



Company Announcement

No. 20/2023

Copenhagen, 17 May 2023

Interim Report, 1 January - 31 March 2023

Scandinavian Tobacco Group A/S Reports First Quarter Results and Maintains Full-Year Outlook for 2023

For the first quarter of 2023, Scandinavian Tobacco Group A/S (the “Group” or “Scandinavian Tobacco Group”) delivered 1.3% net sales growth and an EBITDA-margin of 24.1%, with the guidance for the full year 2023 maintained. Uncertainties relating to key assumptions like consumer behaviour and cost inflation remain moderately high, however year-on-year impacts from cost inflation are expected to decline over the coming quarters.

Consumer demand for handmade cigars in the US in the quarter is still perceived as resilient, although volume declines remained above its structural decline trend as overflow from the exceptionally strong two years during the pandemic trails off. Price increases across most product categories supported the financial performance.

Q1 Highlights

- Net sales increased by 1.3% to DKK 1,963 million (DKK 1,938 million).
- EBITDA before special items was DKK 474 million (DKK 532 million) with an EBITDA margin of 24.1% (27.4%).
- Free cash flow before acquisitions was DKK -179 million (DKK 129 million).
- Adjusted Earnings Per Share (EPS) were DKK 3.2 (DKK 3.6).
- Return on Invested Capital (ROIC) was 13.6% (14.4%).
- Completion of the Alec Bradley cigar business acquisition, a leading player in the US hand-made cigar category.
- In April 2023 following the close of the quarter, announcement of the acquisition of XQS, a brand active in Sweden within the Next Generation Product category space.

CEO Niels Frederiksen: *“STG remains on track to deliver on the 2023 guidance with results for the first quarter being up against strong comparisons in 2022. We have stabilized our production issues, but we are still recovering from this impact as well as cost inflation into 2023, affecting margins negatively. The Group is making good progress on our ambition to grow the size of the company with two transactions announced within the last few months.”*

Dividend for 2022

At the Annual General Meeting on 13 April 2023, the proposal for an increase in the ordinary dividend of 10% to DKK 8.25 per share was approved.

Financial guidance 2023 unchanged

For the financial year 2023, the guidance is maintained.

- 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

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A conference call will be held on 18 May 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 | Q1 2023 | Q1 2022 | FY 2022 |
|--|---------|---------|---------|
| INCOME STATEMENT | | | |
| Net sales | 1,963 | 1,938 | 8,762 |
| Gross profit before special items | 979 | 1,019 | 4,307 |
| EBITDA before special items | 474 | 532 | 2,270 |
| Special items | -27 | -18 | 35 |
| EBIT | 358 | 427 | 1,953 |
| Net financial items ¹ | -31 | -14 | -137 |
| Profit before tax | 335 | 423 | 1,856 |
| Income taxes | -76 | -95 | -380 |
| Net profit | 260 | 328 | 1,476 |
| BALANCE SHEET | | | |
| Total assets | 16,194 | 15,057 | 15,122 |
| Equity | 9,399 | 9,281 | 9,342 |
| Net interest-bearing debt (NIBD) | 4,416 | 3,446 | 3,629 |
| Investment in property, plant and equipment | 48 | 54 | 264 |
| Total capital expenditures | 80 | 67 | 390 |
| CASH FLOW STATEMENT | | | |
| Cash flow from operating activities | -103 | 190 | 1,393 |
| Cash flow from investing activities | -590 | -61 | -132 |
| Free cash flow | -693 | 129 | 1,261 |
| Free cash flow before acquisitions | -179 | 129 | 1,264 |
| KEY RATIOS² | | | |
| Net sales growth | 1.3% | 2.9% | 6.4% |
| Gross margin before special items | 49.9% | 52.6% | 49.2% |
| EBITDA margin before special items | 24.1% | 27.4% | 25.9% |
| Effective tax percentage | 22.5% | 22.5% | 20.5% |
| Equity ratio | 58.0% | 61.6% | 61.8% |
| Cash conversion | 2.3% | 51.1% | 87.2% |
| Organic net sales growth | -0.8% | -1.7% | -0.8% |
| Organic EBITDA growth | -12.1% | -2.7% | -3.5% |
| NIBD / EBITDA before special items | 2.0 | 1.5 | 1.6 |
| ROIC | 13.6% | 14.4% | 14.3% |
| ROIC ex. Goodwill | 22.2% | 24.0% | 23.6% |
| Adjusted earnings per share (DKK) | 3.2 | 3.6 | 16.0 |
| Basic earnings per share (DKK) | 3.0 | 3.5 | 16.3 |
| Diluted earnings per share (DKK) | 3.0 | 3.5 | 16.2 |
| Number of shares issued ('000) | 93,000 | 97,500 | 93,000 |
| Number of treasury shares ('000) | 6,382 | 5,231 | 5,751 |
| Number of outstanding shares ('000) ³ | 86,831 | 92,638 | 90,851 |
| Share price at balance date (DKK) | 136.20 | 143.80 | 122.10 |
| Dividend per share (DKK) | | | 8.25 |
| Pay-out ratio | | | 52.0% |

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.

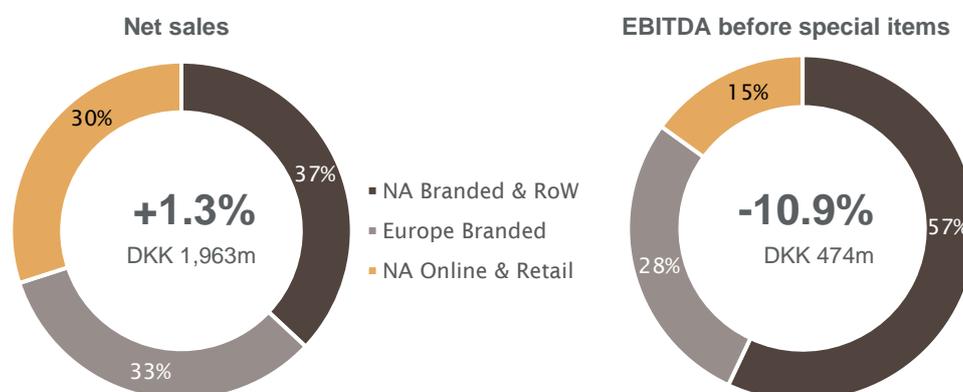
Business overview Q1 2023

In the first quarter of 2023, the Group's reported net sales increased by 1% to DKK 1,963 million with organic net sales being negative by 1%. Exchange rates developments and the acquisition of Alec Bradley, which was acquired as of 1 March 2023, impacted net sales positively by DKK 32 million and DKK 9 million, respectively. The performance was driven by positive organic net sales growth in Europe Branded and North America Online & Retail, whereas organic growth as expected was negative in North America Branded & Rest of World. The demand for handmade cigars in the US is still perceived as resilient, although volumes decreased more than its structural decline rate. The unfavourable balance between the online and retail channels continues to impact our online business negatively.

