## Chairman's report – 2022 Annual General Meeting, 31 March 2022

Scandinavian Tobacco Group's Annual General Meeting is a special occasion and I am pleased to present the Board's report for the past financial year. Especially so as I will be reporting on record results and solid progress on our strategy.

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As usual, before the formal part of the report I would on behalf of the Board of Directors like to offer a sincere thank you to every employee in Scandinavian Tobacco Group for their dedication and hard work in the past year. They have with their grit, commitment and ingenuity steered the organisation through another year where the COVID-19 pandemic caused disruptions to our business, our consumers and colleagues. All of our 10.000 employees deserve credit for enabling the company to cope successfully with the pandemic – and to deliver a historically strong result. Thank you.

On a similar note, I would like to say a few words on the current situation in the Ukraine. The Russian invasion of Ukraine has left us all saddened and disturbed. We are appalled and concerned about the continued negative development of the conflict and our thoughts are with the victims of the war.

As a company, we strongly condemn the Russian invasion and aggression. We believe we have the responsibility – together with other international companies – to exert pressure on the Russian regime and make it clear that we will not accept its actions. Consequently, Scandinavian Tobacco Group decided to suspend all trading with Russia as of March 1.

On this sad note, I will now move on to the formal report.

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Let me start by reviewing the financial highlights of the past year. For the full year 2021, Scandinavian Tobacco Group delivered a particularly strong result with net sales of 8,233 million kroner and EBITDA before special items of 2,233 million kroner. This represents a 4.5% organic growth in net sales and a 18.4 % organic growth in EBITDA. Net profit was 1,391million kroner, while free cash flow before acquisitions was 1,393 million kroner. We saw a strong improvement of ROIC at 14.5% and an increase in the adjusted earnings per share at14.8 kroner.

The results are in line with the financial guidance for the year which we were able to raise twice in the course of 2021. Therefore, allow me to conclude that 2021 has been another record year for Scandinavian Tobacco Group.

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The Board of Directors proposes a dividend of 7.50 kroner per share, which is an increase of 15% compared to the ordinary dividend in 2020. This is the sixth consecutive year where we have increased the ordinary dividend. The 7.50 kroner per share corresponds to a total payment of about 700 million kroner to our shareholders.

In addition to the dividend payment, we completed a 300 million kroner share buy-back programme in 2021 and further initiated a one-year programme at a total value of up to 600 million kroner which was recently completed. In 2022, we will maintain our share buy-back activity and have launched a new one-year share buy-back programme at a total value of up to 700 million kroner.

The increase in the dividend and the share buy-back programmes are testament to the strength of the underlying business and of our ability to generate strong cash flow.

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I will now turn my attention to the financial performance for 2021 in each of the three commercial divisions.

Let us begin with our North America Online & Retail Division. The division includes direct-to-consumer sales of all product categories  via our own online, catalogue and retail channel in North America. Retail accounts for 6% of net sales in the division and online/catalogue for 94%.

The division comprises six brick and mortar cigar super stores in Pennsylvania, Texas and Florida and five online business units each uniquely positioned towards a specific consumer group. The five business units have a combined estimated volume share of approximately 45% of the US online market.

In 2021, the division accounted for 32% of Group net sales and 21% of EBITDA before special items. The largest product category in the division is handmade cigars with a share of 80% of net sales.

2021 net sales in the division were 2,620 million kroner (compared to 2,662 million kroner in 2020) with an organic growth of 2.4% (compared to 18.9%  in 2020) and a gross margin before special items of 40.1% (compared to 40.4% in 2020). The performance was supported by the strong demand for handmade cigars and growth in the online channel following the COVID-19 pandemic. Tough year-on-year comparisons reflecting the peak of the pandemic-driven channel shift to online in 2020 affect the organic development in the division.

The North America Online & Retail Division is continuing the retail expansion in the coming years. Shortly, a seventh super-store will open in San Antonio, Texas, and over the next two to three years we plan to open 6 to 8 additional super-stores.

