2,064	2,030	1.7%

Table 2: EBITDA before special items

DKK million	Q4 2022	Q4 2021	Change in %
EBITDA	563	474	18.9%
Acquisitions		0	
Currency development	-26		
Organic EBITDA	537	474	13.3%

Rolling Towards 2025

Mergers and acquisitions

In February 2023, the Group announced the acquisition of the Alec Bradley cigar business in a transaction valued at about DKK 500 million. The premium cigar portfolio includes brands such as Prensado, Kintsugi, Alec Bradley Double Broadleaf, Fine and Rare and Black Market and is a material addition to the Group's portfolio of premium cigars for the US as well as international markets. Based in Fort Lauderdale, Florida, Alec Bradley reported annual net sales in 2021 of USD 25 million and an EBITDA margin before special items of 24%.

Growth initiatives

In April 2022, Cigars International opened its seventh Superstore in San Antonio, Texas and in February 2023, the eighth Superstore was opened in Conroe, Texas. The ongoing strategy to expand the retail network in the US further remains intact and these stores are expected to deliver valuable contributions to net sales and profits.

In September 2022, the Group launched STRÖM, a product within the "Modern Whites" category. STRÖM is a tobacco-free oral nicotine pouch product within the Next Generation category. The initial roll-out took place in Sweden and in Manchester, UK and the initial response from the trade and consumers has been positive. STRÖM is expected to launch in more countries during 2023.

Update on financial key metrics

In the fourth quarter of 2022, **the EBITDA margin** increased to 25.8% (23.5%) despite a decrease in the gross margin to 47.7% (49.0%). The OPEX-ratio decreased to 21.9% (25.5%) as result of cost reductions, the remaining cost benefits from the Agio integration and change of distribution model in Australia.

The 12 months rolling **Return on Invested Capital (ROIC)** decreased slightly to 14.3% versus 14.5% by the end of 2021 but remains well above the level delivered in previous years. The ROIC improved versus the third quarter of 2022 (13.2%) driven by the development in EBIT and despite an increase in invested capital of DKK 0.3 billion to DKK 13.7 billion (DKK 13.4 billion).

Sustainability

In May, the Group launched an enhanced and more ambitious sustainability agenda, Rolling Responsibly. The agenda was integrated into the corporate strategy Rolling Towards 2025 to reflect its importance. The overarching vision is clear –to be the undisputed and sustainable global leader in cigars.

During 2022, sustainability efforts focused on establishing a strong foundation, building internal capabilities and kicking off several initiatives across Environmental, Social and Governance ("ESG") areas. To build out competencies, a dedicated Sustainability Center of Excellence with full time employees was established, to work solely on the Group's ESG ambitions. The 2022 Sustainability Report is available on the Group's website outlining 2022 achievements as well as plans for 2023 and beyond.

Capital Allocation

During the fourth quarter of 2022, the Company bought back 1.64 million shares at a market value of DKK 212 million and during the full year of 2022 bought back 5.72 million shares at a market value of DKK 776 million under the up to DKK 1,000 million programme that was initiated in 2022 and the up to DKK 600 million programme that was initiated in 2021. Including the payment of ordinary dividends in April 2022, the total capital allocation for the year was DKK 1,468 million. The up to DKK 1,000 million programme closed at the end of February 2023 and the DKK 600 million programme closed at the end of February 2022.

Financial Guidance for 2023 and Updated Financial Ambitions

New Guidance Metrics and Updated Financial Ambitions

New guidance metrics will be introduced as of the start of the 2023 financial year and will going forward, focus on reported net sales and the EBITDA margin before special items. These guidance metrics better reflect the operational performance in the Group and the change will increase transparency from divisional performance to Group level. The financial guidance continues to include the free cash flow before acquisitions and adjusted EPS growth as both are essential performance indicators reflecting the aim to deliver attractive shareholder returns. To facilitate a smooth transition to the new guidance metrics and bridge the annual guidance and financial ambitions, the Group will provide an indication of the expected organic EBITDA growth in 2023.

The aim to deliver strong financial performance by growing net sales, EBITDA margins and cash flow over time is unchanged and is reflected in the updated Financial Ambitions:

- Increase the EBITDA margin* based on higher net sales and efficiency improvements.
- Deliver positive average annual organic EBITDA growth.
- Achieve average annual growth in the free cash flow before acquisitions.
- Improve return on invested capital.

Note: subject to changes in the business mix as well as to acquisitions

Financial Guidance 2023

In 2023, the consumption of product categories is expected to remain resilient. The consumption of handmade cigars in the US and machine-rolled cigars in primary European markets is expected to develop close to their structural decline rates with price increases expected to offset the volume decline. A minor contribution to net sales is expected from the growth enablers, the retail expansion in the US and the new product launches in the Growth Incubator. The reported net sales are based on current exchange rates expected in the range of DKK 9.0-9.3 billion driven by organic growth and the acquisition of the Alec Bradley cigar business.

