

**Company Announcement**

No. 52/2022

Copenhagen, 24 August 2022

**Interim report, 1 January - 30 June 2022****Scandinavian Tobacco Group A/S reports Q2 results and revises full-year guidance for organic EBITDA growth**

For the second quarter of 2022 Scandinavian Tobacco Group delivered 2% negative organic net sales growth and 15% negative organic EBITDA growth against a strong second quarter last year. The productivity in our supply chain has temporarily been lower than expected resulting in lower production volumes and higher costs. We do see improvements in the second half of the year, but the delay will impact full-year net sales and costs negatively.

**Q2 Highlights**

- Net sales were DKK 2,278 million (DKK 2,156 million) with -1.8% organic growth.
- EBITDA before special items was DKK 544 million (DKK 606 million) with -14.6% organic growth. The EBITDA margin was 23.9% (28.1%).
- Exchange rate developments increased net sales by DKK 150 million and EBITDA before special items by DKK 26 million.
- Adjusted Earnings Per Share (EPS) were DKK 3.6 (DKK 4.1).
- Free cash flow before acquisitions was DKK 143 million (DKK 434 million).
- Return on Invested Capital was 13.6% (12.3%).
- In the first 6 months of 2022, net sales decreased by 1.7% organically to DKK 4,215 million (DKK 4,039 million), EBITDA before special items decreased by 9.0% organically to DKK 1,076 million (DKK 1,133 million) and free cash flow before acquisitions was at DKK 272 million (DKK 523 million).

We assess the challenges in the supply chain, which are the primary reason for revising the guidance, to be of a temporary nature and not structural. We are making progress, but it is taking longer than expected due to a combination of external and internal factors. The level of the production backlog has not been reduced as planned and was almost DKK 150 million by the end of July. However, as the improvements kick in combined with pricing initiatives across the product categories and easier year-on-year comparisons, we expect to return to EBITDA growth in the second half of the year.

During the summer, we have also seen consumers in the US, especially within handmade cigars, become more cautious on the back of the macro-economic development and our market mix is returning quickly to pre-pandemic trends. Pricing across most product categories has been strong in the quarter partly offsetting increasing cost inflation, but the promotion pressure in the online business continues at a high level.

CEO Niels Frederiksen: “2022 has turned out to be a difficult year for Scandinavian Tobacco Group and we have had to adjust our full-year expectation for organic EBITDA growth. This development is disappointing and is primarily driven by temporary challenges in our supply chain and to a lesser extent by more cautious consumer behaviour especially in the important US handmade cigar market. Still, we maintain our financial expectations of delivering strong cash-flows and positive EPS growth for 2022 and we continue to implement our Rolling Towards 2025 strategy. The acquisition of Room101 as well as the continued expansion of our retail footprint in the US are good examples of this. Overall, we remain confident in the strength of our underlying business and our cash flows”.

## **Financial Guidance 2022**

We are making progress in improving productivity in our supply-chain and we expect to see improvements in the second half of the year, but the delay will impact full-year net sales and costs negatively. Furthermore, as we have seen signs of, especially US consumers becoming more cautious, we have revised our full-year Group sales outlook.

Based on these changes, the full-year guidance for 2022 is revised to:

- EBITDA: Organic growth in the range -4% to 0% (from 0% to 6%)
- Free cash flow before acquisitions in the range DKK 1.1-1.4 billion (unchanged)
- Adjusted EPS >5% increase (unchanged)

The guidance for adjusted EPS has been maintained reflecting the lower EBITDA guidance and the recent increase in the USD versus DKK.

For the second half of 2022 we expect organic net sales growth and organic EBITDA growth to resume particularly in the fourth quarter. Organic net sales growth is expected to be driven by accelerating growth in Europe Branded and about zero growth in North America Online & Retail. We continue to see negative growth in North America Branded & RoW due to the strong Covid-19 impacts last year. Furthermore, a lower OPEX-ratio is expected to support a return to organic EBITDA growth in the second half of the year.

