Chairman's report – 2021 Annual General Meeting, 14 April 2021

I would like to extend a warm welcome to all our shareholders to this 2021-edition of Scandinavian Tobacco Group's Annual General Meeting.

I would like to start my report this year by offering a sincere thank you to every employee in Scandinavian Tobacco Group for their dedication and hard work in 2020 where the COVID-19 pandemic left no one or no business untouched. They have with hard work, dedication and ingenuity steered the organisation through a turbulent and dramatic year. They deserve credit for enabling the company to weather a storm of societal and economic disruption caused by the pandemic – and to emerge stronger. Thank you.

Let me start the more formal part of my report by reviewing the financial highlights of the past year. For the full year 2020, Scandinavian Tobacco Group delivered net sales of 8,006 million kroner and EBITDA before special items of 1,826 million kroner. This is a 6.6% organic growth in net sales and a 14.0 % organic growth in EBITDA and in line with the financial guidance for the year. Net profit was 678 million kroner, while free cash flow before acquisitions for the second consecutive year was at a record high at 1,394 million kroner.

The Board of Directors proposes a dividend of 6.50 kroner per share, which is an increase of 6.6% compared to the ordinary dividend in 2019. This is the fifth consecutive year where we have increased the ordinary dividend. The 6.50 kroner per share corresponds to a total payment of 625 million kroner. In addition to the dividend payment, we have also recently completed a 300 million kroner share buy-back program. And we have as recently as last month initiated a new share buy-back program with a total value of up to 600 million kroner over the next 12 months.

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.

I will now turn the attention to the change in the Group's reporting structure and the three new commercial divisions.

In May of last year - following the integration of Agio Cigars - we announced a new organisational structure with three new commercial divisions and the Group´s external reporting structure was revised accordingly. From the second quarter of 2020, we have been reporting in the three divisions:

- North America Online & Retail
- North America Branded & Rest of World
- Europe Branded

Let me present each of the divisions and go through their performance in 2020.

Let us begin with our North America Online & Retail Division. The division is anchored in Cigars International and includes direct-to-consumer sales of all product categories sold via our own online, catalogue and retail channel in North America. In 2020, the division accounted for 33% of Group net sales and 28% of EBITDA before special items.

The largest product category in the division is handmade cigars with 81% of net sales.

2020 net sales in the division were 2,662 million kroner (compared to 2,291 million kroner in 2019) with an organic growth of 18.9% (compared to 0.7% in 2019) and a gross margin before special items of 40.4% (compared to 38.5% in 2019). The strong performance was supported by an increasing demand for handmade cigars and growth in the online channel following the COVID-19 pandemic. However, the continued upgrade and professionalization of the divisions online platforms also contributed significantly to the strong result.

During 2020, the North America Online & Retail Division, continued its retail expansion with the opening of three cigar super stores in Texas and Florida. This brings the total number of stores to seven.

Our North America Branded & Rest of World Division covers sales to many parts of the globe. The division includes sales of all product categories to wholesalers and distributors via our own companies in the US, Canada, Australia and New Zealand as well as Global Travel Retail and International Sales that ensures sales to several markets across the globe, including Asia. In 2020, the division accounted for 32% of Group net sales and 45% of EBITDA before special items.

Net sales of the division in 2020 were 2,527 million kroner (compared to 2,436 million kroner in 2019) with an organic growth of 0,4% (compared to -6.2% in 2019) and a gross margin before special items of 49.1% (compared to 49.0 % in 2019).

The largest product category in the North America Branded & Rest of World Division is machine-rolled cigars with 28% of sales. Handmade cigars account for 26% of sales which are primarily driven by the sell-in to the online distribution channel and the brick-and-mortar trade.

The development in the division was driven by an increase in the total consumption of several product categories as consumers around the world were working from home and thereby had more smoking opportunities. In particular, the division saw a significant increase in volumes of handmade cigars in the US and a growth in sales of smoking tobacco in the US and Norway.