The EBITDA margin before special items is expected in the range of 24-25% (2022: 25.9%). The margin is assumed to be positively impacted by price increases and improved productivity in our factories, whereas the margin is assumed to be negatively impacted by cost inflation for most categories, mix changes as well as investments in our growth enablers and sustainability. The EBITDA margin is expected to increase in North America Online & Retail, to remain about unchanged for Europe Branded and to decrease in North America Branded & Rest of World.

The largest uncertainties for net sales and the EBITDA margin are changes in consumer behaviour, major changes in market and/or product mix and unexpected cost inflation.

Given these considerations, guidance for 2023 is:

- Reported net sales in the range of DKK 9.0-9.3 billion.
- EBITDA-margin before special items in the range of 24-25%.
- Free cash flow before acquisitions in the range of DKK 1.2-1.4 billion.
- Adjusted EPS in the range of DKK 14.5-16.5.

The free cash flow is expected to be impacted by up to DKK 500 million in capital expenditures including investments in the retail expansion in the US and in OneProcess, the implementation of the SAP

4/HANA ERP solution. A positive cash flow impact from changes in the working capital is expected to be partly offset by special items paid.

The adjusted EPS is expected in the range from DKK 14.5-16.5 excluding any impact from potential new share repurchase programs.

The financial performance for Scandinavian Tobacco Group for the full year 2023 rests on several assumptions:

- No contribution or expenses related to potential new acquisitions.
- The effective tax rate is expected to be in the range of 22-23%
- Working capital is expected to deliver a positive contribution.
- Capital expenditure, net is expected at up to DKK 500 million.
- Guidance and assumptions are based on current exchange rates*

* A 10% change in the USD/DKK exchange rate would impact group net sales by approximately 5 percentage points with EBITDA margins being only marginally impacted.

Based on the financial guidance and the related assumptions, organic EBITDA growth in 2023 is expected to be slightly negative.

Events after the reporting period

On 22 February 2023, Scandinavian Tobacco Group announced an agreement on the terms and conditions for the acquisition of substantially all assets of Alec Bradley Cigar Distributors Inc. and associated companies ("Alec Bradley"). The transaction is valued at about DKK 500 million and will be fully financed by cash at hand and debt. The acquisition closed on 28 February 2023.

The Alec Bradley brand is a material addition to the Group's portfolio of premium cigars and brings Scandinavian Tobacco Group one step closer to becoming the undisputed and sustainable global leader of cigars. Based in Fort Lauderdale, Florida, Alec Bradley reported annual net sales in 2021 of USD 25 million and an EBITDA margin before special items of 24%. Both net sales and EBITDA margin improved during 2022. The transaction is expected to be margin, EPS and ROIC accretive when fully integrated.

There are no other events than those mentioned in the above that have occurred after 31 December 2022 and that are expected to have material impact on the financial position of the Group.

Forward-looking statements

This report contains forward-looking statements. Such statements are subject to risk and uncertainties as various factors, many of which are beyond Scandinavian Tobacco Group's control, may cause actual developments and results to differ materially from the expectations set out in this report.

Divisional update

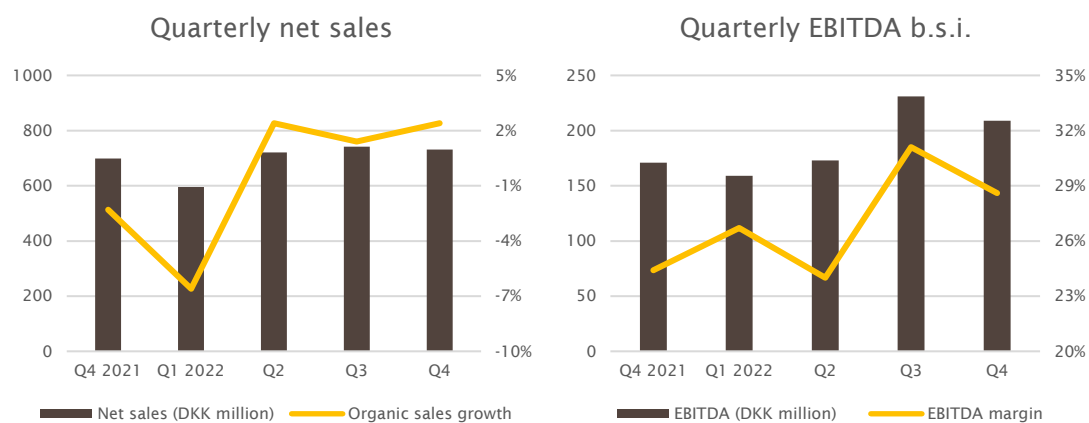
Europe Branded

Net sales increased by 5% to DKK 731 million during the quarter with a positive impact from the acquisition of MOSI of about 2%. Organic net sales growth was 2% driven by all product categories. For the largest product category machine-rolled cigars the volume decreased by about 2%, whereas hand-made cigars delivered positive volume growth. For all product categories pricing more than offset declining volumes with the strongest price/mix changes achieved in smoking tobacco and handmade cigars.