The EBITDA margin decreased to 24.1% compared with 27.4% in the same quarter last year primarily driven by lower gross margins in Europe Branded and North America Branded & Rest of World. The decrease in gross margin is driven by a combination of changes in market and product mix as well as the first quarter of 2022 was only marginally impacted by cost inflation. EBITDA before special items was DKK 474 million with 12% negative organic growth. Special items comprise an expense of DKK 27 million (DKK 18 million) relating to the ERP-implementation project, OneProcess. Net profit was DKK 260 million (DKK 328 million) with Adjusted Earnings Per Share at DKK 3.2 (DKK 3.6).

The Group's free cash flow before acquisitions was DKK -179 million (DKK 129 million) driven by the operational performance, higher financial costs and taxes paid as well as increased inventories. The Group's leverage ratio was 2.0 times versus 1.6 times by the end of 2022.

Divisional split Q1 2023



Group net sales and EBITDA Q1 2023

Table 1: Net sales

| DKK million | Q1 2023 | Q1 2022 | Change in % |
|--------------------------|--------------|--------------|--------------|
| Net sales | 1,963 | 1,938 | 1.3% |
| Acquisitions | | 9 | |
| Currency development | -32 | | |
| Organic net sales | 1,931 | 1,947 | -0.8% |

Table 2: EBITDA before special items

| DKK million | Q1 2023 | Q1 2022 | Change in % |
|-----------------------|------------|------------|---------------|
| EBITDA | 474 | 532 | -10.9% |
| Acquisitions | | 3 | |
| Currency development | -5 | | |
| Organic EBITDA | 469 | 535 | -12.1% |

Rolling Towards 2025

The Group's ambition to grow the Company through a combination of acquisitions, geographic expansion and further experimentation in Next Generation Products remains on track.

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 acquisition is in its integration planning period with the aim to integrate operations and processes and to streamline the brand's transition into the Scandinavian Tobacco Group portfolio.

In April 2023, the Group announced the acquisition of the XQS International AB's ("XQS") Next Generation Products business in a transaction valued at maximum DKK 150 million assuming all targets are met in a complementary earn-out agreement. The product portfolio covers both Modern Whites (without tobacco) and Modern Actives (without tobacco and without nicotine). In 2022, XQS reported net sales of about DKK 50 million with a low single-digit EBITDA margin and a total volume of almost 3 million cans sold primarily in Sweden.

Growth initiatives

In February 2023, Cigars International opened its eighth retail cigar Superstore in Conroe, Texas. The implementation of the strategy to expand the retail network in the US further continues, with additional openings expected during 2023. Each of the seven stores opened before Conroe, remain profitable and these stores are expected to deliver valuable contributions to net sales and profits.

The Growth Incubator continues to research opportunities outside the Group's core categories. To date, the Group has launched three new products and acquired one brand within the Next Generation Product category.

In April 2023, the Group launched a new Modern Actives product called *!act* in the Danish market. The product delivers energy through caffeine. *!act* has been launched in collaboration with a joint-venture partner REKOM, the largest entertainment group in Northern Europe.

The Group continues to closely monitor these growth opportunities to assess whether the Group's presence in the Next Generation Product categories is viable and profitable in the mid to long term.

Update on financial key metrics

In the first quarter of 2023, the **EBITDA margin** decreased to 24.1% (27.4%) and gross margin decreased to 49.9% (52.6%). The OPEX-ratio increased to 25.8% (25.2%).

The 12 months rolling **Return on Invested Capital (ROIC)** decreased slightly to 13.6% versus 14.3% by the end of 2022 driven by the development in EBIT (12 months rolling) and an increase in invested capital of DKK 0.2 billion to DKK 13.9 billion compared to 31 December 2022.

Sustainability

The Group's sustainability strategy – Rolling Responsibly – continues to make good progress. New data collection methods and reporting processes will be implemented, and the Center of Excellence continues to assess impactful environmental, social and governance initiatives for the communities in which we operate in. The Group's vision to be the undisputed and sustainable global leader in cigars remains unchanged.

Capital Allocation

During the first quarter of 2023, the Company bought back 0.81 million shares at a market value of DKK 96 million under the programme that was initiated in 2022 and closed at the end of February 2023.

Outlook 2023

Overall, the consumption of products in our categories is perceived as resilient. The consumption of handmade cigars in the US currently decline at a slightly faster pace than its structural decline rate of about 2% on the back of the exceptional growth delivered in 2020 and 2021. The consumption of machine-rolled cigars in our key European markets continue to develop close to its structural decline rate of about 2-3%. In total the volume impact for the year is expected to be close to normal levels. Price increases are expected to more than offset the volume decline. Additionally, a small contribution to net sales growth is expected from the growth enablers, the retail expansion in the US and the Next Generation Products. Including the impact from acquisitions and based on the current exchange rates, the expectation to reported net sales is maintained in the range of DKK 9.0-9.3 billion.

The EBITDA margin is assumed to be impacted positively by price increases and improved productivity in our factories compared with last year and the EBITDA margin is assumed to be impacted negatively by cost inflation, mix changes as well as investments in the next generation product category, store openings in the US retail markets and the roll-out of our sustainability strategy, Rolling Responsibly. The expectation for the EBITDA margin before special items is maintained in the range of 24-25%. 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, including the development in our US online business, major changes in market and product mix as well as unexpected cost inflation.

