



## Company Announcement

No. 42/2021

Copenhagen, 19 August 2021

### Interim report, 1 January - 30 June 2021

## Scandinavian Tobacco Group A/S reports strong Q2 results and raises full year guidance

In the second quarter of 2021, Scandinavian Tobacco Group delivered a strong organic growth in net sales and EBITDA. The results were primarily driven by a continued high demand in handmade cigars in the US, a favourable market mix and synergies from the integration of Agio Cigars. The second quarter of last year was negatively impacted by the early phases of the COVID-19 pandemic making comparisons relatively easy.

### Q2 Highlights

- Net sales were DKK 2,156 million (DKK 2,097 million) with 7.5% organic growth.
- EBITDA before special items was DKK 606 million (DKK 489 million) with 20.8% organic growth. The EBITDA margin was 28.1% (23.3%).
- Adjusted Earnings Per Share (EPS) were DKK 4.1 (DKK 3.0).
- Free cash flow before acquisitions was DKK 434 million (DKK 425 million).
- Return on Invested Capital was 12.3% (7.6%).
- In the first 6 months of 2021, net sales grew by 9.8% organically to DKK 4,039 million (DKK 3,852 million), and EBITDA before special items grew by 32.6% organically to DKK 1,133 million (DKK 815 million) with free cash flow before acquisitions stable at DKK 523 million (DKK 547 million).

CEO Niels Frederiksen: “We deliver a strong quarterly performance with growth in both net sales and EBITDA driven by strong sales of handmade cigars in the US and a favorable mix. We expect continued high demand for handmade cigars for the rest of the year and we are raising our financial expectations for 2021 to reflect that. Additionally, we continue to implement our “Rolling towards 2025” strategy and show good progress on the transformation of the company”.

The current high consumption of handmade cigars in the US combined with a strong market mix have driven the extraordinarily strong net sales growth during the first half of 2021. Growth is still expected to taper off during the second half of the year as year-on-year comparisons are more difficult especially in the third quarter and as the market mix is expected to normalize somewhat. However, the full year is now expected to be stronger than previously anticipated, although the risks remain higher than normal due to COVID-19.

The financial outlook for 2021 is revised to:

- EBITDA: Organic growth in the range of 16%-20% (from 12%-18%)
- Free cash flow before acquisitions: In the range of DKK 1.0-1.3 billion
- Adjusted Earnings Per Share >35% increase (from >25% increase)

**For further information, please contact:**

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A conference call will be held on 25 August 2021 at 10.00 CEST. Dial-in information and an accompanying presentation will be available at [investor.st-group.com](http://investor.st-group.com) around 09:00 CEST.

# Key Figures\*

DKK million	Q2 2021	Q2 2020	6M 2021	6M 2020	Year 2020
<b>INCOME STATEMENT</b>					
Net sales	2,156	2,097	4,039	3,852	8,006
Gross profit before special items	1,071	940	2,026	1,721	3,712
EBITDA before special items	606	489	1,133	815	1,826
Special items	-24	-78	-41	-234	-435
EBIT	492	304	911	370	986
Net financial items <sup>1</sup>	-21	-2	-32	-45	-53
Profit before tax	480	305	894	332	951
Income taxes	-104	-52	-194	-57	-274
Net profit	376	254	700	274	678
<b>BALANCE SHEET</b>					
Total assets			14,455	14,911	13,996
Equity			8,323	8,664	8,372
Net interest-bearing debt (NIBD)			3,732	3,995	3,274
Investment in property, plant and equipment	47	58	89	91	157
Total capital expenditures	61	71	107	106	201
<b>CASH FLOW STATEMENT</b>					
Cash flow from operating activities	489	494	621	649	1,585
Cash flow from investing activities	-56	-69	-98	-1,662	-1,752
Free cash flow	434	425	523	-1,013	-166
Free cash flow before acquisitions	434	425	523	547	1,394
<b>KEY RATIOS<sup>2</sup></b>					
Net sales growth	2.8%	17.6%	4.8%	20.0%	19.2%
Gross margin before special items	49.7%	44.8%	50.2%	44.7%	46.4%
EBITDA margin before special items	28.1%	23.3%	28.1%	21.1%	22.8%
Effective tax percentage	21.7%	16.9%	21.7%	17.3%	28.7%
Equity ratio			57.6%	58.1%	59.8%
Cash conversion	120.3%	143.1%	86.2%	127.4%	135.4%
Organic net sales growth	7.5%	4.6%	9.8%	4.9%	6.6%
Organic EBITDA growth	20.8%	19.1%	32.6%	21.0%	14.0%
NIBD / EBITDA before special items			1.7	2.4	1.8
ROIC			12.3%	7.6%	7.7%
ROIC ex. Goodwill			20.5%	12.4%	12.7%
Adjusted earnings per share (DKK)	4.1	3.0	7.4	4.5	9.8
Basic earnings per share (DKK)	3.9	2.5	7.3	2.7	6.8
Diluted earnings per share (DKK)	3.9	2.5	7.3	2.7	6.8
Number of shares issued ('000)					100,000
Number of treasury shares ('000)					2,324
Share price at balance date (DKK)					104.10
Dividend per share (DKK)					6.5
Pay-out ratio					95.9%

1. Excl. share of profit of associated companies.

2. See definition/explanation of financial ratios in note 5.8 in the Annual Report 2020.

\* Unaudited figures

## Business overview Q2 2021

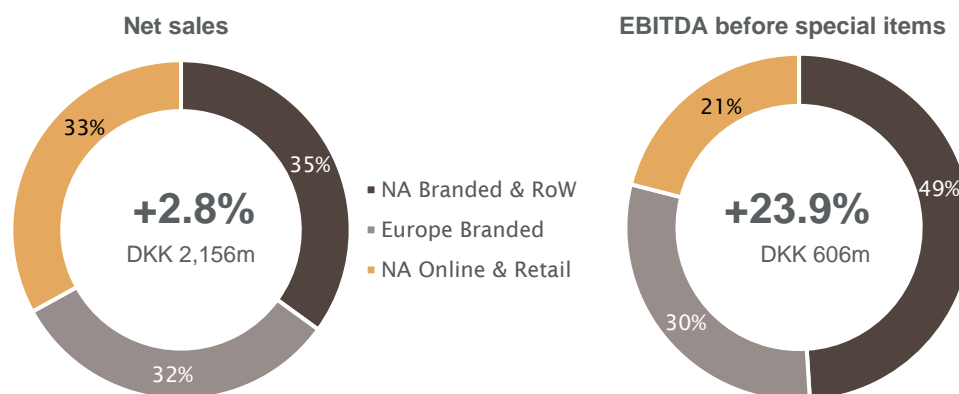
The Group delivered a strong financial performance in the second quarter with 7.5% organic growth in net sales to DKK 2,156 million. Reported growth in net sales was 3% with exchange rate developments impacting negatively by 5%. The performance was driven by strong growth in North America Branded & Rest of World, a positive growth in Europe Branded and a negative growth in North America Online & Retail driven by channel shift in the market from online back to retail following the extensive retail close-downs in the second quarter of 2020.