### **For further information, please contact:**

Torben Sand, Head of Investor Relations, phone +45 5084 7222 or [torben.sand@st-group.com](mailto:torben.sand@st-group.com)

A conference call will be held on 25 August 2022 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 2022	Q2 2021	6M 2022	6M 2021	FY 2021
<b>INCOME STATEMENT</b>					
Net sales	2,278	2,156	4,215	4,039	8,233
Gross profit before special items	1,074	1,071	2,093	2,026	4,113
EBITDA before special items	544	606	1,076	1,133	2,233
Special items	-23	-24	-40	-41	-55
EBIT	433	492	860	911	1,814
Net financial items <sup>1</sup>	-44	-21	-57	-32	-77
Profit before tax	400	480	823	894	1,769
Income taxes	-90	-104	-185	-194	-378
Net profit	310	376	638	700	1,391
<b>BALANCE SHEET</b>					
Total assets			15,582	14,455	14,584
Equity			9,055	8,323	8,968
Net interest-bearing debt (NIBD)			4,268	3,732	3,266
Investment in property, plant and equipment	59	47	113	89	212
Total capital expenditures	120	61	187	107	240
<b>CASH FLOW STATEMENT</b>					
Cash flow from operating activities	258	489	449	621	1,567
Cash flow from investing activities	-119	-56	-180	-98	-178
Free cash flow	140	434	269	523	1,389
Free cash flow before acquisitions	143	434	272	523	1,393
<b>KEY RATIOS<sup>2</sup></b>					
Net sales growth	5.7%	2.8%	4.4%	4.8%	2.8%
Gross margin before special items	47.2%	49.7%	49.7%	50.2%	50.0%
EBITDA margin before special items	23.9%	28.1%	25.5%	28.1%	27.1%
Effective tax percentage	22.5%	21.7%	22.5%	21.7%	21.4%
Equity ratio			58.1%	57.6%	61.5%
Cash conversion	77.2%	120.3%	64.3%	86.2%	108.6%
Organic net sales growth	-1.8%	7.5%	-1.7%	9.8%	4.5%
Organic EBITDA growth	-14.6%	20.8%	-9.0%	32.6%	18.4%
NIBD / EBITDA before special items			2.0	1.7	1.5
ROIC			13.6%	12.3%	14.5%
ROIC ex. Goodwill			22.6%	20.5%	24.3%
Adjusted earnings per share (DKK)	3.6	4.1	7.2	7.4	14.8
Basic earnings per share (DKK)	3.4	3.9	6.9	7.3	14.6
Diluted earnings per share (DKK)	3.4	3.9	6.9	7.3	14.5
Number of shares issued ('000)			93,000	97,500	97,500
Number of treasury shares ('000)			2,104	2,159	4,526
Number of outstanding shares ('000) <sup>3</sup>			92,250	96,766	95,689
Share price at balance date (DKK)			138.80	128.00	137.30
Dividend per share (DKK)					7.5
Pay-out ratio					52.6%

1. Excl. share of profit of associated companies.

2. See definition/explanation of financial ratios in note 5.8 in the Annual Report 2021.

3. Average number of shares outstanding, including dilutive effect of PSUs.

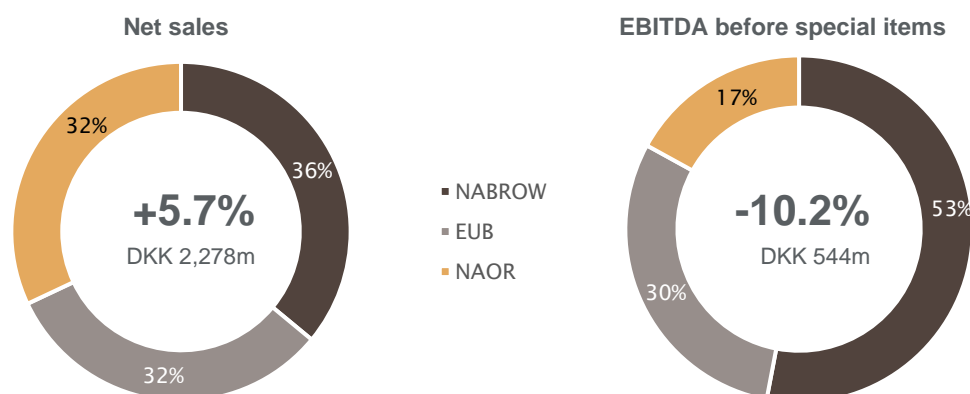
## Business overview Q2 2022

In the second quarter of 2022, the Group delivered a financial performance with the EBITDA margin being somewhat lower than expected. Reported net sales increased by 6% to DKK 2,278 million and organic net sales decreased by 2%. Exchange rates developments impacted positively by DKK 150 million. The performance was driven by positive organic net sales growth in Europe Branded (“EUB”) and a negative organic net sales growth in North America Branded & Rest of World (“NABROW”) and North America Online & Retail (“NAOR”) on the back of the very strong performance in the second quarter of 2021. Consumer behaviour and market trends have mostly returned to pre-COVID levels which as expected has impacted our product and market mix compared to last year. Price management and higher inventory build-ups are expected to counter increasing cost inflation and supply chain uncertainty.