Given these considerations the guidance for 2023 is maintained:

- 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 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.

Events after the reporting period

On 23 April 2023, Scandinavian Tobacco Group announced an agreement on the terms and conditions for the acquisition of substantially all assets of the Swedish company XQS International AB ("XQS"). The transaction is expected to close shortly. The transaction value consists of an upfront payment as well as an earn-out agreement and assuming all targets are met, the total purchase will be about DKK 150 million.

XQS is active within Next Generation Products with a portfolio of pouches in Modern Whites (without tobacco, with nicotine) and Modern Actives (without tobacco, without nicotine). The products are primarily sold in Sweden. In 2022, XQS reported net sales of almost DKK 50 million with almost 3 million cans sold. The EBITDA margin was minimal.

The acquisition of the XQS business expands Scandinavian Tobacco Group's presence within the Modern Whites category, which was initiated by the launch of STRÖM nicotine pouches last year. To support further growth, the intention is to invest in a roll-out of XQS and STRÖM to more markets.

There are no other events than those mentioned in the above that have occurred after 31 March 2023 and that are expected to have material impact on the financial position of the Group.

Annual General Meeting

At the Annual General Meeting held on 13 April 2023, the shareholders approved a dividend of DKK 8.25 per share resulting in a total dividend pay-out of about DKK 715 million.

It was also approved to reduce the share capital by cancelling treasury shares of a nominal value of DKK 6,000,000. Following the reduction, which is expected on 25 May 2023, the nominal value of the Group's share capital will be DKK 87,000,000, which corresponds to 87,000,000 shares.

The shareholders re-elected Henrik Brandt, Henrik Amsinck, Dianne Blixt, Marlene Forsell, Claus Gregersen and Anders Obel as members of the Board of Directors. The Board of Directors has appointed Henrik Brandt as Chairman of the Board of Directors. Employee-elected members of the Board of Directors are Mark Draper, Trine Eriksen and Thomas Thomsen.

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

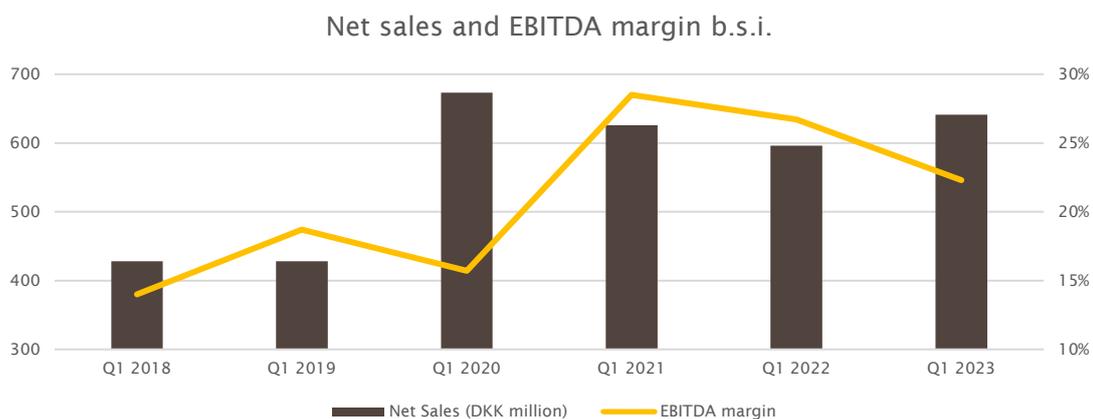
Europe Branded

During the first quarter 2023 net sales increased by 8% compared with the first quarter of 2022 and the EBITDA margin decreased to 22.3%. The growth in net sales was primarily driven by smoking tobacco and solid pricing across product categories.

Consumer demand for machine-rolled cigars in Europe continue to be resilient to the macro-economic environment with the volume decline rate being stable at an annual decline rate of 2%.

Preliminary data show the market-share index for our key markets was 30.7% for the first quarter 2023 versus 30.6% for the fourth quarter of 2022 and 31.1% for the full year of 2022. Price increases remain a key priority to off-set declining volumes and inflationary effects.

First Quarter Development, 2018-2023



Net sales increased by 8% to DKK 641 million during the quarter with organic net sales growth slightly above 8%. The solid growth was driven by smoking tobacco and handmade cigars, whereas machine-rolled cigars delivered a slightly negative growth primarily as result of lower volumes in France, Benelux and the UK. Pricing for all product categories was solid with price/mix impact for the largest product category, machine-rolled cigars being up by almost 7%.

EBITDA before special items decreased to DKK 143 million (DKK 159 million) with an EBITDA margin before special items of 22.3% (26.7%). The margin development was driven by a decreasing gross margin as result of changes in market and product mix as well cost inflation only impacting the first quarter of 2022 marginally. The primary drivers behind the mix changes are the decreasing net sales in France, the UK and Benelux and higher net sales of smoking tobacco in Germany. The OPEX ratio was almost unchanged despite increasing investments in Next Generation Products.

North America Branded & RoW

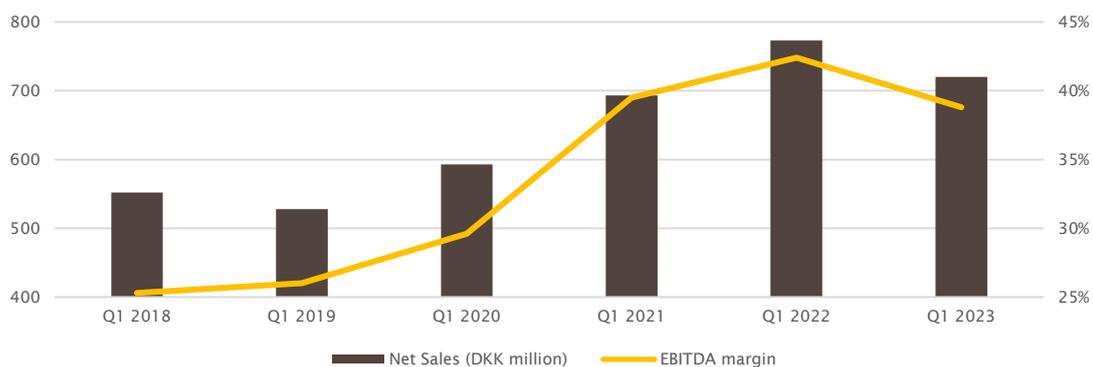
During the first quarter 2023 net sales decreased by 7% compared with the first quarter of 2022 and the EBITDA margin decreased to 38.8%. The first quarter of 2022 was exceptionally strong including the benefits from the change in market mix following the pandemic, a positive impact from the change of distribution model in Australia a.o. The first quarter of 2023 has been impacted by solid pricing across product categories and the acquisition of the Alec Bradley cigar business.