Earnings and profitability improved significantly compared with the same quarter last year driven by a strong organic net sales performance with increased volumes and improved pricing as well as increased cost efficiency supported by the integration of Agio Cigars and Fuelling the Growth initiatives. Furthermore, the performance was also impacted by a continued strong market mix. EBITDA before special items was DKK 606 million with 21% organic growth entailing an EBITDA margin before special items of 28.1%. Special items came to DKK -24 million (DKK -78 million) comprising costs for the integration of Agio Cigars and the integration of production facilities, see note 3.

The Group's free cash flow before acquisitions was DKK 434 million (DKK 425 million) driven by the operational performance and supported by a positive impact from working capital. The Group's leverage ratio was 1.7x.

The overall consumption of our tobacco products remains strong with sales of handmade cigars in the US continuing at a high level, though a part of volume has switched back to the retail channel from online.

### Divisional split Q2 2021



### Group net sales and EBITDA Q2 2021

Table 1: Net sales

	Q2	Q2	Change
DKK million	2021	2020	in %
Net sales	2,156	2,097	2.8%
Currency development	97		
<b>Organic net sales</b>	<b>2,253</b>	<b>2,097</b>	<b>7.5%</b>

Table 2: EBITDA before special items

	Q2	Q2	Change
DKK million	2021	2020	in %
EBITDA	606	489	23.9%
Acquisitions		23	
Currency development	12		
<b>Organic EBITDA</b>	<b>618</b>	<b>512</b>	<b>20.8%</b>

# Business development Q2 2021

## Retail expansion

The expansion of the retail network in the US has in the past couple of years resulted in four new super stores in Texas and Florida delivering valuable contributions to net sales and profits. While we continue to evaluate the performance of these four super stores and consider on the longer-term ambition for retail stores in the US, an additional super store will open in San Antonio, Texas during the first quarter of 2022. The San Antonio super store will bring the total number of super stores to seven.

## Integration of Agio Cigars

The integration of Agio Cigars is progressing according to the plan, which was revised in May 2021. The next phase is integration of the production facilities with the planned closure of the factory in Eersel in The Netherlands in the third quarter and with the closure of the production facility in Duizel, the Netherlands planned for the end of 2021.

The expectation for total net synergies by the end of 2022 is maintained at DKK 250 million with cost savings in 2021 of about DKK 100 million.

Special costs in relation to the integration of Agio Cigars of DKK 18 million have been expensed in the second quarter. The expectation is maintained that total special costs related to the integration until end of 2022 will be at the level of DKK 450 million.

## Financial ambitions update

In the second quarter of 2021 the EBITDA margin improved to 28.1% (23.3%) driven by the stronger net sales performance, savings from the integration of Agio Cigars and Fuelling the Growth and a DKK 23 million negative fair value adjustment in the second quarter of 2020. For the first six months of 2021 the EBITDA-margin improved to 28.1% (21.1%)

The ROIC improved to 12.3% (7.6%) with a DKK 579 million improvement in EBIT (12 months rolling) driven by the operational performance and based on an invested capital of DKK 12.4 billion (DKK 12.5 billion).

## Capital allocation

At the Annual General Meeting on 14 April 2021, it was decided to reduce the share capital by DKK 2,500,000. The reduction of the share capital was effectuated 19 May 2021, and consequently the Company's share capital amounts to DKK 97,500,000 divided into 97,500,000 shares of DKK 1 each.

During the second quarter of 2021 Scandinavian Tobacco Group has bought back 1,162,903 shares at a market value of DKK 146 million under the current DKK 600 million share buy-back programme. During the first half of 2021, the Company has bought 1,575,333 shares at a market value of DKK 197 million under the current programme that was launched 11 March 2021.

# Financial guidance for 2021

Scandinavian Tobacco Group delivered a strong financial performance in the first six months of 2021 and the outlook for the second half of the year is supported as the demand for handmade cigars seems more persistent than expected.

Although, the continuance of the COVID-19 pandemic implies that uncertainty and lack of visibility in the market development for the second half of the year remains high and accuracy in predictions on consumer behaviour and consumption remains lower than usual, the outlook for the full-year is now reflecting a more positive expectation for the second half of the year.

As consequence the guidance for the full year 2021 is revised to:

- EBITDA: Organic growth in the range of 16%-20% (previously 12%-18%)
- Free cash flow before acquisitions in the range of DKK 1.0-1.3 billion (unchanged)
- Adjusted EPS >35% (>25% increase)

The high end of the guidance range for organic EBITDA growth is based on a positive organic net sales growth during 2021. In this scenario demand for handmade cigars in the US remains strong across all channels in the second half of the year and a continued movement towards a normalisation of the European markets is assumed with the opening of societies positively impacting volumes in Europe Branded.

The low end of the guidance range assumes that net sales for the Group will equalize in the second half of the year with consumer behaviour in the US market reversing and the restrictions and border closures in Europe prevailing.

In both scenarios, organic EBITDA growth is expected to be supported by synergies from the integration of Agio Cigars of about DKK 100 million and the full year effect of Fuelling the Growth.

The organic growth in EBITDA is now expected to be close to flat in the third quarter versus the previous expectation of a negative growth. Organic growth in EBITDA is still expected to be positive in the fourth quarter of 2021. Across all scenarios, the general risk level remains higher than normal as COVID-19 continues to influence the business and in the supply chain we see increasing issues with cost going up and lead times being longer.