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Our North America Branded & Rest of World Division comprises sale of all product categories to wholesalers and distributors that supply retail in North America (that is US and Canada) and Rest of World which in our terminology is Australia, New Zealand, European markets where we do not have own sales organisations, International Sales, Asia, Global Travel Retail and contract manufacturing.

In 2021, the division accounted for 35% of Group net sales and 51% of EBITDA before special items, and the category split was fairly even with 29% of net sales coming from handmade cigars, 28% from machine-rolled cigars, 21% from smoking tobacco and 22% from accessories and contract manufacturing.

Net sales of the division in 2021 were 2,877 million kroner (compared to 2,527 million kroner in 2020) with an organic growth of 15.3% (compared to 0.4 % in 2020) and a gross margin before special items of 54.3% (compared to 49.1 % in 2020).

The positive development in the division was predominantly driven by the very strong development in handmade cigars in the US. Other contributors were growth in machine-rolled cigars driven by a positive sales development in Canada and growth in smoking tobacco driven by strong demand in Norway.

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The Europe Branded Division, comprises sale of all product categories to wholesalers, distributors and direct to retail in Germany, Denmark, Sweden, France, Italy, Belgium, the Netherlands, Luxembourg, Spain, Portugal, the UK and Ireland.

In 2021, the division accounted for 33% of the total Group net sales and 34% of EBITDA before special items. Machine-rolled cigars constitute by far the biggest product category in the division and accounted for 73% of divisional net sales. Smoking tobacco accounts for 19%.

Net sales for the division were 2,735 million kroner (compared to 2,817 million kroner in 2020) and organic growth was -3.1% (compared to 2.3% in 2020) and gross margin before special items was 54.9% (compared to 49.6% in 2020).

The termination of a distribution agreement impacted divisional growth negatively by almost 2%, and the margin improvement was driven by price/mix, savings from the integration of Agio Cigars, the termination of the said distribution agreement and a 62 million kroner fair value adjustment of inventories negatively impacting 2020 results.

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After this walkthrough of the financial results, I will turn to an update on the progress made during 2021 on the execution of the Group strategy, Rolling Towards 2025.

In 2020, we launched the revised and updated strategy Rolling Towards 2025 which clearly laid out the vision and strategic direction for the Group until 2025. The strategy cemented our focus on cigars and our ambition to become a larger company, to grow EBITDA and to create outstanding cash generation to support our continued growth.

Rolling Towards 2025 is based on five must-win battles, which are the areas where we need to succeed and that will allow us to further improve our business and deliver consumer experiences that really make a difference

We have made good progress in all must-win battles in 2021 and overall edged closer to our vision of becoming the undisputed, global leader in cigars. Within each of the must-win battles we launched, advanced and completed initiatives that allowed us to continue the modernisation and professionalisation of Scandinavian Tobacco Group.

Let me here give an example from each must-win battle.

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To Grow our handmade cigar business we established the Forged Cigar Company – an independent national cigar distribution network - to strengthen the support to our portfolio of handmade cigar brands in North America. Furthermore, we announced plans for 6 to 8 additional cigar super-stores in the US under the Cigars International brand in the coming two to three years with an investment per store of 4-7 million us dollars.

To Drive sustainable growth in machine-rolled cigars we have developed a roadmap for simplifying the number of brands, formats and packaging across our European markets gradually before 2025. This will drive efficiencies without putting pressure on sales or margins. We met the annual target for brand- and SKU reductions in 2021 as we reduced the number of brands by 4% and the number of SKUs by 20%.

In Integrate new mergers and acquisitions we progressed faster and did better than anticipated on the integration of Agio Cigars. As a result, the expected total savings from the integration were raised by more than 10% from 225 to 250 million kroner.

We continue to look for value enhancing acquisitions that will grow the business, and in 2021 we acquired a majority stake in the small Italian cigarmaker Moderno Opificio del Sigaro Italiano, MOSI. The acquisition gives us access to the most profitable cigar segment in Italy and grows our market share in the Italian market for machine-rolled cigars.