Consumer demand for cigars is still considered resilient, although volumes of handmade cigars in the US continue to decline by more than the expected structural decline rate as overflow from the exceptionally strong two years during the pandemic trails off. The Alec Bradley business, which was acquired as of 1 March, constitutes a material addition to the Group's portfolio of handmade cigars and the integration planning process are meeting all milestones.

The nicotine pouch product STRÖM continues to perform well and with the expected takeover of XQS, the Group's portfolio within the Next Generation Product category will be further strengthened. These products are created and developed out of the Growth Incubator and are sold via our commercial divisions.

First Quarter Development, 2018-2023

Net sales and EBITDA margin b.s.i.



Net sales decreased by 7% to DKK 720 million during the quarter. Organic growth was negative by 9% with exchange rates and net sales from acquisitions being about 1% each. The organic decline was primarily a result of the quarter being up against an exceptionally strong first quarter in 2022 as well as the solid pricing in US handmade cigars couldn't fully offset declining volumes. All product categories delivering solid price/mix impact.

EBITDA before special items decreased to DKK 280 million (DKK 328 million) with an EBITDA margin before special items of 38.8% (42.4%). The decrease in profitability was primarily the result of the gross margin comparing to an exceptionally strong first quarter of 2022, where the gross margin was improved by strong net sales in Norway as well as the impacts from implementation of a new distribution model in Australia. The OPEX ratio in the quarter was almost unchanged compared with the same quarter last year.

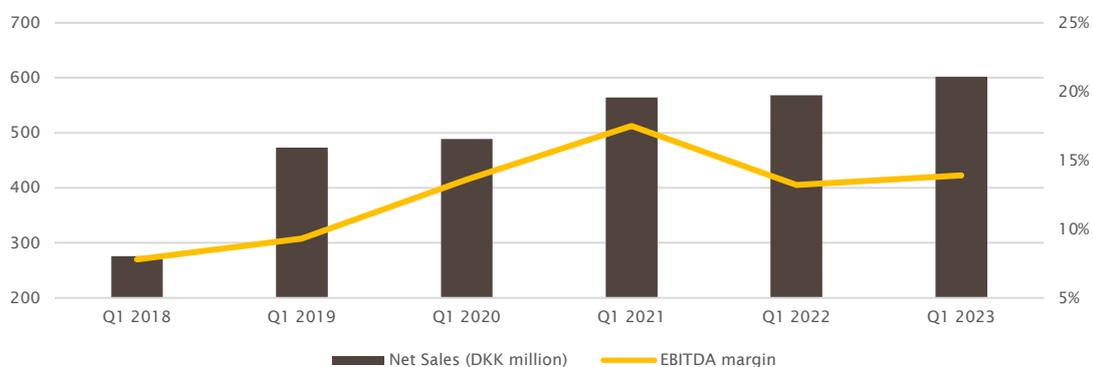
North America Online & Retail

During the first quarter 2023 net sales increased by 6% compared with the first quarter of 2022 and the EBITDA margin improved to 13.9%. Organic net sales increased for the first time in eight quarters driven by improved performance in the online business and continued growth in the retail business.

The performance continues to be negatively impacted by the channel dynamics between retail and online sales channels and fierce competition in the online channel. NAOR's high proportion of online sales compared with retail sales implies the division continue to underperform the general market development as result of the channel mix and loss of market share. Retail accounts for an increasing share of net sales in NAOR and was in the quarter close to 9%.

First Quarter Development, 2018-2023

Net sales and EBITDA margin b.s.i.



Net sales increased by 6% to DKK 602 million during the quarter composed of a 1% organic net sales growth and an exchange rate effect of almost 5%. Online delivered a slightly negative organic net sales growth being offset by solid growth in retail.

Online continued to experience a decline in the active customer base versus the same quarter last year reflecting the balance between online and retail continues to be skewed toward retail. We continue to expect the balance to reverse in favour of online, though it is taking longer than originally anticipated. The decrease in volumes was partly offset by a strong price/mix impact. The distribution of ZYN products is developing positively and contributed to the online business almost being on par with the same quarter of last year.

Retail delivered solid double-digit organic net sales growth versus last year driven by new store openings. Net sales from existing stores were essentially flat versus the first quarter of last year.

EBITDA before special items increased to DKK 83 million (DKK 75 million) with an EBITDA margin before special items of 13.9% (13.2%). The margin development is primarily driven by price management and as cost inflation may still come into play in the coming quarters, it remains a key priority to protect margins.