The expectation for free cash flow before acquisitions is maintained as the higher activity level will tie-up more working capital. Total capex is maintained at DKK 370 million and includes relatively high investments in production footprint and digitalisation initiatives and the impact from working capital is assumed to be slightly negative. The expectations for total capex and working capital movements may be impacted by decisions to delay investments and to change inventory positions should COVID-19 or the development in consumer demand across product categories necessitate that.

The guidance of an increase of >35% (from DKK 9.78) in adjusted EPS includes a positive impact from share repurchases and a negative impact from currency developments. The guidance and assumptions are based on current exchange rates.

**Events after the reporting period**

There are no other events than those mentioned in the above that have occurred after 30 June 2021 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.

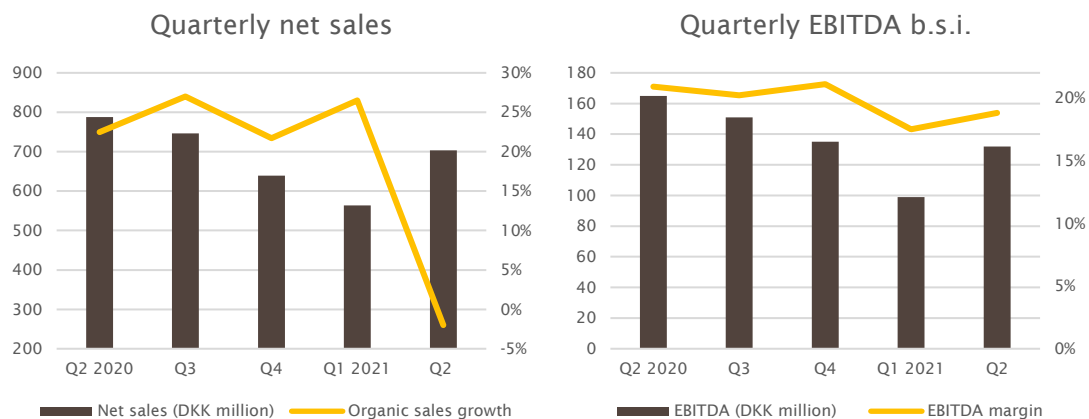
## Divisional update

### North America Online & Retail

In the second quarter of 2021 the North American online channel experienced as expected a decline in the active customer base versus previous quarters and decreasing volumes versus the second quarter of last year. However, this was partly offset by significant growth in the retail channel as consumers returned to the physical trade and due to the expansion of the super store retail network during the past year. Volume in the online channel continue to be well above 2019 and the channel is believed to have seen a permanent structural increase versus the pre-COVID-19 level.

The new super stores, which opened in 2020, are performing better than expected and a new super store will open in San Antonio, Texas early next year.

#### Quarterly development, Q2 2020-Q2 2021



Net sales decreased by -11% to DKK 703 million during the quarter composed of a 2% negative organic net sales growth and a negative exchange rate effect of 9%. The organic development was driven by a negative contribution in the online channel with consumers moving back to retail from online and comparison data reflecting the significant move to online sales last year. The retail super stores contributed with high double-digit growth in the quarter.

EBITDA before special items decreased by 20% to DKK 132 million with an EBITDA margin before special items of 18.8% (20.9%). The margin development is driven by higher sales related costs, the retail expansion and an increase in promotional spending versus last year.

#### First six months of 2021

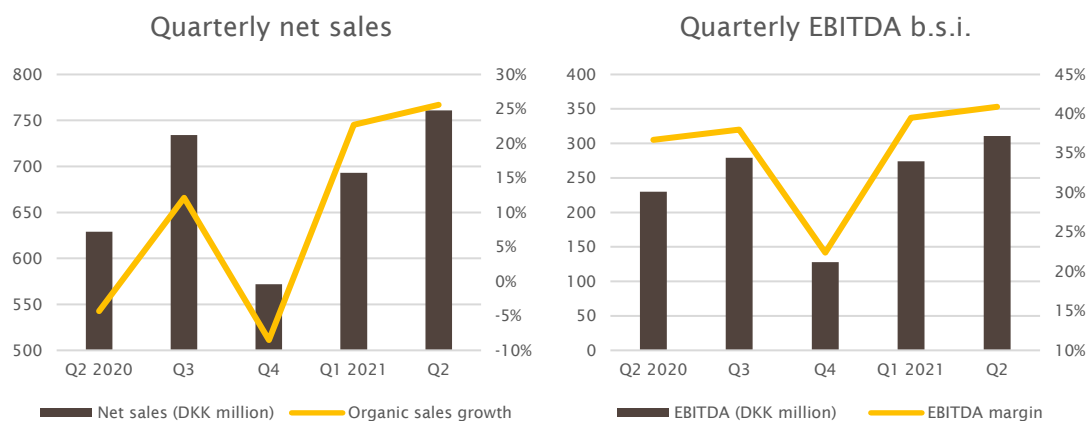
Net sales for the first six months of 2021 decreased by -1% to DKK 1,267 million and organic growth was positive by 8.9%. Gross profit before special items increased by 3% to DKK 508 million and the gross margin was 40.1% (38.6). EBITDA before special items remained unchanged at DKK 231 million with an EBITDA margin of 18.2% (18.1%).



## North America Branded & RoW

In the second quarter of 2021 organic net sales growth accelerated compared with the previous quarter. The performance was driven by a continued strong volume growth across most product categories, a very favourable market mix and a lower comparison base due to the negative implications of the COVID-19 pandemic during the second quarter of last year. The consumption of handmade cigars in the US remains at a high level, though growth rates for the rest of 2021 will reflect the tougher comparison base of last year. The divisional net sales continue to be strong across both the online and retail sales channels and the new national distribution network, the Forged Cigar Company has come off to a very good start adding growth to the division.

### Quarterly development, Q2 2020-Q2 2021



Net sales increased by 21% to DKK 761 million during the quarter composed of a 26% positive organic net sales growth and a negative exchange rate effect of 5%. The organic development was primarily driven by a continued strong increase in the volumes of handmade cigars. Machine-rolled cigars in Canada and pipe tobacco in the US also delivered growth in net sales in the quarter whereas Global Travel Retail is only recovering slowly and remains substantially below the pre-COVID-19 level.