Consumer demand for machine-rolled cigars in Europe remained resilient to macro-economic developments with the average negative volume development in our key markets at approximately 2%. During the fourth quarter of 2022, the volume decline of machine-rolled cigars continued in most markets except for Benelux, Iberia and Italy which delivered positive organic volume growth. All markets delivered solid price/mix increases.

The market share index for our key markets was 30.8% for the fourth quarter and 31.1% for the full year of 2022 versus 30.9% for the third quarter of 2022. The market share development is driven by supply issues still impacting net sales and a strong focus on compensating cost inflation with price management.

Quarterly development, Q4 2021-Q4 2022



EBITDA before special items increased by 22% to DKK 209 million with an EBITDA margin before special items of 28.6% (24.4%). The increase in the margin was driven by a decline in the OPEX ratio to 24.5% (29.3%) as result of cost efficiencies from the integration of Agio and general cost reductions.

Full year 2022

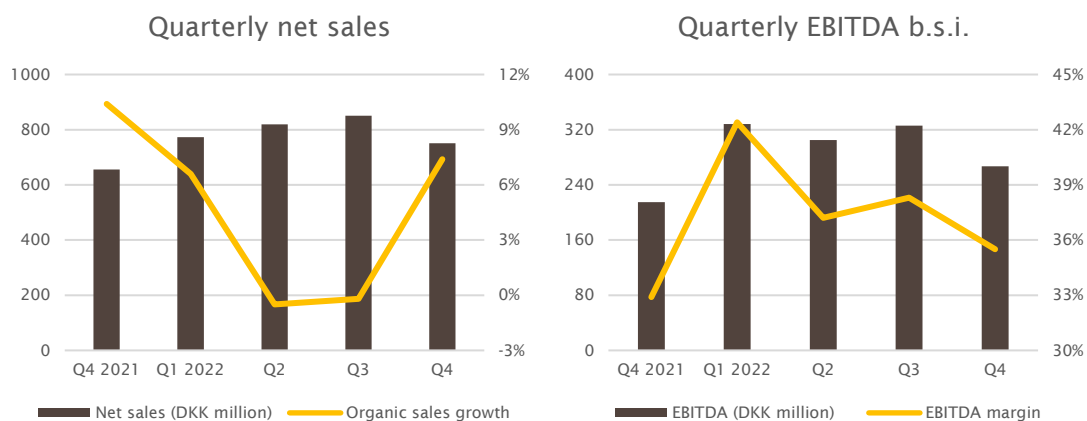
Net sales for the full year 2022 increased by 2% to DKK 2,790 million. Organic growth was marginally positive. Gross profit before special items increased by 1% to DKK 1,511 million and the gross margin was 54.2% (54.9%). EBITDA before special items was DKK 772 million with an EBITDA margin of 27.7% (27.6%). The gross margin declined as pricing could not fully compensate cost inflation and mix changes, whereas the improved OPEX ratio was result of cost efficiencies from the integration of Agio and general cost reductions.

North America Branded & RoW

Net sales increased by 15% to DKK 751 million during the quarter with a 7% positive contribution from exchange rates. Net sales were positively impacted by price increases, strong shipments of smoking tobacco, a continued recovery in Global Travel Retail and the change of distribution model in Australia, while the decline in sales to US online distributors and the decision to cease sales to Russia and Belarus impacted net sales negatively.

Consumer demand for cigars and smoking tobacco remained resilient, and the financial performance in the division continues to be robust. The reversal to pre-pandemic product and market mix have continued impacting net sales and gross margins negatively. The consumption of handmade cigars in the US continued to decline from its peak in 2021 and the online sales channel continue to experience the strongest decline rates.

Quarterly development, Q4 2021-Q4 2022



Net sales increased by 15% to DKK 751 million during the quarter composed of a 7% positive organic net sales growth and a positive exchange rate effect of 7%. The organic development was driven by an increase in the volumes of handmade cigars in international markets and an increase in volumes of fine-cut tobacco, whereas the product category CMA and Accessories delivered a negative contribution. Handmade cigars in the US delivered positive organic net sales growth driven by both volume and price increases.

EBITDA before special items increased by 24% to DKK 267 million with an EBITDA margin before special items of 35.5% (32.9%). The margin improvement was driven by a lower OPEX-ratio driven by general cost reductions and the change of distribution model in Australia. Changes in product and market mix impacted the gross margin negatively with the return to pre-pandemic market and product mix.

Full year 2022

Net sales for the full year 2022 increased by 11% to DKK 3,194 million and organic growth was positive by 3%. Gross profit before special items increased by 9% to DKK 1,698 million and the gross margin was 53.2% (54.3%) driven by market and product mix changes being partly offset by price increases. EBITDA before special items was DKK 1,226 million with an EBITDA margin of 38.4% (39.5%) driven by the gross margin development. In 2021, the EBITDA margin was positively impacted by a DKK 31 million refund of certain duty and excise taxes in the US.