Quarterly Financial Data

| <i>DKK million</i> | 2023 | | | 2022 | | |
|--|--------|-------|-------|--------|-------|-------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | FY |
| Reported data | | | | | | |
| Net sales | 1,963 | 2,185 | 2,362 | 2,278 | 1,938 | 8,762 |
| Gross profit before special items | 979 | 1,042 | 1,172 | 1,074 | 1,019 | 4,307 |
| EBITDA before special items | 474 | 563 | 631 | 544 | 532 | 2,270 |
| Special items | -27 | 103 | -27 | -23 | -18 | 35 |
| EBIT | 358 | 579 | 514 | 433 | 427 | 1,953 |
| Net financial items | -31 | -47 | -32 | -44 | -14 | -137 |
| Profit before tax | 335 | 541 | 492 | 400 | 423 | 1,856 |
| Income taxes | -76 | -84 | -111 | -90 | -95 | -380 |
| Net profit | 260 | 457 | 382 | 310 | 328 | 1,476 |
| Other financial key data | | | | | | |
| Organic EBITDA grow th | -12.1% | 13.3% | -6.2% | -14.6% | -2.7% | -3.5% |
| Organic net sales grow th | -0.8% | 1.7% | -1.4% | -1.8% | -1.7% | -0.8% |
| Gross margin before special items | 49.9% | 47.7% | 49.6% | 47.2% | 52.6% | 49.2% |
| EBITDA margin before special items | 24.1% | 25.8% | 26.7% | 23.9% | 27.4% | 25.9% |
| Free cash flow before acquisitions | -179 | 530 | 462 | 143 | 129 | 1,264 |
| North America Online & Retail | | | | | | |
| Net sales | 602 | 703 | 770 | 737 | 568 | 2,778 |
| Gross profit before special items | 242 | 278 | 308 | 285 | 227 | 1,098 |
| EBITDA before special items | 83 | 117 | 110 | 101 | 75 | 403 |
| Net sales grow th | 5.9% | 6.9% | 10.5% | 4.9% | 0.8% | 6.0% |
| Organic net sales grow th | 1.3% | -4.8% | -5.6% | -7.5% | -6.3% | -6.1% |
| Gross margin before special items | 40.2% | 39.5% | 40.1% | 38.7% | 39.9% | 39.5% |
| EBITDA margin before special items | 13.9% | 16.7% | 14.3% | 13.7% | 13.2% | 14.5% |
| North America Branded & RoW | | | | | | |
| Net sales | 720 | 751 | 851 | 819 | 773 | 3,194 |
| Gross profit before special items | 396 | 385 | 450 | 416 | 448 | 1,698 |
| EBITDA before special items | 280 | 267 | 326 | 305 | 328 | 1,226 |
| Net sales grow th | -6.9% | 14.5% | 10.7% | 7.7% | 11.6% | 11.0% |
| Organic net sales grow th | -9.2% | 7.4% | -0.2% | -0.5% | 6.6% | 3.1% |
| Gross margin before special items | 55.1% | 51.2% | 52.9% | 50.8% | 57.9% | 53.2% |
| EBITDA margin before special items | 38.8% | 35.5% | 38.3% | 37.2% | 42.4% | 38.4% |
| Europe Branded | | | | | | |
| Net sales | 641 | 731 | 742 | 721 | 596 | 2,790 |
| Gross profit before special items | 341 | 380 | 414 | 373 | 345 | 1,511 |
| EBITDA before special items | 143 | 209 | 231 | 173 | 159 | 772 |
| Net sales grow th | 7.6% | 4.6% | 3.4% | 4.2% | -4.8% | 2.0% |
| Organic net sales grow th | 8.3% | 2.4% | 1.4% | 2.4% | -6.6% | 0.1% |
| Gross margin before special items | 53.2% | 51.9% | 55.8% | 51.7% | 57.8% | 54.2% |
| EBITDA margin before special items | 22.3% | 28.6% | 31.1% | 24.0% | 26.7% | 27.7% |
| Group costs | | | | | | |
| EBITDA before special items | -32 | -30 | -36 | -34 | -31 | -131 |

MANAGEMENT STATEMENT

The Board of Directors and the Executive Management have today considered and approved interim report of Scandinavian Tobacco Group A/S for the period 1 January – 31 March 2023.

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 as at 31 March 2023 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 31 March 2023.

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, 17 May 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

Trine Eriksen

Thomas Thomsen

Mark Draper

STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY - 31 MARCH

CONSOLIDATED INCOME STATEMENT

| DKK million | Note | Q1 2023 | Q1 2022 |
|---|-------------|----------------|----------------|
| Net sales | 1, 2 | 1,962.9 | 1,937.7 |
| Cost of goods sold | 1, 2 | -983.7 | -918.4 |
| Gross profit before special items | 1, 2 | 979.2 | 1,019.3 |
| Other external costs | 1, 2 | -262.1 | -265.4 |
| Staff costs | 2 | -243.5 | -222.4 |
| Earnings before interest, tax, depreciation, amortisation and special items (EBITDA before special items) | 2 | 473.6 | 531.5 |
| Depreciation and impairment | | -46.3 | -46.0 |
| Earnings before interest, tax, amortisation and special items (EBITA before special items) | | 427.3 | 485.5 |
| Amortisation and impairment | | -41.7 | -40.7 |
| Earnings before interest, tax and special items (EBIT before special items) | | 385.6 | 444.8 |
| Special items, costs and impairment | 3 | -27.2 | -17.7 |
| Earnings before interest and tax (EBIT) | | 358.4 | 427.1 |
| Share of profit of associated companies, net of tax | | 8.3 | 9.8 |
| Financial income | | 56.7 | 42.0 |
| Financial costs | | -88.1 | -55.7 |
| Profit before tax | | 335.3 | 423.2 |
| Income taxes | | -75.5 | -95.2 |
| Net profit for the period | | 259.8 | 328.0 |
| Earnings per share | | | |
| Basic earnings per share (DKK) | | 3.0 | 3.5 |
| Diluted earnings per share (DKK) | | 3.0 | 3.5 |
| 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 | | - | 5.7 |
| Tax of cash flow hedges | | - | -1.3 |
| Foreign exchange adjustments on net investments in foreign operations | | -108.3 | 116.0 |
| Other comprehensive income for the period, net of tax | | -108.3 | 120.4 |
| Total comprehensive income for the period | | 151.5 | 448.4 |

Net sales

In the first quarter of 2023, net sales were DKK 1,963 million (DKK 1,938 million). Adjusted for a positive exchange rate impact of DKK 32 million and acquisitions of DKK 9 million, the organic growth in net sales was negative by 0.8%.

Profit

Gross profit before special items for the first quarter of 2023 was DKK 979 million (DKK 1,019 million) explained by a decrease in the gross margin before special items to 49.9% (52.6%). The gross margin declined in North America Branded & Rest of World, and Europe Branded, only partly offset by a slight margin increase in North America Online & Retail.