EBITDA before special items increased by 35% to DKK 311 million with an EBITDA margin before special items of 40.9% (36.7%). The margin improvement was realised with an improved gross margin driven by market and product mix as well as an improved OPEX ratio which decreased due to lower freight and travel expenses and general efficiency improvements. Sales and marketing investments have started to increase after a subdued level since the outbreak of the pandemic.

### First six months of 2021

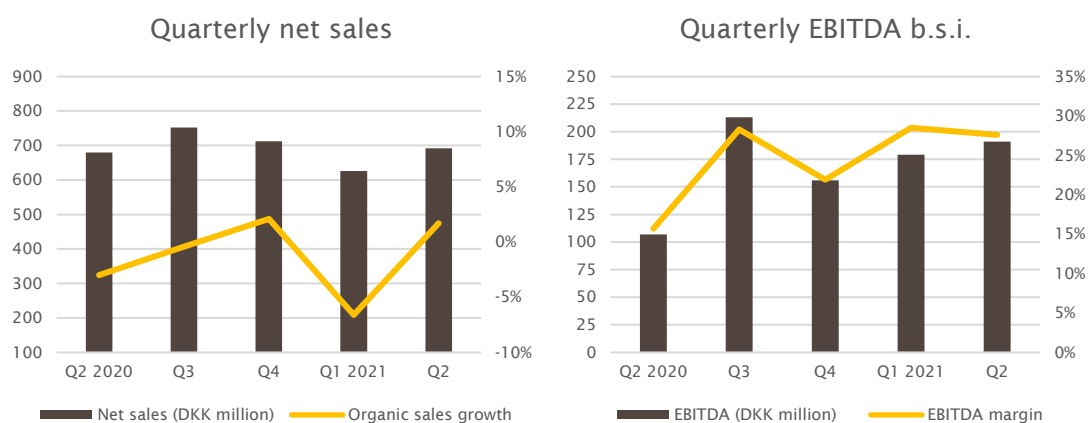
Net sales for the first six months of 2021 increased by 19% to DKK 1,454 million and organic growth was positive by 24%. Gross profit before special items increased by 29% to DKK 795 million and the gross margin was 54.7% (50.3%) primarily driven by market and product mix and price increases. EBITDA before special items increased by 44% to DKK 585 million with an EBITDA margin of 40.2% (33.2%).

## Europe Branded

Market developments and performance during the second quarter of 2021 have been consistent with recent performance in the division with stable market shares and slightly positive organic growth in net sales. The structural volume decline in machine-rolled cigars continues to be managed through price increases. COVID-19 still affects border trading as well as tourist areas and in markets like Germany and the Benelux government-mandated closure of non-essential retail shops has negatively impacted sales.

The integration of Agio Cigars progresses well with the integration of the production facilities being implemented according to plans. The market share decreased in France during the second quarter due to a temporary shortage of employees in production causing an out-of-stock issue. The issue is expected to be solved in the second half of the year. The combined market share of machine-rolled cigars in the key markets, which includes France, is slightly down in the second quarter of 2021 to 32.5% versus 33.3% in the second quarter of 2020 and versus 33.1% in the full year of 2020.

### Quarterly development, Q2 2020-Q2 2021



Net sales increased by 2% to DKK 692 million during the quarter explained by positive organic net sales growth of 2%. The organic development was primarily driven by strong growth in smoking tobacco, a decrease in machine-rolled cigars as well as an about 1% negative impact from the termination of a distribution agreement. Price/mix remains positive.

EBITDA before special items increased by 79% to DKK 191 million with an EBITDA margin before special items of 27.6% (15.7%). The increase in margin was driven by pricing and mix, savings in relation to the integration of Agio Cigars, the termination of the distribution agreement and comparison with a second quarter 2020 negatively impacted by a DKK 23 million fair value adjustment of inventories.

### First six months of 2021

Net sales for the first six months of 2021 decreased by -3% to DKK 1,318 million and organic growth was negative by -2%. Gross profit before special items increased by 18% to DKK 723 million and the gross margin was 54.9% (45.3%). EBITDA before special items increased by 74% to DKK 370 million with an EBITDA margin of 28.0% (15.7%). The margin improvement was driven by price/mix, integration of Agio Cigars, the termination of the distribution agreement and a DKK 62 million fair value adjustment of inventories in the first half of 2020.

# Quarterly Financial Data

DKK million	2021		2020			2021	2020	
	Q2	Q1	Q4	Q3	Q2	6M	6M	12M
<b>Reported data</b>								
Net sales	2,156	1,883	1,922	2,231	2,097	4,039	3,852	8,006
Gross profit before special items	1,071	955	867	1,124	940	2,026	1,721	3,712
EBITDA before special items	606	527	397	614	489	1,133	815	1,826
Special items	-24	-17	-121	-80	-78	-41	-234	-435
EBIT	492	419	180	436	304	911	370	986
Net financial items	-21	-12	-15	7	-2	-32	-45	-53
Profit before tax	480	414	170	450	305	894	332	951
Income taxes	-104	-90	-122	-94	-52	-194	-57	-274
Net profit	376	324	48	356	254	700	274	678
<b>Other financial key data</b>								
Organic EBITDA growth	20.8%	49.1%	-14.6%	32.5%	19.1%	32.6%	21.0%	14.0%
Organic net sales growth	7.5%	12.5%	4.2%	12.0%	4.6%	9.8%	4.9%	6.6%
Gross margin before special items	49.7%	50.7%	45.1%	50.4%	44.8%	50.2%	44.7%	46.4%
EBITDA margin before special items	28.1%	28.0%	20.7%	27.5%	23.3%	28.1%	21.1%	22.8%
Free cash flow before acquisitions	434	89	238	609	425	523	547	1,394
<b>North America Online &amp; Retail</b>								
Net sales	703	564	639	746	788	1,267	1,277	2,662
Gross profit before special items	277	231	272	309	310	508	493	1,075
EBITDA before special items	132	99	135	151	165	231	231	517
Net sales growth	-10.8%	15.3%	12.5%	20.5%	24.9%	-0.8%	15.7%	16.2%
Organic net sales growth	-2.0%	26.5%	21.7%	27.0%	22.5%	8.9%	13.0%	18.9%
Gross margin before special items	39.4%	41.0%	42.6%	41.5%	39.3%	40.1%	38.6%	40.4%
EBITDA margin before special items	18.8%	17.5%	21.1%	20.2%	20.9%	18.2%	18.1%	19.4%
<b>North America Branded &amp; RoW</b>								
Net sales	761	693	572	734	629	1,454	1,222	2,527
Gross profit before special items	422	373	240	386	329	795	615	1,241
EBITDA before special items	311	274	128	279	230	585	406	813
Net sales growth	21.0%	16.8%	-6.9%	12.4%	-1.9%	19.0%	4.5%	3.8%
Organic net sales growth	25.6%	22.7%	-8.5%	12.1%	-4.3%	24.2%	-1.3%	0.4%
Gross margin before special items	55.4%	53.8%	42.0%	52.6%	52.4%	54.7%	50.3%	49.1%
EBITDA margin before special items	40.9%	39.5%	22.4%	38.0%	36.7%	40.2%	33.2%	32.2%
<b>Europe Branded</b>								
Net sales	692	626	712	752	680	1,318	1,353	2,817
Gross profit before special items	373	351	355	428	301	723	613	1,397
EBITDA before special items	191	179	156	213	107	370	212	581
Net sales growth	1.8%	-7.0%	37.6%	40.1%	33.1%	-2.6%	44.2%	41.4%
Organic net sales growth	1.7%	-6.6%	2.1%	-0.4%	-3.0%	-2.4%	4.0%	2.3%
Gross margin before special items	53.8%	56.0%	49.9%	57.0%	44.2%	54.9%	45.3%	49.6%
EBITDA margin before special items	27.6%	28.5%	21.9%	28.3%	15.7%	28.0%	15.7%	20.6%
<b>Group costs</b>								
EBITDA before special items	-28	-24	-21	-28	-13	-52	-35	-85