In Simplify everything we do we progressed as planned and successfully completed the clarification phase in our ERP project. The project - called OneProcess - will transform the Group’s current 12 ERP systems into one by 2024/2025 and will - when fully implemented – add annual estimated benefits of 150-250 million kroner.

And last but not least, in our fifth must-win battle Embrace a performance culture we successfully continued the strengthening of the organisation from both a people and competency perspective. New capabilities were created and contributed to the strong results of the year. No more so than in our factories around the world where our more than 8,500 employees during the year improved our overall safety performance while increasing productivity and improving equipment effectiveness.

If we look beyond our must-win battles, another notable achievement in the past year was the launch of the Group’s first Sustainability strategy. We believe that sustainability is key to our continued ability to operate effectively and we have since the reboot of our Sustainability efforts in 2019 taken steps to advance our environmental commitment and accelerate the integration of sustainability into our business.

We made solid and steady progress in 2021 across all four Focus Areas in our Sustainability Strategy : People and Communities, Planet, Ethics, and Governance. And we have in each area either launched new activities or are reviewing existing ones to ensure we have the policies, metrics and, where necessary, targets in place to deliver impact for our stakeholders. Among many other things we completed the first Group-wide measurement of our energy consumption and CO2 equivalent footprint for 2020 and 2021, expressed as Scope 1 and 2 emissions.

We will present a new and upgraded sustainability strategy in the first half of 2022. And as part of getting this new strategy well underway we have committed 10-20 million kroner in 2022 to the ramp-up of our sustainability initiatives.

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This brings me to the composition of the Board of Directors and management remuneration.

Chairman Nigel Northridge and Luc Missorten have informed the Company that they will not stand for re-election and are resigning from the Board of Directors as of today. Nigel and Luc have over the years contributed significantly to the continued professionalisation of the Group and I would like to use the opportunity to thank them both for their commitment to Scandinavian Tobacco Group.

Luc joined the Board of Directors in 2016 and has as member of the Audit Committee, Nomination Committee and Remuneration Committee in the past 5 years made a significant and positive contribution to the cooperation between the Board of Directors and Executive management.

Nigel also joined the Board of Directors in 2016 when he was elected Vice-chairman. Since 2017 he has been Chairman of the Board of Directors and during his tenure, the Company has developed from being newly listed to a strong company with a strategy in place for the future. Nigel deserves a lot of credit for having led this development. On a personal note, I have in my role as Vice-chairman enjoyed working closely with Nigel.

In light of Nigel's announced desire to retire, the Board of Directors has expressed its intention to elect me as the future Chairman. I wish to thank the Board for their confidence in me and – hoping that I will be elected a bit later today – I look forward to – continuing the exciting development of Scandinavian Tobacco Group.

All members of the Board of Directors elected by the general meeting are elected for one year at a time. As a consequence, a number of Board Members are up for re-election, and the Board of Directors proposes re-election of the following Board members beyond myself: Henrik Amsinck, Dianne Blixt, Marlene Forsell, Claus Gregersen and Anders Obel.

As you will have noted, the number of shareholder-elected members of the Board of Directors will with the said candidates be reduced to six. For that reason and also to ensure some flexibility, the Board of Directors under item 6B on the agenda proposes a change to the Company's articles of association. With the proposal it will be optional for the Board of Directors whether it elects only a chairman or both a chairman and a vice-chairman.

In compliance with the Danish Recommendations on Corporate Governance, I also wish to inform you about the self-assessment made by the Board of Directors in 2021. The Board of Directors annually carries out an evaluation of its own work and performance and its collaboration with the Executive Management. In 2021, the evaluation process was carried out by individual interviews with the members of the Board of Directors conducted by Nigel Northridge as Chairman. At least every third year we do the self-assessment with the help of a third-party consultant. The overall result of the evaluation last year was that the Board is well-functioning and there have been no significant changes made to the way the Board works based on the evaluation. The evaluation, however, was also an opportunity to clarify which topics the members of the Board of Directors find should be prioritized in 2022, and we are aligned on that.

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This brings me to management remuneration.