North America Online & Retail

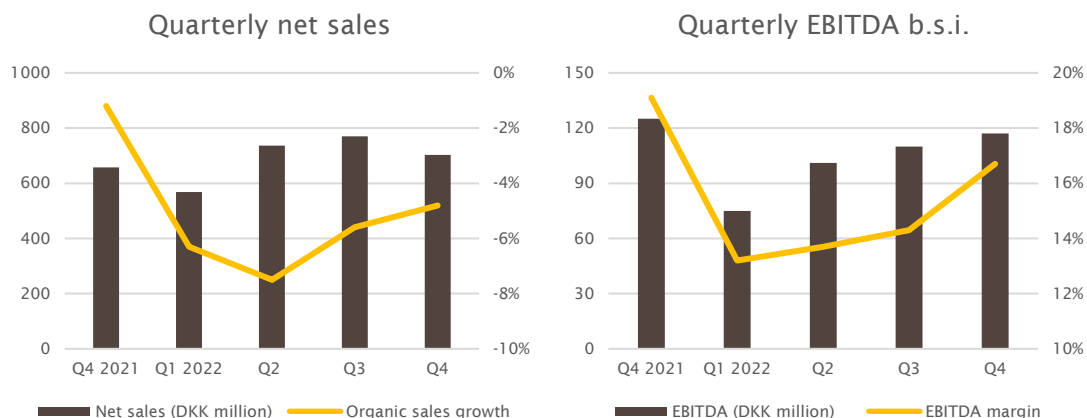
Net sales increased by 7% to DKK 703 million during the quarter with a 12% positive contribution from exchange rates. Organic net sales growth was negative by 5% driven by a negative contribution in the online channel being partly offset by a double-digit organic growth in Retail.

In the fourth quarter of 2022 organic net sales in the division continued to be impacted by the channel dynamics between retail and online sales channels. With a higher proportion of online than retail sales in the division – Retail accounts for about 9% of net sales – NAOR underperforms the general market development as result of the channel mix. The volume decline was partly offset by positive pricing, although the competitive situation in the market prevails.

Online continued to experience a double-digit decline in the active customer base versus the same quarter the previous year. It is expected that the balance between online and retail will improve in favour of online during 2023. The active consumer file is marginally above pre-pandemic levels in 2019.

The retail business continues to deliver solid double-digit organic net sales growth versus last year. In the fourth quarter, retail accounted for almost 9% of net sales in the division. The Superstore in San Antonio, Texas which opened in April continues to perform well. In February 2023, the eighth Superstore opened in Conroe, Texas.

Quarterly development, Q4 2021-Q4 2022



Net sales increased by 7% to DKK 703 million during the quarter composed of a 5% negative organic net sales growth and an exchange rate effect of 12%. The organic development was driven by a continued negative contribution in the online channel partly being offset by growth in the retail Superstores.

EBITDA before special items decreased by 6% to DKK 117 million with an EBITDA margin before special items of 16.7% (19.1%). The margin development is primarily driven by higher sales-related costs and promotional spending versus the fourth quarter of 2021, the retail expansion as well as the scale impact of declining volumes. The EBITDA margin improved compared to previous quarters in 2022.

Full year 2022

Net sales for the full year 2022 increased by 6% to DKK 2,778 million with organic growth being negative by 6%. Gross profit before special items increased by 5% to DKK 1,098 million and the gross margin was 39.5% (40.1%). EBITDA before special items decreased by 14% to DKK 403 million with an EBITDA margin of 14.5% (17.9%).