# 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 2021.

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 2021 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 30 June 2021.

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 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, 19 August 2021

## EXECUTIVE MANAGEMENT

Niels Frederiksen  
CEO

Marianne Rørslev Bock  
CFO

## BOARD OF DIRECTORS

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Henrik Brandt  
VICE-CHAIRMAN

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Anders Obel

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Henrik Amsinck

Hanne Malling

Mogens Olsen

Lindy Larsen

## STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY - 30 JUNE

## CONSOLIDATED INCOME STATEMENT

DKK million		Q2 2021	Q2 2020	6M 2021	6M 2020
<b>Net sales</b>	2	<b>2,155.7</b>	<b>2,096.5</b>	<b>4,038.6</b>	<b>3,852.2</b>
Cost of goods sold	2	-1,084.5	-1,156.5	-2,012.7	-2,131.1
<b>Gross profit before special items</b>	2	<b>1,071.2</b>	<b>940.0</b>	<b>2,025.9</b>	<b>1,721.1</b>
Other external costs	2	-240.3	-216.0	-473.3	-463.8
Staff costs	2	-224.8	-234.9	-419.8	-442.7
<b>Earnings before interest, tax, depreciation, amortisation and special items (EBITDA before special items)</b>		<b>606.1</b>	<b>489.1</b>	<b>1,132.8</b>	<b>814.6</b>
Depreciation and impairment		-49.9	-65.8	-100.2	-126.6
<b>Earnings before interest, tax, amortisation and special items (EBITA before special items)</b>		<b>556.2</b>	<b>423.3</b>	<b>1,032.6</b>	<b>688.0</b>
Amortisation and impairment		-40.2	-41.3	-80.7	-84.6
<b>Earnings before interest, tax and special items (EBIT before special items)</b>		<b>516.0</b>	<b>382.0</b>	<b>951.9</b>	<b>603.4</b>
Special items, costs and impairment	3	-24.1	-78.4	-40.9	-233.8
<b>Earnings before interest and tax (EBIT)</b>		<b>491.9</b>	<b>303.6</b>	<b>911.0</b>	<b>369.6</b>
Share of profit of associated companies, net of tax		9.0	4.2	15.6	7.1
Financial income		11.0	21.0	24.1	36.1
Financial costs		-31.7	-23.4	-56.3	-81.0
<b>Profit before tax</b>		<b>480.2</b>	<b>305.4</b>	<b>894.4</b>	<b>331.8</b>
Income taxes		-104.2	-51.7	-194.1	-57.4
<b>Net profit for the period</b>		<b>376.0</b>	<b>253.7</b>	<b>700.3</b>	<b>274.4</b>
<b>Earnings per share</b>					
Basic earnings per share (DKK)		3.9	2.5	7.3	2.7
Diluted earnings per share (DKK)		3.9	2.5	7.3	2.7
<b>OTHER COMPREHENSIVE INCOME</b>					
<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		2.2	-1.9	3.8	-11.8
Tax of cash flow hedges		-0.4	0.4	-0.8	2.6
Foreign exchange adjustments on net investments in foreign operations		-74.3	-137.3	166.5	-100.1
<b>Other comprehensive income for the period, net of tax</b>		<b>-72.5</b>	<b>-138.8</b>	<b>169.5</b>	<b>-109.3</b>
<b>Total comprehensive income for the period</b>		<b>303.5</b>	<b>114.9</b>	<b>869.8</b>	<b>165.1</b>

## Net sales

In the second quarter of 2021, net sales were DKK 2,156 million (DKK 2,097 million). Adjusted for negative exchange rate impact of DKK 97 million, the organic growth in net sales was positive by 7.5%. For the first six months of 2021, net sales came to DKK 4,039 million (DKK 3,852 million).

## Profit

Gross profit before special items for the second quarter of 2021 was DKK 1,071 million (DKK 940 million) driven by the positive organic growth in net sales, a DKK 23 million negative fair value adjustment of inventories in the second quarter of 2020 and an improving gross margin. The gross margin before special items was 49.7% (44.8%) with increasing margins in North America Branded & RoW and Europe Branded and unchanged margins in North America Online & Retail.

Operating expenses for the second quarter increased to DKK 465 million (DKK 451 million) primarily driven by the development in net sales, increased expenses for sales & marketing partly off-set by continued savings from the integration of Agio Cigars. The OPEX ratio was unchanged at 21.6% (21.5%) as consequence of the higher cost base combined with high sales for the second quarter.