The gross margin decreased compared with the same quarter last year to 47.2% (49.7%) primarily driven by the change in product and market mix particular in NABROW, although the gross margin also decreased in EUB and NAOR. EBITDA before special items was DKK 544 million with 15% negative organic growth resulting in an EBITDA margin before special items of 23.9% (28.1%). An increase in the OPEX-ratio to 23.3% (21.6%) is primarily a result of an increase in promotional spending, cost inflation, consultancy fees and IT-investments.

Special items were DKK -23 million (DKK -24 million) mainly driven by the ERP project OneProcess. See note 3. The Group’s free cash flow before acquisitions was DKK 143 million (DKK 434 million) primarily driven by the operational performance and changes in working capital. Changes in working capital were negative by DKK -124 million (DKK 59 million) and special items impacted the cash flow by DKK -36 million (DKK -47 million). The Group’s leverage ratio (LTM) was 2.0x.

### Divisional split Q2 2022



### Group net sales and EBITDA Q2 2022

Table 1: Net sales

	Q2	Q2	Change
DKK million	2022	2021	in %
Net sales	2,278	2,156	5.7%
Acquisitions		12	
Currency development	-150		
<b>Organic net sales</b>	<b>2,128</b>	<b>2,168</b>	<b>-1.8%</b>

Table 2: EBITDA before special items

	Q2	Q2	Change
DKK million	2022	2021	in %
EBITDA	544	606	-10.2%
Acquisitions		0	
Currency development	-26		
<b>Organic EBITDA</b>	<b>518</b>	<b>606</b>	<b>-14.6%</b>

# Business updates

## Investing in our future growth

**The expansion of the retail network continues.** Currently, we operate eight retail cigar stores, whereof seven are super stores. The super store in San Antonio, Texas, which opened in April 2022 has come off to a good start with strong traffic flow and higher than expected net sales. The eight retail stores account for 8% of net sales in the division NAOR in the second quarter of 2022 and delivered double-digit net sales growth versus last year. The plan is to open another 5-7 cigar super stores in the US in the coming 2-3 years.

## The Growth Incubator off to a good start

Versa, our combustible hemp brand, was launched in the third quarter of 2021. The distribution of Versa has since the launch steadily increased with store-by-store net sales improving and reach being expanded. Combustible hemp products are a new category, which will take time to build, although initial developments have been positive.

## Acquisition of handmade cigar brands Room101

In June, we completed the acquisition of the Room101 cigar brands and accessories. The Room101 cigar brands complement Scandinavian Tobacco Group's handmade cigar business that feature a unique portfolio of heritage and boutique brands. Room101 will be represented exclusively by Scandinavian Tobacco Groups distribution network, Forged Cigar Company. The acquisition of Room101 cigars represents our strategy to invest in brands with strong growth potential, and we will continue to explore opportunities to further expand our market-leading portfolio.

## OneProcess

The ERP project OneProcess is an implementation of a group SAP 4/HANA solution. The project is progressing as planned and currently, the solution is being built based on development of standard group processes. Testing of the solution and education of the organisation will be executed in the second half of 2022. The first go-live is planned by the end of the first quarter 2023 in Denmark and Sweden.

## The Sustainability Strategy

In May, we launched a more ambitious and comprehensive sustainability strategy, called Rolling Responsibly. The sustainability strategy is now an integrated part of the corporate strategy Rolling Towards 2025 with the ambition to craft a better tomorrow by elevating our communities and anchoring climate action in our corporate culture. The ambition is embedded in the two strategic pillars 1) Net Zero along the Journey of the Leaf and 2) Sustainable Communities Pioneers. Our long-standing focus and efforts within Diversity, Equity and Inclusion and Corporate Ethics continues and are key components of our enhanced sustainability platforms.

Since the launch of Rolling Responsibly the priority has been to reinforce our sustainability organisation as well as we now formally have committed to SBTi, the Science Based Targets initiative - setting ambitious emission reduction targets.