Quarterly Financial Data

<i>DKK million</i>	2022				2021	2022	2021
	Q4	Q3	Q2	Q1	Q4	FY	FY
Reported data							
Net sales	2,185	2,362	2,278	1,938	2,012	8,762	8,233
Gross profit before special items	1,042	1,172	1,074	1,019	985	4,307	4,113
EBITDA before special items	563	631	544	532	474	2,270	2,233
Special items	103	-27	-23	-18	13	35	-55
EBIT	579	514	433	427	393	1,953	1,814
Net financial items	-47	-32	-44	-14	-16	-137	-77
Profit before tax	541	492	400	423	385	1,856	1,769
Income taxes	-84	-111	-90	-95	-78	-380	-378
Net profit	457	382	310	328	307	1,476	1,391
Other financial key data							
Organic EBITDA grow th	13.3%	-6.2%	-14.6%	-2.7%	14.2%	-3.5%	18.4%
Organic net sales grow th	1.7%	-1.4%	-1.8%	-1.7%	1.8%	-0.8%	4.5%
Gross margin before special items	47.7%	49.6%	47.2%	52.6%	49.0%	49.2%	50.0%
EBITDA margin before special items	25.8%	26.7%	23.9%	27.4%	23.5%	25.9%	27.1%
Free cash flow before acquisitions	530	462	143	129	307	1,264	1,393
North America Online & Retail							
Net sales	703	770	737	568	658	2,778	2,620
Gross profit before special items	278	308	285	227	264	1,098	1,050
EBITDA before special items	117	110	101	75	125	403	470
Net sales grow th	6.9%	10.5%	4.9%	0.8%	2.9%	6.0%	-1.6%
Organic net sales grow th	-4.8%	-5.6%	-7.5%	-6.3%	-1.2%	-6.1%	2.4%
Gross margin before special items	39.5%	40.1%	38.7%	39.9%	40.1%	39.5%	40.1%
EBITDA margin before special items	16.7%	14.3%	13.7%	13.2%	19.1%	14.5%	17.9%
North America Branded & RoW							
Net sales	751	851	819	773	656	3,194	2,877
Gross profit before special items	385	450	416	448	346	1,698	1,562
EBITDA before special items	267	326	305	328	215	1,226	1,135
Net sales grow th	14.5%	10.7%	7.7%	11.6%	14.6%	11.0%	13.8%
Organic net sales grow th	7.4%	-0.2%	-0.5%	6.6%	10.4%	3.1%	15.3%
Gross margin before special items	51.2%	52.9%	50.8%	57.9%	52.8%	53.2%	54.3%
EBITDA margin before special items	35.5%	38.3%	37.2%	42.4%	32.9%	38.4%	39.5%
Europe Branded							
Net sales	731	742	721	596	699	2,790	2,735
Gross profit before special items	380	414	373	345	375	1,511	1,501
EBITDA before special items	209	231	173	159	171	772	754
Net sales grow th	4.6%	3.4%	4.2%	-4.8%	-1.7%	2.0%	-2.9%
Organic net sales grow th	2.4%	1.4%	2.4%	-6.6%	-2.3%	0.1%	-3.1%
Gross margin before special items	51.9%	55.8%	51.7%	57.8%	53.7%	54.2%	54.9%
EBITDA margin before special items	28.6%	31.1%	24.0%	26.7%	24.4%	27.7%	27.6%
Group costs							
EBITDA before special items	-30	-36	-34	-31	-38	-131	-126

MANAGEMENT STATEMENT

The Board of Directors and the Executive Management have today considered and approved the Annual Report 2022 of Scandinavian Tobacco Group A/S including the audited consolidated financial statements. The Board of Directors and Executive Management have also approved this financial statement containing condensed financial information for 2022.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act. Moreover, the Consolidated Financial Statements are prepared in accordance with additional Danish disclosure requirements for listed companies. The Management Report is also prepared in accordance with Danish disclosure requirements for listed companies.

This financial statement has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU and additional Danish disclosure requirements for listed companies. This financial statement report has not been reviewed or audited.

In our opinion, this company announcement gives a true and fair view of the Group's assets, liabilities and financial position as at 31 December 2022 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 31 December 2022 and the fourth quarter of 2022.

Furthermore, in our opinion this company announcement gives a fair review of the development and performance of the Group's activities and of the Group's results for the period and financial position taken as a whole, together with a description of the most significant risks and uncertainties that the Group may face.

Gentofte, 8 March 2023

EXECUTIVE MANAGEMENT

Niels Frederiksen
CEO

Marianne Rørslev Bock
CFO

BOARD OF DIRECTORS

Henrik Brandt
CHAIRMAN

Claus Gregersen

Marlene Forsell

Dianne Neal Blixt

Anders Obel

Henrik Amsinck

Mogens Olsen

Lindy Larsen

Hanne Malling

1 JANUARY - 31 DECEMBER

CONSOLIDATED INCOME STATEMENT

DKK million	Q4 2022	Q4 2021	FY 2022	FY 2021
Net sales	2,184.9	2,012.2	8,762.2	8,232.7
Cost of goods sold	-1,142.9	-1,026.9	-4,454.9	-4,119.6
Gross profit before special items	1,042.0	985.3	4,307.3	4,113.1
Other external costs	-244.1	-300.1	-1,126.4	-1,052.9
Staff costs	-234.5	-211.7	-910.9	-858.4
Other income	-	-	-	31.0
Earnings before interest, tax, depreciation, amortisation and special items (EBITDA before special items)	563.4	473.5	2,270.0	2,232.8
Depreciation and impairment	-44.4	-52.3	-183.8	-202.7
Earnings before interest, tax, amortisation and special items (EBITA before special items)	519.0	421.2	2,086.2	2,030.1
Amortisation and impairment	-42.8	-40.3	-168.5	-161.2
Earnings before interest, tax and special items (EBIT before special items)	476.2	380.9	1,917.7	1,868.9
Special items, costs and impairment	102.6	12.5	35.3	-54.7
Earnings before interest and tax (EBIT)	578.8	393.4	1,953.0	1,814.2
Share of profit of associated companies, net of tax	9.8	7.6	40.4	31.5
Financial income	68.3	37.6	197.3	75.0
Financial costs	-115.6	-53.8	-334.2	-152.2
Profit before tax	541.3	384.8	1,856.5	1,768.5
Income taxes	-84.3	-77.6	-380.2	-377.9
Net profit for the period	457.0	307.2	1,476.3	1,390.6
Earnings per share				
Basic earnings per share (DKK)	5.2	3.3	16.3	14.6
Diluted earnings per share (DKK)	5.2	3.3	16.2	14.5
OTHER COMPREHENSIVE INCOME				
<i>Items that will not be recycled subsequently to the Consolidated Income Statement:</i>				
Actuarial gains and losses on pension obligations	96.8	5.9	96.8	5.9
Tax of actuarial gains and losses on pension obligations	-26.3	-4.7	-26.3	-4.7
<i>Items that will be recycled subsequently to the Consolidated Income Statement, when specific conditions are met:</i>				
Cash flow hedges, realisation of previously deferred (gains)/losses to financial items	-	9.7	8.8	9.7
Cash flow hedges, deferred gains/losses incurred during the period	-	-5.4	-	0.1
Tax of cash flow hedges	-	-1.1	-1.9	-2.2
Foreign exchange adjustments on net investments in foreign operations	-574.2	112.4	270.1	409.3
Other comprehensive income for the period, net of tax	-503.7	116.8	347.5	418.1
Total comprehensive income for the period	-46.7	424.0	1,823.8	1,808.7