EBITDA before special items for the second quarter of 2021 amounted to DKK 606 million (DKK 489 million). The development is explained by the organic growth in net sales, a positive contribution from the integration of Agio Cigars, a positive impact from other cost efficiency improvements like Fuelling the Growth and the DKK 23 million negative fair value adjustment in the second quarter of 2020. Exchange rate developments impacted negatively by DKK 12 million. Organic EBITDA growth was 20.8%.

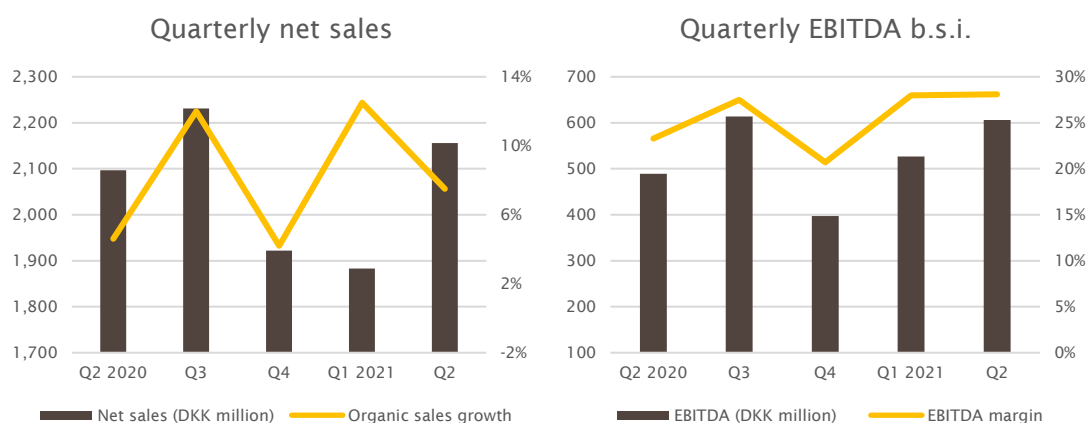
EBITDA margin before special items for the second quarter of 2021 was 28.1% (23.3%).

During the quarter DKK 24 million (DKK 78 million) have been expensed as special items. Special items relating to the integration of Agio Cigars were DKK 18 million (DKK 70 million). DKK 6 million have been expensed in relation to the production footprint (DKK 7 million). See note 3 for an overview of special items.

Net profit was DKK 376 million (DKK 254 million). Earnings per share (EPS) were DKK 3.9 (DKK 2.5). Earnings per share adjusted for special items, fair value adjustments and currency gains/losses on financial items, net of tax increased to DKK 4.1 (DKK 3.0).

In the first six months of 2021, gross profit before special items was DKK 2,026 million (DKK 1,721 million) with a gross margin of 50.2% (44.7%). EBITDA before special items was DKK 1,133 million (DKK 815 million) with an EBITDA margin of 28.1% (21.1%) Special items were DKK 41 million (DKK 234 million), net profit was DKK 700 million (DKK 274 million) with Earnings per share adjusted for special items, fair value adjustments and currency gains/losses on financial items, net of tax increased to DKK 7.4 (DKK 4.5).

### Quarterly development, Q2 2020-Q2 2021



**CONSOLIDATED BALANCE SHEET****ASSETS**

DKK million	30 Jun 2021	30 Jun 2020	31 Dec 2020
<b>INTANGIBLE ASSETS</b>			
Goodwill	4,981.1	5,119.3	4,895.1
Trademarks	3,042.9	3,219.1	3,067.5
IT software	86.0	56.7	77.9
Other intangible assets	226.6	263.5	239.2
<b>Total intangible assets</b>	<b>8,336.6</b>	<b>8,658.6</b>	<b>8,279.7</b>
Property, plant and equipment	1,424.1	1,425.8	1,405.5
Investments in associated companies	168.6	158.3	152.0
Deferred income tax assets	131.8	147.5	129.3
<b>Total non-current assets</b>	<b>10,061.1</b>	<b>10,390.2</b>	<b>9,966.5</b>
Inventories	3,005.6	3,022.8	2,816.3
Trade receivables	937.0	964.5	830.2
Other receivables	70.0	81.9	113.3
Corporate tax	78.0	102.2	72.2
Prepayments	45.5	53.4	48.7
Cash and cash equivalents	225.2	295.7	117.0
Assets classified as held for sale	32.8	-	31.8
<b>Total current assets</b>	<b>4,394.1</b>	<b>4,520.5</b>	<b>4,029.5</b>
<b>Total assets</b>	<b>14,455.2</b>	<b>14,910.7</b>	<b>13,996.0</b>

**CONSOLIDATED BALANCE SHEET****EQUITY AND LIABILITIES**

DKK million	30 Jun 2021	30 Jun 2020	31 Dec 2020
Share capital	97.5	100.0	100.0
Reserve for hedging	-11.5	-24.3	-14.5
Reserve for currency translation	450.9	814.3	284.4
Treasury shares	-258.9	-30.8	-227.7
Retained earnings	8,044.9	7,804.8	8,230.1
<b>Total equity</b>	<b>8,322.9</b>	<b>8,664.0</b>	<b>8,372.3</b>
Borrowings	3,422.7	3,644.0	2,843.5
Deferred income tax liabilities	616.2	625.6	628.2
Pension obligations	297.3	295.8	289.3
Other provisions	20.0	23.0	20.0
Leasing liabilities	159.1	141.9	159.8
Other liabilities	6.4	37.1	19.0
<b>Total non-current liabilities</b>	<b>4,521.7</b>	<b>4,767.4</b>	<b>3,959.8</b>
Credit facilities	-	84.0	-
Trade payables	550.0	474.5	525.1
Corporate tax	195.1	98.6	136.7
Other provisions	139.5	67.2	211.2
Leasing liabilities	45.2	67.9	54.6
Other liabilities	680.8	687.1	736.3
<b>Total current liabilities</b>	<b>1,610.6</b>	<b>1,479.3</b>	<b>1,663.9</b>
<b>Total liabilities</b>	<b>6,132.3</b>	<b>6,246.7</b>	<b>5,623.7</b>
<b>Total equity and liabilities</b>	<b>14,455.2</b>	<b>14,910.7</b>	<b>13,996.0</b>

**Equity**

Total shareholders' equity as at 30 June 2021 amounted to DKK 8,323 million (DKK 8,372 million on 31 December 2020). The equity was positively impacted by profit for the period and a positive impact from foreign exchange adjustments on net investments in foreign operations partly offset by the current share buy-back programme and dividend payment. As at 30 June 2021 the equity ratio was 57.6% (59.8% on 31 December 2020).