## Update on financial key metrics

**In the second quarter of 2022 the EBITDA margin** decreased to 23.9% (28.1%), as result of a decreasing gross margin, primarily in division NABROW as well as an increase in the Group OPEX-ratio to 23.3% (21.6%). The gross margin development is primarily attributable to the normalisation of product and market mix across our businesses following the exceptional high margins delivered under

the COVID-19 enforced restrictions last year, whereas the increase in the OPEX-ratio is driven by cost inflation, consultancy fees and IT-investments. The gross margin as well as the EBITDA margin remain above the pre-COVID margins realised in 2019.

**The 12 months rolling Return on Invested Capital (ROIC)** decreased to 13.6% in the second quarter of 2022 versus 14.5% by the end of 2021 with a DKK 51 million decrease in EBIT (12 months rolling) and based on an invested capital of DKK 13.0 billion (DKK 12.5 billion).

### Capital allocation

On 9 March 2022 Scandinavian Tobacco Group initiated a new share buy-back programme with a total value of up to DKK 700 million with an expected closure by the end of February 2023. On 19 May 2022 the programme was increased to a total value of up to DKK 1,000 million.

Scandinavian Tobacco Group has during the second quarter of 2022 bought back 1,328,462 shares at a market value of DKK 192 million. As of 30 June 2022, Scandinavian Tobacco Group had repurchased shares at a total market value of DKK 233 million in the DKK 1,000 million programme.

The purpose of the share buy-back programme is to adjust the capital structure and meet obligations relating to the Group's share-based incentive programme.

## Financial guidance for 2022

The financial guidance for 2022 is revised down for organic EBITDA growth but maintained for free cash flow before acquisitions and for adjusted EPS growth.

While normalisation for most product categories have materialised during the recent months following COVID-19, the consumption of handmade cigars for 2022 is now expected to be lower than its structural volume decline rate of -2%. Additional price adjustments across most of our product categories are expected to compensate for cost inflation. Organic growth in net sales for the Group is now expected to be about zero compared with our previous expectation of growth. This implies growth will resume in the second half of the year.

Organic EBITDA growth is expected to turn positive in the second half of the year as the productivity in our supply-chain is improving with an associated reduction of the backlog, the year-on-year comparison base becomes easier and the balance between our price management initiatives and cost inflation improves.

Given these considerations, our guidance for 2022 is:

- EBITDA: Organic growth in the range of -4% to 0% (from 0% to 6%)
- Free cash flow before acquisitions in the range of DKK 1.1-1.4 billion (unchanged)
- Adjusted EPS increase >5% (unchanged)

The expectation for the Group's free cash flow before acquisitions is maintained in the range of DKK 1.1-1.4 billion. The cash flow is still expected to be impacted by investments in the retail expansion in the US and the ERP-project OneProcess and a negative impact from special items of about DKK 200 million. The negative impact from working capital has been revised to about DKK 300 million from DKK 200 million with the increase in cash out-flow being offset by gains from sale of buildings in relation to the closure of factories.

The adjusted EPS is still expected to increase by more than 5% (from DKK 14.8 in 2021) including a positive impact from the share repurchases of about DKK 1.0 per share. The unchanged EPS guidance despite the lower expectation for EBITDA is driven by the stronger USD.

**Events after the reporting period**

There are no other events than those mentioned in the above that have occurred after 30 June 2022 and that are expected to have material impact on the financial position of the Group.