Net sales

In the fourth quarter of 2022, net sales were DKK 2,185 million (DKK 2,012 million). Adjusted for a positive exchange rate impact of DKK 121 million and a positive impact from acquisitions of DKK 18 million, the organic growth in net sales was positive by 1.7%. For the full year 2022, net sales were DKK 8,762 million (DKK 8,233 million) with a 0.8% negative organic net sales growth.

Profit

Gross profit before special items for the fourth quarter of 2022 was DKK 1,042 million (DKK 985 million) explained by the development in net sales and a decrease in the gross margin before special items to 47.7% (49.0%). The gross margin declined in all three commercial divisions.

Operating expenses for the fourth quarter decreased by 6% to DKK 479 million (DKK 512 million) mainly explained by decreased commercial activities compared to Q4 last year, partly offset by a negative impact from exchange rates. The OPEX ratio decreased to 21.9% (25.4%).

EBITDA before special items for the fourth quarter of 2022 amounted to DKK 563 million (DKK 474 million). The development is explained by the decreased OPEX ratio which more than compensated for the declining gross margin. Organic EBITDA growth was 13%.

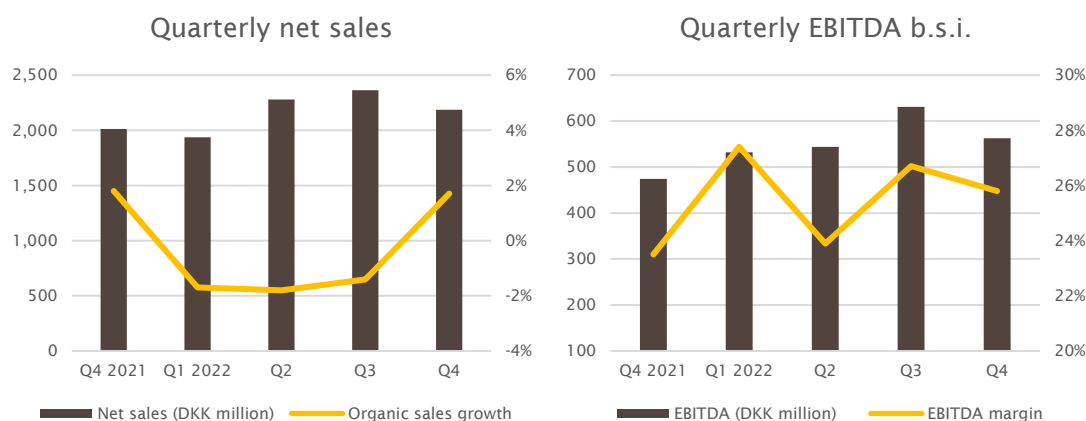
EBITDA margin before special items for the fourth quarter of 2022 was 25.8% (23.5%).

During the quarter an income of DKK 103 million (DKK 13 million) have been realised as special items. A net income of DKK 134 million relating to the production footprint was realised in the fourth quarter of 2022 and included gains from sale of properties in the Netherlands. This was partly offset by DKK 25 million expense relating to OneProcess, DKK 5 million expense relating to integration of Agio Cigars and DKK 1 million expense relation to Fuelling the Growth programme. Please refer to the Annual Report, note 2.5, for further details on special items.

Net profit was DKK 457 million (DKK 307 million). Earnings Per Share (EPS) were DKK 5.2 (DKK 3.3). Earnings Per Share adjusted for special items, fair value adjustments and currency gains/losses, net of tax increased to DKK 4.4 (DKK 3.1).

For the full year of 2022, gross profit before special items was DKK 4,307 million (DKK 4,113 million) with a gross margin of 49.2% (50.0%). EBITDA before special items was DKK 2,270 million (DKK 2,233 million) with an EBITDA margin of 25.9% (27.1%). Special items were DKK 35 million (DKK -55 million), net profit was DKK 1,476 million (DKK 1,391 million) with adjusted Earnings Per Share increasing to DKK 16.0 (DKK 14.8).