**Net interest-bearing debt**

Net interest-bearing debt increased by DKK 342 million to DKK 3,732 million versus the end of the first quarter of 2021. The development was explained by positive free cash flow being more than offset by the purchase of own shares and dividend payment. The leverage ratio (net interest-bearing debt to LTM EBITDA before special items) remained unchanged at 1.7x (1.7x at 31 March 2021). The improvement of LTM EBITDA before special items offset the increased level of net interest-bearing debt.



**Return on Invested Capital**

The return on invested capital (ROIC) improved to 12.3% (7.6%) with a DKK 579 million improvement in EBIT (12 months rolling) driven by the operational performance and based on an invested capital of DKK 12.4 billion (DKK 12.5 billion).

## CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY - 30 JUNE

DKK million	Q2 2021	Q2 2020	6M 2021	6M 2020
Net profit for the period	376.0	253.7	700.3	274.4
Depreciation, amortisation and impairment	90.1	107.1	180.9	320.5
Adjustments	138.4	160.8	250.8	286.6
Changes in working capital	59.2	108.8	-221.1	29.2
Special items, paid	-47.2	-65.2	-100.4	-86.8
<b>Cash flow from operating activities before financial items</b>	<b>616.5</b>	<b>565.2</b>	<b>810.5</b>	<b>823.9</b>
Financial income received	11.0	20.1	15.0	78.0
Financial costs paid	-29.4	-55.7	-47.6	-146.9
<b>Cash flow from operating activities before tax</b>	<b>598.1</b>	<b>529.6</b>	<b>777.9</b>	<b>755.0</b>
Tax payments	-108.8	-35.2	-156.9	-106.4
<b>Cash flow from operating activities</b>	<b>489.3</b>	<b>494.4</b>	<b>621.0</b>	<b>648.6</b>
Acquisitions	-	-	-	-1,560.1
Investment in intangible assets	-13.6	-12.7	-18.1	-15.1
Investment in property, plant and equipment	-47.3	-58.4	-88.8	-90.5
Sale of property, plant and equipment	3.0	-	4.0	-
Dividend from associated companies	2.3	2.1	4.5	4.0
<b>Cash flow from investing activities</b>	<b>-55.6</b>	<b>-69.0</b>	<b>-98.4</b>	<b>-1,661.7</b>
<b>Free cash flow</b>	<b>433.7</b>	<b>425.4</b>	<b>522.6</b>	<b>-1,013.1</b>
Repayment of lease liabilities	-13.4	-17.9	-29.3	-37.0
Other financing	-	1.8	-21.5	6.9
RCF / New external funding	416.7	-	555.1	5,344.2
Repayment bank loans	-	-626.3	0.0	-4,374.3
Dividend payment	-626.7	-	-626.7	-608.3
Purchase of treasury shares	-153.1	-	-294.8	-
<b>Cash flow from financing activities</b>	<b>-376.5</b>	<b>-642.4</b>	<b>-417.2</b>	<b>331.5</b>
<b>Net cash flow for the period</b>	<b>57.2</b>	<b>-217.0</b>	<b>105.4</b>	<b>-681.6</b>
Cash and cash equivalents, net at 1 April / 1 January	167.7	428.5	117.0	897.5
Exchange gains/losses on cash and cash equivalents	0.3	0.2	2.8	-4.2
Net cash flow for the period	57.2	-217.0	105.4	-681.6
<b>Cash and cash equivalents, net at 30 June</b>	<b>225.2</b>	<b>211.7</b>	<b>225.2</b>	<b>211.7</b>

### Cash flows

Cash flow from operations before changes in working capital in the second quarter of 2021 was DKK 430 million (DKK 386 million). The development was driven by the improved operational results partly offset by higher tax payments.

Working capital in the second quarter of 2021 had a positive impact on the cash flow by DKK 59 million (DKK 109 million) mainly due to a reduced level of finished goods inventories.

Cash flow from investing activities amounted to DKK -56 million (DKK -69 million). The drop is explained by lower investments in property, plant and equipment.

Free cash flow before acquisitions in the second quarter of 2021 was positive by DKK 434 million (DKK 425 million). The cash conversion ratio was 120% (143%).

For the first six months of 2021 cash flow from operations before changes in working capital was DKK 842 million (DKK 619 million). Working capital had a negative impact of DKK -221 million (DKK 29 million) with a significant impact from a planned higher level of inventories of tax stamps. Free cash flow before acquisitions was DKK 523 million (DKK 547 million) and the cash conversion ratio was 86% (127%).

## STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 30 JUNE 2021

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
<b>Equity at 1 January 2021</b>	<b>100.0</b>	<b>-14.5</b>	<b>284.4</b>	<b>-227.7</b>	<b>8,230.1</b>	<b>8,372.3</b>
<i>Comprehensive income for the period</i>						
<b>Net profit for the period</b>	-	-	-	-	<b>700.3</b>	<b>700.3</b>
<i>Other comprehensive income</i>						
Cash flow hedges	-	3.8	-	-	-	<b>3.8</b>
Tax of cash flow hedges	-	-0.8	-	-	-	<b>-0.8</b>
Foreign exchange adjustments on net investments in foreign operations	-	-	166.5	-	-	<b>166.5</b>
<b>Total other comprehensive income</b>	-	<b>3.0</b>	<b>166.5</b>	-	-	<b>169.5</b>
<b>Total comprehensive income for the period</b>	-	<b>3.0</b>	<b>166.5</b>	-	<b>700.3</b>	<b>869.8</b>
<i>Transactions with shareholders</i>						
Capital reduction	-2.5	-	-	247.2	-244.7	-
Purchase of treasury shares	-	-	-	-294.8	-	<b>-294.8</b>
Share-based payments	-	-	-	-	6.8	<b>6.8</b>
Settlement of vested PSUs	-	-	-	16.4	-16.4	-
Settlement in cash of vested PSU's	-	-	-	-	-4.5	<b>-4.5</b>
Dividend paid to shareholders	-	-	-	-	-650.0	<b>-650.0</b>
Dividend, treasury shares	-	-	-	-	23.3	<b>23.3</b>
<b>Total transactions with shareholders</b>	<b>-2.5</b>	-	-	<b>-31.2</b>	<b>-885.5</b>	<b>-919.2</b>
<b>Equity at 30 June 2021</b>	<b>97.5</b>	<b>-11.5</b>	<b>450.9</b>	<b>-258.9</b>	<b>8,044.9</b>	<b>8,322.9</b>

## STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 30 JUNE 2020

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
<b>Equity at 1 January 2020</b>	<b>100.0</b>	<b>-15.1</b>	<b>914.4</b>	<b>-35.0</b>	<b>8,138.4</b>	<b>9,102.7</b>
<i>Comprehensive income for the period</i>						
<b>Net profit for the period</b>	-	-	-	-	<b>274.4</b>	<b>274.4</b>
<i>Other comprehensive income</i>						
Cash flow hedges	-	-11.8	-	-	-	<b>-11.8</b>
Tax of cash flow hedges	-	2.6	-	-	-	<b>2.6</b>
Foreign exchange adjustments on net investments in foreign operations	-	-	-100.1	-	-	<b>-100.1</b>
<b>Total other comprehensive income</b>	-	<b>-9.2</b>	<b>-100.1</b>	-	-	<b>-109.3</b>
<b>Total comprehensive income for the period</b>	-	<b>-9.2</b>	<b>-100.1</b>	-	<b>274.4</b>	<b>165.1</b>
<i>Transactions with shareholders</i>						
Share-based payments	-	-	-	-	5.8	<b>5.8</b>
Settlement of vested PSUs	-	-	-	4.2	-4.2	-
Settlement in cash of vested PSU's	-	-	-	-	-1.3	<b>-1.3</b>
Dividend paid to shareholders	-	-	-	-	-610.0	<b>-610.0</b>
Dividend, treasury shares	-	-	-	-	1.7	<b>1.7</b>
<b>Total transactions with shareholders</b>	-	-	-	<b>4.2</b>	<b>-608.0</b>	<b>-603.8</b>
<b>Equity at 30 June 2020</b>	<b>100.0</b>	<b>-24.3</b>	<b>814.3</b>	<b>-30.8</b>	<b>7,804.8</b>	<b>8,664.0</b>

**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 Annual Report for 2020.

**Accounting policies**

The interim report has been prepared in accordance with the accounting policies set out in the Annual Report for 2020.

**NOTE 2****SEGMENT INFORMATION AND NET SALES**

<b>6M 2021</b> DKK million	<b>North America Online &amp; Retail</b>	<b>North America Branded &amp; RoW</b>	<b>Europe Branded</b>	<b>Group costs / not allocated</b>	<b>Total</b>
Net sales	1,266.6	1,453.6	1,318.4	-	4,038.6
Cost of goods sold	-758.7	-658.9	-595.1	-	-2,012.7
<b>Gross profit before special items</b>	<b>507.9</b>	<b>794.7</b>	<b>723.3</b>	-	<b>2,025.9</b>
Staff and other external costs	-277.3	-209.7	-353.7	-52.4	-893.1
<b>EBITDA before special items</b>	<b>230.6</b>	<b>585.0</b>	<b>369.6</b>	<b>-52.4</b>	<b>1,132.8</b>
Depreciation and impairment				-100.2	-100.2
Amortisation and impairment				-80.7	-80.7
<b>EBIT before special items</b>				<b>-233.3</b>	<b>951.9</b>
Special items, costs and impairment				-40.9	-40.9
<b>EBIT</b>				<b>-274.2</b>	<b>911.0</b>
Share of profit of associated companies, net of tax				15.6	15.6
Financial income				24.1	24.1
Financial costs				-56.3	-56.3
<b>Profit before tax</b>				<b>-290.8</b>	<b>894.4</b>

## NOTE 2

## SEGMENT INFORMATION AND NET SALES (continued)

6M 2020 DKK million	North America Online & Retail	North America Branded & RoW	Europe Branded	Group costs / not allocated	Total
Net sales	1,277.1	1,221.9	1,353.2	-	3,852.2
Cost of goods sold	-783.9	-607.0	-740.2	-	-2,131.1
<b>Gross profit before special items</b>	<b>493.2</b>	<b>614.9</b>	<b>613.0</b>	-	<b>1,721.1</b>
Staff and other external costs	-262.1	-208.7	-400.5	-35.2	-906.5
<b>EBITDA before special items</b>	<b>231.1</b>	<b>406.2</b>	<b>212.5</b>	<b>-35.2</b>	<b>814.6</b>
Depreciation and impairment				-126.6	-126.6
Amortisation and impairment				-84.6	-84.6
<b>EBIT before special items</b>				<b>-246.4</b>	<b>603.4</b>
Special items, costs and impairment				-233.8	-233.8
<b>EBIT</b>				<b>-480.2</b>	<b>369.6</b>
Share of profit of associated companies, net of tax				7.1	7.1
Financial income				36.1	36.1
Financial costs				-81.0	-81.0
<b>Profit before tax</b>				<b>-518.0</b>	<b>331.8</b>

DKK million	6M 2021	6M 2020
<b>Category split, net sales</b>		
Handmade cigars	1,474.1	1,349.6
Machine-rolled cigars	1,426.4	1,437.6
Smoking tobacco	590.6	547.2
Accessories and CMA	547.5	517.8
<b>Total net sales</b>	<b>4,038.6</b>	<b>3,852.2</b>

Licence income and other sales of DKK 22.5 million (DKK 20.9 million) are included in the category 'Accessories and Contract Manufacturing'.

DKK million	6M 2021	6M 2020
<b>Geographical split, net sales</b>		
Americas	2,132.0	1,936.7
Europe	1,688.4	1,721.8
Rest of World	218.2	193.7
<b>Total net sales</b>	<b>4,038.6</b>	<b>3,852.2</b>

**NOTE 3****SPECIAL ITEMS**

DKK million	6M 2021	6M 2020
Integration and transactions costs (Agio Cigars)	23.1	108.4
Fuelling the Growth programme	-	2.6
Production footprint	17.8	13.5
Impairment tangible assets	-	109.3
<b>Total special items</b>	<b>40.9</b>	<b>233.8</b>