**Forward-looking statements**

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

## Divisional update

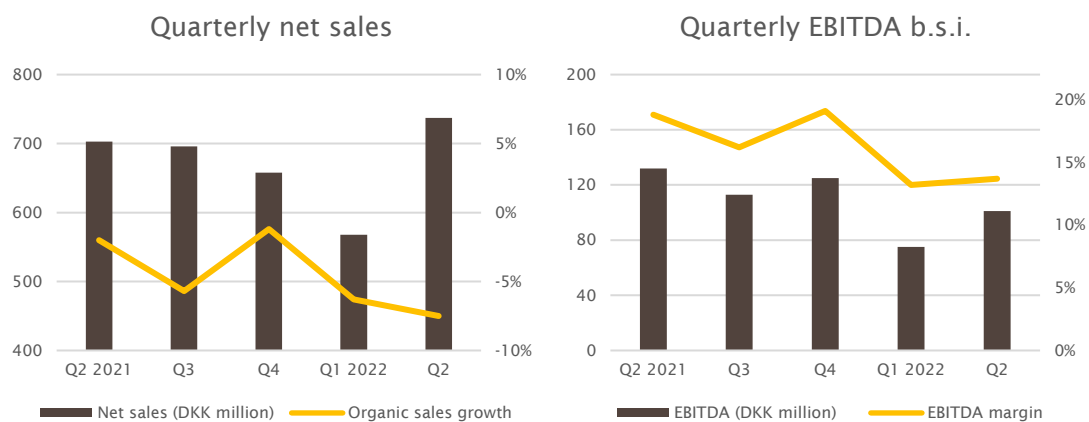
### North America Online & Retail

In the second quarter of 2022 organic net sales were impacted by a decrease in the consumption of handmade cigars in the US market and the channel shift back to retail from online impacting year-on-year comparisons. Pricing opportunities in the online channel is challenged by an increased caution amongst consumers following the macro-economic developments and the prevailing competitive situation in the market.

Our online channel experienced a 12% decline in the active customer base versus the second quarter of 2021 and is driven by lower traffic across our various e-commerce platforms. The decline rate is on par with the first quarter of 2022. It is expected that the year-on-year development will improve in the coming quarters as the comparison base normalises. Compared to pre-COVID levels in 2019, the active consumer file is 6% stronger.

The retail business continues to perform according to plan with solid double-digit organic net sales growth versus last year. In the quarter retail accounted for 8% of net sales in the division. The new super store in San Antonio, Texas which opened in April has come off to a good start with net sales exceeding expectations in the first months since the opening.

#### Quarterly development, Q2 2021-Q2 2022



Net sales increased by 5% to DKK 737 million during the quarter with a 12% positive contribution from exchange rates. Organic net sales growth was negative by 8% driven by a negative contribution in the online channel being partly offset by an about 18% organic growth in the retail super stores. Pricing opportunities remain restricted by the competitive environment.

EBITDA before special items decreased by 24% to DKK 101 million with an EBITDA margin before special items of 13.7% (18.8%). The margin development was primarily driven by an increase in the OPEX ratio as result of significantly increased IT expenses, a normalisation of promotional spending and higher distribution costs. The gross margin declined to 38.7% (39.4%).

#### First six months of 2022

Net sales for the first six months of 2022 increased by 3% to DKK 1,305 million driven by a positive exchange rate development. Organic net sales growth was negative by 7.0%. Gross profit before special items increased by 1% and the gross margin was 39.2% (40.1%). EBITDA before special items decreased by 24% to DKK 176 million with an EBITDA margin of 13.5% (18.2%).

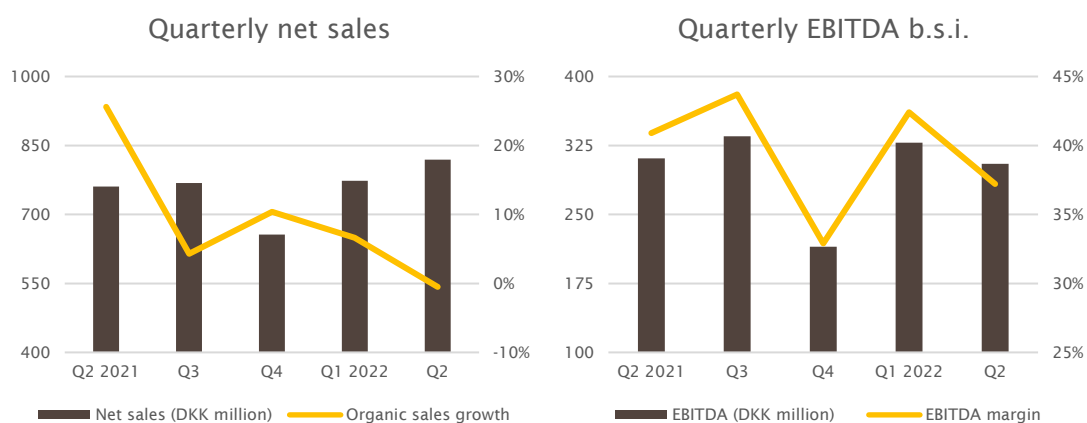


## North America Branded & RoW

The financial performance has been impacted by a normalisation to pre-COVID dynamics in most product categories and markets. Smoking tobacco volumes are back to its structural trend and the pandemic induced changes in market mix have reversed to normal like Norwegian domestic sales moving back to the border and Global Travel Retail. Following two years of exceptional strong growth, the consumption of handmade cigars in US has resumed to its declining trend in 2022 and the channel mix between retail and online has returned to its pre-COVID levels. Recently, we have seen indications of handmade cigar consumers becoming more cautious on the back of the macro-economic development which could impact volumes in the coming quarters.