Quarterly development, Q4 2021-Q4 2022



CONSOLIDATED BALANCE SHEET**ASSETS**

DKK million	31 Dec 2022	31 Dec 2021
INTANGIBLE ASSETS		
Goodwill	5,331.5	5,142.5
Trademarks	2,987.6	3,044.6
IT software	50.5	33.7
Other intangible assets	195.1	218.9
Intangible assets under construction	125.4	54.7
Total intangible assets	8,690.1	8,494.4
PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	1,739.6	1,448.3
Investments in associated companies	223.6	187.5
Deferred income tax assets	104.6	130.2
Total non-current assets	10,757.9	10,260.4
Inventories	3,248.9	2,935.9
Trade receivables	884.6	852.4
Other receivables	86.4	98.8
Corporate tax	21.4	69.5
Prepayments	100.7	84.6
Cash and cash equivalents	22.2	173.6
Assets classified as held for sale	-	108.5
Total current assets	4,364.2	4,323.3
Total assets	15,122.1	14,583.7

CONSOLIDATED BALANCE SHEET**EQUITY AND LIABILITIES**

DKK million	31 Dec 2022	31 Dec 2021
Share capital	93.0	97.5
Reserve for hedging	-	-6.9
Reserve for currency translation	963.8	693.7
Treasury shares	-748.1	-570.5
Retained earnings	9,032.9	8,754.0
Total equity	9,341.6	8,967.8
Borrowings	3,101.1	2,918.0
Deferred income tax liabilities	673.5	698.9
Pension obligations	204.7	307.4
Other provisions	17.9	17.9
Leasing liabilities	275.1	149.4
Other liabilities	31.0	58.4
Total non-current liabilities	4,303.3	4,150.0
Trade payables	506.8	504.5
Corporate tax	207.4	102.4
Other provisions	19.8	64.3
Leasing liabilities	56.3	48.5
Other liabilities	686.9	746.2
Total current liabilities	1,477.2	1,465.9
Total liabilities	5,780.5	5,615.9
Total equity and liabilities	15,122.1	14,583.7

Equity

Total shareholders' equity as at 31 December 2022 amounted to DKK 9,342 million (DKK 8,968 million on 31 December 2021). The equity was positively impacted by mainly profit for the period and a positive impact from foreign exchange adjustments on net investments in foreign operations partly offset by share buy-back programme and dividend payment. As of 31 December 2022, the equity ratio was 61.8% (61.5% on 31 December 2021).

Net interest-bearing debt

Net interest-bearing debt increased by DKK 363 million to DKK 3,629 million versus the end of 2021. The development is explained by mainly the purchase of own shares and increased liabilities related to right-of-use assets. The leverage ratio (net interest-bearing debt to LTM EBITDA before special items) increased to 1.6x (1.5x on 31 December 2021).

Return on Invested Capital

The return on invested capital (ROIC) was 14.3% (14.5%) with a DKK 139 million improvement in EBIT (12 months rolling) driven by the operational performance and based on an invested capital of DKK 13.7 billion (DKK 12.5 billion).

CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY - 31 DECEMBER

DKK million	Q4 2022	Q4 2021	FY 2022	FY 2021
Net profit for the period	457.0	307.2	1,476.3	1,390.6
Depreciation, amortisation and impairment	87.2	76.8	352.3	361.5
Adjustments	5.7	75.9	428.4	498.2
Changes in working capital	58.0	78.7	-363.9	-6.2
Special items, paid	-33.9	-77.3	-140.8	-219.1
Cash flow from operating activities before financial items	574.0	461.3	1,752.3	2,025.0
Financial income received	3.8	17.9	93.0	33.9
Financial costs paid	-73.9	-21.0	-199.2	-118.0
Cash flow from operating activities before tax	503.9	458.2	1,646.1	1,940.9
Tax payments	-110.8	-147.7	-253.6	-374.2
Cash flow from operating activities	393.1	310.5	1,392.5	1,566.7
Acquisitions	-	-3.9	-3.7	-3.9
Investment in intangible assets	-25.3	-2.4	-125.4	-28.8
Investment in property, plant and equipment	-85.6	-55.1	-264.1	-211.6
Sale of property, plant and equipment	243.0	51.2	245.8	57.2
Dividend from associated companies	4.5	2.5	15.6	9.6
Cash flow from investing activities	136.6	-7.7	-131.8	-177.5
Free cash flow	529.7	302.8	1,260.7	1,389.2
Repayment of lease liabilities	-19.4	-15.2	-67.4	-58.8
Other financing	-	-23.7	-	-45.2
RCF / New external funding	-304.9	-62.9	138.3	-
RCF / Repayment bank loans	-0.9	-	-4.0	-
Dividend payment	-	-	-692.0	-626.7
Purchase of treasury shares	-212.1	-152.1	-776.4	-607.1
Cash flow from financing activities	-537.3	-253.9	-1,401.5	-1,337.8
Net cash flow for the period	-7.6	48.9	-140.8	51.4
Cash and cash equivalents, net at 1 October / 1 January	37.1	123.0	173.6	117.0
Exchange gains/losses on cash and cash equivalents	-7.3	1.7	-10.6	5.2
Net cash flow for the period	-7.6	48.9	-140.8	51.4
Cash and cash equivalents, net at 31 December	22.2	173.6	22.2	173.6

Cash flows

Cash flow from operations before changes in working capital in the fourth quarter of 2022 was DKK 335 million (DKK 232 million). The development was driven by the operational result and lower taxes as well as special items paid. This partly offset by higher financial costs paid.