Operating expenses for the first quarter increased by 4% to DKK 506 million (DKK 488 million) mainly explained by increased staff costs compared to Q1 last year. The OPEX-ratio increased to 25.8% (25.2%).

EBITDA before special items for the first quarter of 2023 amounted to DKK 474 million (DKK 532 million). The development is explained by the decreased gross margin as well as the increased OPEX-ratio. Organic EBITDA growth was negative by 12%.

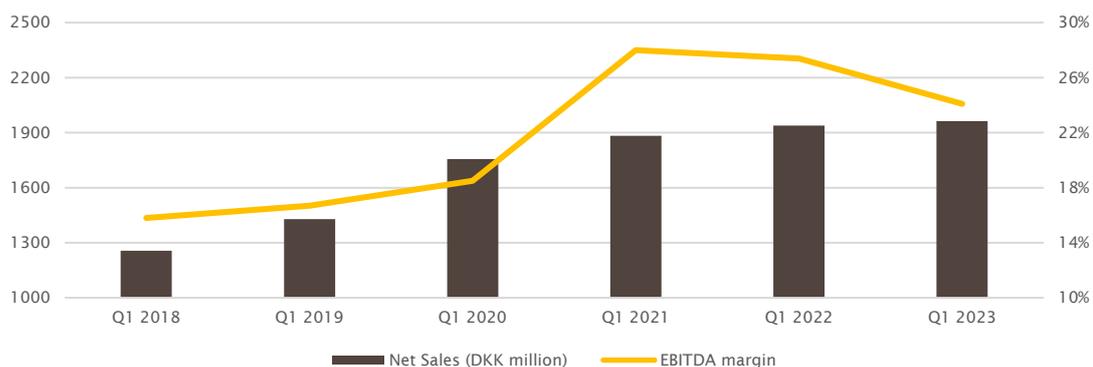
EBITDA margin before special items for the first quarter of 2023 was 24.1% (27.4%).

During the quarter DKK 27 million (DKK 18 million) have been expensed as special items, all relating to OneProcess (DKK 6 million).

Net profit was DKK 260 million (DKK 328 million). Earnings Per Share (EPS) were DKK 3.0 (DKK 3.5). Earnings Per Share adjusted for special items, fair value adjustments and currency gains/losses, net of tax decreased to DKK 3.2 (DKK 3.6).

First Quarter Development, 2018-2023

Net sales and EBITDA margin b.s.i.



CONSOLIDATED BALANCE SHEET**ASSETS**

| DKK million | 31 Mar 2023 | 31 Mar 2022 | 31 Dec 2022 |
|-------------------------------------|-----------------|-----------------|-----------------|
| INTANGIBLE ASSETS | | | |
| Goodwill | 5,280.2 | 5,202.9 | 5,331.5 |
| Trademarks | 3,230.3 | 3,036.0 | 2,987.6 |
| IT software | 49.1 | 34.5 | 50.5 |
| Other intangible assets | 381.0 | 214.4 | 195.1 |
| Intangible assets under development | 154.4 | 61.0 | 125.4 |
| Total intangible assets | 9,095.0 | 8,548.8 | 8,690.1 |
| Property, plant and equipment | 1,749.2 | 1,618.4 | 1,739.6 |
| Investments in associated companies | 224.8 | 195.8 | 223.6 |
| Deferred income tax assets | 108.8 | 137.9 | 104.6 |
| Total non-current assets | 11,177.8 | 10,500.9 | 10,757.9 |
| Inventories | 3,686.1 | 3,166.8 | 3,248.9 |
| Trade receivables | 956.0 | 906.2 | 884.6 |
| Other receivables | 93.0 | 94.2 | 86.4 |
| Corporate tax | 62.5 | 45.7 | 21.4 |
| Prepayments | 114.7 | 117.0 | 100.7 |
| Cash and cash equivalents | 104.3 | 118.0 | 22.2 |
| Assets classified as held for sale | - | 108.5 | - |
| Total current assets | 5,016.6 | 4,556.4 | 4,364.2 |
| Total assets | 16,194.4 | 15,057.3 | 15,122.1 |

CONSOLIDATED BALANCE SHEET**EQUITY AND LIABILITIES**

| DKK million | 31 Mar 2023 | 31 Mar 2022 | 31 Dec 2022 |
|--------------------------------------|-----------------|-----------------|-----------------|
| Share capital | 93.0 | 97.5 | 93.0 |
| Reserve for hedging | - | -2.5 | - |
| Reserve for currency translation | 855.5 | 809.7 | 963.8 |
| Treasury shares | -818.9 | -678.2 | -748.1 |
| Retained earnings | 9,269.8 | 9,054.7 | 9,032.9 |
| Total equity | 9,399.4 | 9,281.2 | 9,341.6 |
| Borrowings | 3,863.7 | 2,899.6 | 3,101.1 |
| Deferred income tax liabilities | 685.2 | 713.2 | 673.5 |
| Pension obligations | 209.0 | 311.4 | 204.7 |
| Other provisions | 18.0 | 17.9 | 17.9 |
| Leasing liabilities | 276.3 | 285.8 | 275.1 |
| Other liabilities | 26.4 | 62.2 | 31.0 |
| Total non-current liabilities | 5,078.6 | 4,290.1 | 4,303.3 |
| Credit facilities | 121.9 | - | - |
| Trade payables | 462.5 | 410.2 | 506.8 |
| Corporate tax | 259.7 | 134.6 | 207.4 |
| Other provisions | 15.5 | 40.0 | 19.8 |
| Leasing liabilities | 50.1 | 56.6 | 56.3 |
| Other liabilities | 806.7 | 844.6 | 686.9 |
| Total current liabilities | 1,716.4 | 1,486.0 | 1,477.2 |
| Total liabilities | 6,795.0 | 5,776.1 | 5,780.5 |
| Total equity and liabilities | 16,194.4 | 15,057.3 | 15,122.1 |

Equity

Total shareholders' equity as of 31 March 2023 amounted to DKK 9,399 million (DKK 9,342 million on 31 December 2022). The equity was negatively impacted by foreign exchange adjustments on net investments in foreign operations and by share buy-back programme, partly offset by the positive impact from profit for the period. As of 31 March 2023, the equity ratio was 58.0% (61.8% on 31 December 2022).