The Europe Branded Division, includes sales of all product categories to wholesalers, distributors and retailers in 12 European markets. The largest of these are France, Belgium, the Netherlands, the UK, Germany, Spain and Italy

In 2020, the division accounted for 35% of the total Group net sales, and 32% of EBITDA before special items. Machine-rolled cigars accounted for 74% of divisional net sales and smoking tobacco for 17%.

Net sales for the division were 2,817 million kroner (compared to 1,992 million kroner in 2019) positively impacted by the acquisition of Agio Cigars. Organic growth was 2.3% (compared to -1.3% in 2019) and a gross margin before special items of 49.6% (compared to 53.4% in 2019).

In 2020, the overall market for machine-rolled cigars continued its structural decline and the organic growth in net sales was driven by improved market share performance and pricing in machine-rolled cigars. For the year, the combined market share of machine-rolled cigars in these largest six European markets has stayed stable at 33.1% since the acquisition of Agio Cigars.

After this walkthrough of the financial results, I will turn to three of the significant developments during 2020 in Scandinavian Tobacco Group: the integration of Agio Cigars, the completion of our transformational program Fuelling the Growth and the launch of our new strategy, Rolling Towards 2025.

I will start with the successful integration of Agio Cigars, the largest acquisition in the recent history of the Group.

In January 2020, Scandinavian Tobacco Group acquired Agio Cigars, a leading European manufacturer of machine-rolled cigars. The purchase price was approximately 1.6 billion kroner and the acquisition reinforced our market positions in key machine-rolled cigar markets like France, the Netherlands, Belgium, Italy and Spain. With the acquisition, Group net sales grew by 15%.

The acquisition of Agio Cigars was an important step in the transformation of the company as it added a powerful brand portfolio, strong market positions and robust supply chain. And I am pleased to be reporting that the integration is progressing according to plan with the commercial integration being finalised and synergies of approximately 80 million kroner realised during the year. We expect to have the acquisition fully integrated by the end of 2022.

Another area of significant progress has been our transformational program Fuelling the Growth. Fuelling the Growth was launched in 2018 and is a groupwide transformational program, which is making Scandinavian Tobacco Group a stronger and more competitive company better equipped to achieve our vision of becoming the undisputed global leader in cigars.

Since the launch of the program we have worked hard to modernise and change our Group from a complex and decentralized entity towards a more simple, agile and effective global organisation. In the course of the year we managed to complete the programme and reach the 250 million kroner run rate savings target one year ahead of time.

Fuelling the Growth has been – and will continue to be - important to all aspects of the business. With a new organisation, a new operating model and a persistent focus on efficiency and costs, the programme is a key component in the future value creation for Scandinavian Tobacco Group.

In 2020, we launched an updated strategy. We call it Rolling Towards 2025 and consider it the natural next step in the development and professionalisation of Scandinavian Tobacco Group.

The strategy renews and revises the Group's ambition and vision - and sets a clear direction for the next five years. Rolling Towards 2025 cements our focus on cigars and will ultimately enable us to become a larger company, to grow EBITDA and create outstanding cash generation for ourselves and our shareholders.

Rolling Towards 2025 is built on a framework with five focused must-win battles, four enablers and a set of defined values to support us in being our very best. The five must-win battles are the focus areas we need to succeed in by 2025 to reach our ambition. They are supported by four enablers; four areas that will keep the engines running and reinforce our strategy ensuring efficient operations and IT infrastructure and establish a steady intake of new talent while identifying new paths to potential growth.

I personally look forward to reporting on the progress on Rolling Towards 2025 in the coming years.

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

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 all of them, namely

Nigel Northridge (Chairman), Henrik Brandt (Vice-chairman), Dianne Blixt, Marlene Forsell, Claus Gregersen, Luc Missorten and Anders Obel.

The Board of Directors further recommends election of Henrik Amsinck as a new member of the Board of Directors. Henrik is Chief Information Officer (CIO) with the LEGO Group and, if elected today, he will bring general management experience from being part of a leadership team in international companies, as well as significant specialist experience within IT and project management - and experience with technology in retail and online sale.

Last year the Company's Remuneration Policy was adopted at the Annual General Meeting. As stated in the policy, it is 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 2020, the total cost of remuneration for the Executive Management amounted to 22.2 million kroner.