Changes in working capital in the fourth quarter of 2022 had a positive impact on the cash flow by DKK 58 million (DKK 79 million) mainly due to reduced level of trade receivables.

Cash flow from investing activities amounted to DKK 137 million (DKK -8 million). The increase and positive impact is explained by income from sale of property, plant and equipment.

Free cash flow before acquisitions in the fourth quarter of 2022 was positive by DKK 530 million (DKK 307 million). The cash conversion ratio was 115% (135%).

For the full year of 2022 cash flow from operations before changes in working capital was DKK 1,756 million (DKK 1,573 million). Working capital had a negative impact of DKK 364 million (DKK 6 million) on the cash flow explained by mainly higher inventories and lower payables. Free cash flow before acquisitions was DKK 1,264 million (DKK 1,393 million) and the cash conversion ratio was 87% (107%).

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY – 31 DECEMBER 2022

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
Equity at 1 January 2022	97.5	-6.9	693.7	-570.5	8,754.0	8,967.8
<i>Comprehensive income for the year</i>						
Net profit for the year	-	-	-	-	1,476.3	1,476.3
<i>Other comprehensive income</i>						
Cash flow hedges	-	8.8	-	-	-	8.8
Tax of cash flow hedges	-	-1.9	-	-	-	-1.9
Foreign exchange adjustments on net investments in foreign operations	-	-	270.1	-	-	270.1
Actuarial gains and losses on pension Obligations	-	-	-	-	96.8	96.8
Tax of actuarial gains and losses on pension obligations	-	-	-	-	-26.3	-26.3
Total other comprehensive income	-	6.9	270.1	-	70.5	347.5
Total comprehensive income for the year	-	6.9	270.1	-	1,546.8	1,823.8
<i>Transactions with shareholders</i>						
Capital reduction	-4.5	-	-	569.5	-565.0	-
Purchase of treasury shares	-	-	-	-776.7	-	-776.7
Share-based payments	-	-	-	-	23.0	23.0
Tax on share-based payments	-	-	-	-	2.9	2.9
Settlement of vested PSUs	-	-	-	29.6	-29.6	-
Settlement in cash of vested PSU's	-	-	-	-	-7.2	-7.2
Dividend paid to shareholders	-	-	-	-	-731.3	-731.3
Dividend, treasury shares	-	-	-	-	39.3	39.3
Total transactions with shareholders	-4.5	-	-	-177.6	-1,267.9	-1,450.0
Equity at 31 December 2022	93.0	-	963.8	-748.1	9,032.9	9,341.6

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY – 31 DECEMBER 2021

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
Equity at 1 January 2021	100.0	-14.5	284.4	-227.7	8,230.1	8,372.3
<i>Comprehensive income for the year</i>						
Net profit for the year	-	-	-	-	1,390.6	1,390.6
<i>Other comprehensive income</i>						
Cash flow hedges	-	9.8	-	-	-	9.8
Tax of cash flow hedges	-	-2.2	-	-	-	-2.2
Foreign exchange adjustments on net investments in foreign operations	-	-	409.3	-	-	409.3
Actuarial gains and losses on pension Obligations	-	-	-	-	5.9	5.9
Tax of actuarial gains and losses on pension obligations	-	-	-	-	-4.7	-4.7
Total other comprehensive income	-	7.6	409.3	-	1.2	418.1
Total comprehensive income for the year	-	7.6	409.3	-	1,391.8	1,808.7
<i>Transactions with shareholders</i>						
Capital reduction	-2.5	-	-	247.2	-244.7	-
Purchase of treasury shares	-	-	-	-606.4	-	-606.4
Share-based payments	-	-	-	-	23.7	23.7
Tax on share-based payments	-	-	-	-	0.7	0.7
Settlement of vested PSUs	-	-	-	16.4	-16.4	-
Settlement in cash of vested PSU's	-	-	-	-	-4.5	-4.5
Dividend paid to shareholders	-	-	-	-	-650.0	-650.0
Dividend, treasury shares	-	-	-	-	23.3	23.3
Total transactions with shareholders	-2.5	-	-	-342.8	-867.9	-1,213.2
Equity at 31 December 2021	97.5	-6.9	693.7	-570.5	8,754.0	8,967.8

NOTES**NOTE 1****BASIS OF PREPARATION**

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

Significant accounting estimates

The estimates made by STG in the determination of the carrying amounts of assets and liabilities are based on assumptions that are subject to future events. For a description of risks and accounting estimates, see the Annual Report for 2022.

Accounting policies

This report has been prepared in accordance with the accounting policies set out in the Annual Report for 2022.