Net interest-bearing debt

Net interest-bearing debt increased by DKK 787 million to DKK 4,416 million versus the end of 2022. The development is explained by mainly the acquisition of the Alec Bradley cigar business and purchase of own shares. The leverage ratio (net interest-bearing debt to LTM EBITDA before special items) increased to 2.0x (1.6x on 31 December 2022).

Return on Invested Capital

The return on invested capital (ROIC) decreased to 13.6% versus 14.3% by the end of 2022, explained by a DKK 69 million decrease in EBIT (12 months rolling), driven by the operational performance, and a slightly increased invested capital of DKK 13.9 billion (DKK 13.7 billion).

CONSOLIDATED CASH FLOW STATEMENT**1 JANUARY - 31 MARCH**

| DKK million | Q1 2023 | Q1 2022 |
|---|---------------|---------------|
| Net profit for the period | 259.8 | 328.0 |
| Depreciation, amortisation and impairment | 88.0 | 86.7 |
| Adjustments | 130.2 | 119.2 |
| Changes in working capital | -452.5 | -269.3 |
| Special items, paid | -28.2 | -40.2 |
| Cash flow from operating activities before financial items | -2.7 | 224.4 |
| Financial income received | 12.3 | 23.3 |
| Financial costs paid | -56.1 | -23.7 |
| Cash flow from operating activities before tax | -46.5 | 224.0 |
| Tax payments | -56.2 | -33.6 |
| Cash flow from operating activities | -102.7 | 190.4 |
| Acquisitions | -513.6 | - |
| Investment in intangible assets | -32.1 | -12.8 |
| Investment in property, plant and equipment | -47.8 | -53.8 |
| Sale of property, plant and equipment | 0.1 | - |
| Dividend from associated companies | 3.3 | 5.4 |
| Cash flow from investing activities | -590.1 | -61.2 |
| Free cash flow | -692.8 | 129.2 |
| Repayment of lease liabilities | -15.8 | -14.9 |
| RCF | 779.3 | -33.7 |
| Repayment bank loans | -1.1 | -1.2 |
| Purchase of treasury shares | -103.8 | -133.4 |
| Cash flow from financing activities | 658.6 | -183.2 |
| Net cash flow for the period | -34.2 | -54.0 |
| Cash and cash equivalents, net at 1 January | 22.2 | 173.6 |
| Exchange gains/losses on cash and cash equivalents | -5.6 | -1.6 |
| Net cash flow for the period | -34.2 | -54.0 |
| Cash and cash equivalents, net at 31 March | -17.6 | 118.0 |

Cash flows

Cash flow from operations before changes in working capital in the first quarter of 2023 was DKK 350 million (DKK 460 million). The development was driven by the operational result, higher net financial costs paid, as well as higher tax payments.

Changes in working capital in the first quarter of 2023 had a negative impact on the cash flow of DKK 453 million (negative DKK 269 million) mainly due to increased inventories driven by higher safety stock levels, preparations for Track & Trace in Europe and tax stamps.

Cash flow from investing activities amounted to DKK -590 million (DKK -61 million). The increase was driven by the acquisition of Alec Bradley cigar business.

Free cash flow before acquisitions in the first quarter of 2023 was negative by DKK 179 million (positive DKK 129 million). The cash conversion ratio was 2.3% (51.1%).

STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 31 MARCH 2023

| DKK million | Share capital | Reserve for currency translation | Treasury shares | Retained earnings | Total |
|---|---------------|----------------------------------|-----------------|-------------------|----------------|
| Equity at 1 January 2023 | 93.0 | 963.8 | -748.1 | 9,032.9 | 9,341.6 |
| <i>Comprehensive income for the period</i> | | | | | |
| Net profit for the period | - | - | - | 259.8 | 259.8 |
| <i>Other comprehensive income</i> | | | | | |
| Foreign exchange adjustments on net investments in foreign operations | - | -108.3 | - | - | -108.3 |
| Total other comprehensive income | - | -108.3 | - | - | -108.3 |
| Total comprehensive income for the period | - | -108.3 | - | 259.8 | 151.5 |
| <i>Transactions with shareholders</i> | | | | | |
| Purchase of treasury shares | - | - | -95.9 | - | -95.9 |
| Share-based payments | - | - | - | 2.2 | 2.2 |
| Settlement of vested PSUs | - | - | 25.1 | -25.1 | - |
| Total transactions with shareholders | - | - | -70.8 | -22.9 | -93.7 |
| Equity at 31 March 2023 | 93.0 | 855.5 | -818.9 | 9,269.8 | 9,399.4 |

1 JANUARY – 31 MARCH 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 period</i> | | | | | | |
| Net profit for the period | - | - | - | - | 328.0 | 328.0 |
| <i>Other comprehensive income</i> | | | | | | |
| Cash flow hedges | - | 5.7 | - | - | - | 5.7 |
| Tax of cash flow hedges | - | -1.3 | - | - | - | -1.3 |
| Foreign exchange adjustments on net investments in foreign operations | - | - | 116.0 | - | - | 116.0 |
| Total other comprehensive income | - | 4.4 | 116.0 | - | - | 120.4 |
| Total comprehensive income for the period | - | 4.4 | 116.0 | - | 328.0 | 448.4 |
| <i>Transactions with shareholders</i> | | | | | | |
| Purchase of treasury shares | - | - | - | -137.3 | - | -137.3 |
| Share-based payments | - | - | - | - | 2.3 | 2.3 |
| Settlement of vested PSUs | - | - | - | 29.6 | -29.6 | - |
| Total transactions with shareholders | - | - | - | -107.7 | -27.3 | -135.0 |
| Equity at 31 March 2022 | 97.5 | -2.5 | 809.7 | -678.2 | 9,054.7 | 9,281.2 |

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.