In accordance with new legal requirements in this field we have for 2020 prepared a more extensive Remuneration Report. The report includes 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 2020 was in accordance with the Remuneration Policy, and we recommend the Remuneration Report for your approval when we get to that point on the agenda. We believe that the remuneration of the Executive Management beyond being in compliance with the Remuneration Policy also fairly reflects the results achieved by the company.

On the agenda for today we also have the Board's proposal to increase the remuneration of the Board of Directors.

The base annual fee to the Board of Directors has remained unchanged since 2016 and in line with the Remuneration Policy we annually review the fee. We believe that it is time to adjust the fee having also benchmarked it against comparable international companies. We, the Board of Directors, recommend that you approve the proposal when we get to that item on the agenda today.

In accordance with the Danish Recommendations on Corporate Governance, we would like to inform you about the self-assessment made by the Board of Directors in 2020. During the second half of the year, the Board of Directors carried out an evaluation of its own work and performance and its collaboration with the Executive Management. In 2020, the evaluation process was carried out by individual interviews conducted by me 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, but based on the input from the interviews, we are testing how we can optimise the way we work by reducing the number of items on the agenda when we do meet and interspersing our formal board meetings with more frequent update video calls throughout the year.

Let me finish my report by looking forward at 2021.

Building on the strong financial results, the proven resilience of our business and the excellent efforts from our employees in a eventful year, we have every opportunity to continue the value creation for our shareholders in 2021.

With an updated strategy in place we have a clear framework and a strong set of priorities that we will be pursuing diligently in the coming years. We will continue to pursue the growth opportunities available to us and invest in the future of our business to create greater long-term value while driving cost and operational efficiency to optimise cash flow. This balance remains the key to creating shareholder value.

We will in 2021 increase our efforts within Corporate Social Responsibility (CSR) and execute on the Group's very first Corporate Social Responsibility strategy which was adopted in 2020 and addresses the UN Sustainable Development Goals. One of the things we have committed to in 2021 is measuring our Scope 1 and 2 emissions under the Greenhouse Gas Protocol.

We will also take the first steps in the implementation of a new global Enterprise Resource Planning (ERP) system. This represents the largest IT investment in the history of Scandinavian Tobacco Group and a new ERP system will be a key enabler for strategy execution and will strengthen our ability to deliver growth and profitability.

We will maintain the momentum of the modernisation and professionalisation of our business and continue to increase efficiencies across our organisation. We are moving forward with the planned closure of two production facilities in the Netherlands as well as plans to consolidate and introduce automation in our US warehouse.

Our focus on capital discipline remains a constant, especially in terms of reducing our inventories and simplifying our product portfolio. Our focus is to generate strong cash flows from our day-to-day business and to ensure optimal capital allocation.

We are some months into 2021, and everyone is working hard to ensure that the company delivers on the ambitious guidance for the year of an organic EBITDA growth of more than 7%, free cash flow before acquisitions above 1 billion kroner and an increase in adjusted earnings per share (EPS) of more than 10%. Earnings per share is a new guidance metrics for Scandinavian Tobacco Group and as a measure of value creation we believe it to be a helpful addition to our guidance.

We maintained our underlying overall financial ambition. So, 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

However, we have decided to add Return on Invested Capital (ROIC) in our financial ambition. Return on Invested Capital is a measure of capital efficiency, which we intend to improve in the years to come. Going forward, we therefore expect:

- to improve Return on Invested Capital (ROIC).

Our shareholder return policy remains unchanged:

- Any capital that the Board evaluates to be in excess will be distributed to shareholders by way of dividends and/or share buy-backs with an ambition of annual growth in ordinary dividend payments.

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 calculated as Net Interest Bearing Debt/EBITDA before special items.

We recognize the importance of the ordinary dividend to many shareholders and 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.

This marks the end of my 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 2020.

Let me finish by congratulating all employees and the Executive Management on a job very well done in 2020, on the strong results and by – once again - thanking them for a remarkable effort in a unprecedented year. Also, I would like to thank my colleagues on the Board for their constructive and positive collaboration during the year.

Thank you.