The Company's Remuneration Policy states the intention to ensure that Executive Management is rewarded appropriately for achieving central short- and long-term business goals, and to ensure continued sustainability and alignment of the remuneration with shareholders' interests.

The remuneration package for our Executive Management, namely our CEO and CFO, consists of a fixed base salary and both short-term and long-term incentive programmes. For the year 2021, the total cost of remuneration for the Executive Management amounted to 22.3 million kroner.

In the Remuneration Report we have presented detailed information about the composition of the complete remuneration of the Executive Management and the Board of Directors, and it also contains comparison numbers to prior years. The remuneration of the Executive Management and the Board of Directors in 2021 was in accordance with the Remuneration Policy. And we believe that the remuneration of the Executive Management is compliant with the Remuneration Policy and fairly reflects the results achieved by the company.

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Let me finish the report by addressing the coming year.

Building on the strong financial result and the continued hard work of our employees we have given ourselves a strong foundation for a successful 2022 where we will be able to continue the value creation for our shareholders.

With our Rolling Towards 2025 strategy firmly embedded in the organization we have a clear framework and a strong set of priorities that will guide our pursuit of the growth opportunities available to us.

In 2022, we will continue to invest in the future of our business to create long-term value. Our investment in the ERP project One Process will continue. The project represents the largest IT investment in the history of the Group and will, when implemented, strengthen our ability to deliver growth and profitability. The total investment is expected to amount to 600-700 million kroner in the period 2022-2025.

We will also continue the investment in the expansion of our retail footprint in the US. We will open at least one new cigar super-store in 2022 and have committed to opening 6-8 additional stores in the coming two to three years. Each store represents an investment of 4-7 million US dollars.

Additionally, we will grow and prioritize our Growth Incubator. The Growth Incubator was established as part of Rolling Towards 2025 to seek growth opportunities outside our core categories. We will dedicate time and resources to enable the Growth Incubator to look into a wide range of opportunities such as new markets and categories, development of own products and potential partnerships.

And finally, we will in 2022 - as I have mentioned – invest 10-20 million kroner in the ramp-up of our sustainability initiatives.

If we turn to the financial expectations for 2022, we have set the ambition of an organic EBITDA growth between 0 and 6%, a free cash flow before acquisitions in the range of 1.1-1.4 billion kroner and an increase in adjusted earnings per share (EPS) of more than 5%.

We are facing an unprecedented level of uncertainty due to COVID-19 related changes to consumer behavior, inflation and cost pressures as well as geopolitical tensions arising from the war in Ukraine. Despite this and on the backdrop of the past two years' exceptionally strong performance, Scandinavian Tobacco Group still expects to deliver growth in 2022.

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If we move on to our underlying overall financial ambition, it remains the same and we still expect:

- to deliver average annual organic EBITDA growth of 3-5%
- to achieve average annual growth in free cash flow before acquisitions and sizeable investments
- to improve Return on Invested Capital (ROIC).

Our shareholder return policy also remains unchanged:

- Firstly, we recognize the importance of the ordinary dividend to many shareholders. Therefore, the ambition is to deliver an annual growth in ordinary dividend payments.
- Secondly, any capital that the Board evaluates to be in excess will be distributed to shareholders by way of dividends and/or share buy-backs.

Any such distribution is based on a comparison of the projected leverage ratio against our gearing target of 2.5x. We calculate the leverage ratio as Net Interest Bearing Debt/EBITDA before special items.

We maintain the flexibility to temporarily exceed the target leverage ratio in connection with dividend distribution, acquisitions or investments. Our capital distributions will always take into account potential acquisitions and other liquidity needs.

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This marks the end of the Chairman's report today. On behalf of Scandinavian Tobacco Group's Board of Directors, Executive Management and all employees, we would like to thank our shareholders, business partners, customers and consumers for the interest and trust they have shown our company in the past year.

Let me finish by thanking and congratulating employees and management on the strong results and a job well done. Also, I would like to thank my colleagues on the Board for their constructive and positive collaboration during the year.

Thank you.