Based on an assessment of new or amended and revised accounting standards and interpretations ('IFRS') issued by the International Accounting Standards Board (IASB) and IFRS, endorsed by the European Union, effective on or after 1 January 2023, it has been assessed that the application of these new IFRS has not had a material impact on the Consolidated Financial Statements for the first quarter of 2023, and the Group does not anticipate any significant impact on future periods from the adoption of these new IFRS. The Group has adopted all new, amended, and revised standards and interpretations.

NOTE 2

SEGMENT INFORMATION AND NET SALES

| 3M 2023 DKK million | North America Online & Retail | North America Branded & RoW | Europe Branded | Group costs / not allocated | Total |
|---|--|--------------------------------------|-------------------|--------------------------------------|--------------|
| Net sales | 601.8 | 719.8 | 641.3 | - | 1,962.9 |
| Cost of goods sold | -360.0 | -323.4 | -300.3 | - | -983.7 |
| Gross profit before special items | 241.8 | 396.4 | 341.0 | - | 979.2 |
| Staff and other external costs | -158.4 | -116.8 | -198.3 | -32.1 | -505.6 |
| EBITDA before special items | 83.4 | 279.6 | 142.7 | -32.1 | 473.6 |
| Depreciation and impairment | | | | -46.3 | -46.3 |
| Amortisation and impairment | | | | -41.7 | -41.7 |
| EBIT before special items | | | | -120.1 | 385.6 |
| Special items, costs and impairment | | | | -27.2 | -27.2 |
| EBIT | | | | -147.3 | 358.4 |
| Share of profit of associated companies, net of tax | | | | 8.3 | 8.3 |
| Financial income | | | | 56.7 | 56.7 |
| Financial costs | | | | -88.1 | -88.1 |
| Profit before tax | | | | -170.4 | 335.3 |

SEGMENT INFORMATION AND NET SALES (continued)

| 3M 2022 DKK million | North America Online & Retail | North America Branded & RoW | Europe Branded | Group costs / not allocated | Total |
|---|--|--------------------------------------|-------------------|--------------------------------------|----------------|
| Net sales | 568.5 | 773.4 | 595.8 | - | 1,937.7 |
| Cost of goods sold | -341.5 | -325.7 | -251.2 | - | -918.4 |
| Gross profit before special items | 227.0 | 447.7 | 344.6 | - | 1,019.3 |
| Staff and other external costs | -152.0 | -119.5 | -185.6 | -30.7 | -487.8 |
| EBITDA before special items | 75.0 | 328.2 | 159.0 | -30.7 | 531.5 |
| Depreciation and impairment | | | | -46.0 | -46.0 |
| Amortisation and impairment | | | | -40.7 | -40.7 |
| EBIT before special items | | | | -117.4 | 444.8 |
| Special items, costs and impairment | | | | -17.7 | -17.7 |
| EBIT | | | | -135.1 | 427.1 |
| Share of profit of associated companies, net of tax | | | | 9.8 | 9.8 |
| Financial income | | | | 42.0 | 42.0 |
| Financial costs | | | | -55.7 | -55.7 |
| Profit before tax | | | | -139.0 | 423.2 |

| DKK million | 3M 2023 | 3M 2022 |
|----------------------------------|----------------|----------------|
| Category split, net sales | | |
| Handmade cigars | 680.8 | 684.1 |
| Machine-rolled cigars | 696.7 | 660.8 |
| Smoking tobacco | 321.8 | 300.2 |
| Accessories and CMA | 263.6 | 292.6 |
| Total net sales | 1,962.9 | 1,937.7 |

Licence income and other sales of DKK 24.9 million (DKK 17.5 million) are included in the category 'Accessories and Contract Manufacturing'.

| DKK million | 3M 2023 | 3M 2022 |
|--------------------------------------|----------------|----------------|
| Geographical split, net sales | | |
| Americas | 1,051.9 | 1,013.8 |
| Europe | 795.6 | 760.8 |
| Rest of World | 115.4 | 163.1 |
| Total net sales | 1,962.9 | 1,937.7 |

NOTE 3**SPECIAL ITEMS**

| DKK million | 3M 2023 | 3M 2022 |
|--|-------------|-------------|
| Integration and transactions costs (Agio Cigars) | - | 2.6 |
| Production footprint | - | 8.7 |
| OneProcess | 27.2 | 6.4 |
| Total special items | 27.2 | 17.7 |

NOTE 4**BUSINESS COMBINATIONS****Alec Bradley Cigar Distributors Inc. and associated companies**

With effect from 1 March 2023, Scandinavian Tobacco Group A/S acquired, substantially all assets of Alec Bradley Cigar Distributors Inc. and associated companies ("Alec Bradley"). The total consideration of USD 72.5 million was paid in cash.

The below disclosure for the business combination is considered provisional as the figures are based on the unaudited balance of Alec Bradley.

The provisional figures can be changed up until 29 February 2024.

Alec Bradley

Alec Bradley is a family-owned business established in 1996 by entrepreneur Alan Rubin and is based in Fort Lauderdale, Florida.

The business model is asset-light with outsourcing of the cigar production and with approximately 30 full-time employees in the US and Canada.

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 where Alec Bradley sold almost 10 million cigars – an increase of 5% versus 2021 – primarily in the US and Canada, but also in international markets.

Brands within the Alec Bradley portfolio include among others Prensado, Kintsugi, Alec Bradley Double Broadleaf, Fine and Rare and Black Market.

Fair value of acquired net assets

Net assets are provisional and may be adjusted and off-balance sheet items may be recorded within 12 months of the acquisition date in compliance with IFRS 3.

Transaction costs

Total transaction costs related to the acquisition are considered immaterial and therefore not disclosed.

BUSINESS COMBINATIONS (continued)

| DKK million | Provisional fair value at date of acquisition |
|----------------------------------|--|
| Trademarks | 294.6 |
| Other Intangible assets | 196.4 |
| Inventories | 14.3 |
| Trade receivables | 18.7 |
| Prepayments | 0.8 |
| Total assets | 524.8 |
| Trade payables | 10.7 |
| Other liabilities | 0.5 |
| Total liabilities | 11.2 |
| Acquired net assets | 513.6 |
| Consideration transferred | 513.6 |