Despite the changed market dynamics and comparison to a very strong second quarter last year, organic net sales growth in the second quarter of 2022 was almost flat.

### Quarterly development, Q2 2021-Q2 2022



Net sales increased by 8% to DKK 819 million during the quarter with a 8% positive contribution from exchange rates. Organic net sales growth was negative by 1% driven by declining volumes of handmade cigars and smoking tobacco partly offset by price increases. Net sales were positively impacted by the continued recovery in Global Travel Retail, the change of distribution model in Australia and an increase in contract manufacturing versus the second quarter in 2021. The development is also impacted by the decision to cease sales to Russia and Belarus.

EBITDA before special items decreased by 2% to DKK 305 million with an EBITDA margin before special items of 37.2% (40.9%). The negative margin development is a result of a normalisation of market and product mix in the division following an exceptionally strong gross margin in 2021, which was driven by the mix changes caused by the COVID-19 pandemic. The OPEX ratio decreased to 13.6% (14.5%). The improvement is primarily a result of the change of distribution model in Australia.

### First six months of 2022

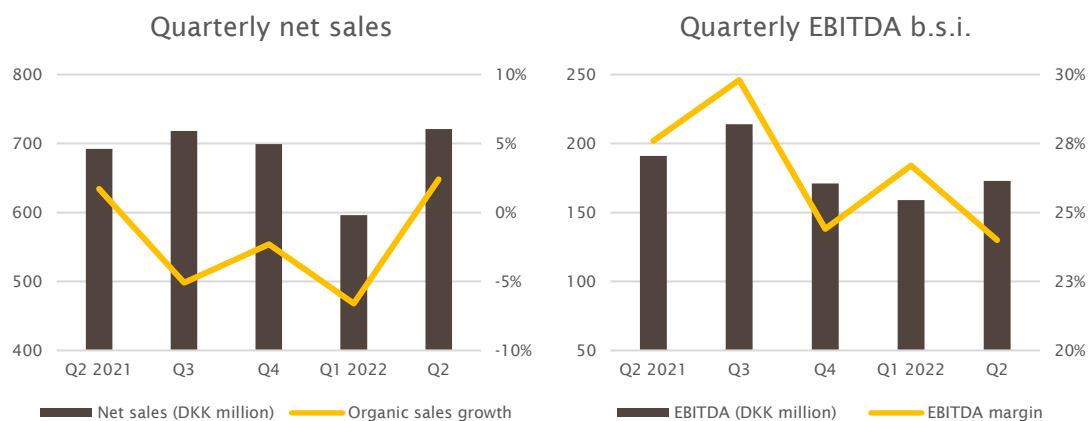
Net sales for the first six months of 2022 increased by 10% to DKK 1,593 million and organic growth was positive by 3%. Gross profit before special items increased by 9% to DKK 864 million and the gross margin was 54.2% (54.7%). EBITDA before special items increased by 8% to DKK 633 million with an EBITDA margin of 39.7% (40.2%).

## Europe Branded

Consumer demand for machine-rolled cigars in Europe remains relatively stable with an average negative volume development of about 3% though with variations between markets. Disciplined pricing initiatives counters general cost inflation. During the second quarter of 2022 the structural volume decline of machine-rolled cigars continued but we managed to more than offset the volume decline with price increases. The UK, Iberia and Italy delivered positive organic net sales growth while the other key markets delivered negative growth. All markets delivered strong price/mix increases. The supply issue with the associated backlog is not solved primarily impacting the market share performance in France and the Netherlands.

In the second quarter of 2022, the market share index for our key markets was 30.5% versus 32.9% in the second quarter of 2021 and 31.5% in the first quarter of 2022. The decline in market share is driven by supply issues still impacting net sales and a strong focus on compensating cost inflation with price management.

### Quarterly development, Q2 2021-Q2 2022



Net sales increased by 4% to DKK 721 million during the quarter with a positive impact from the acquisition of Moderno Opificio del Sigaro Italiano of almost 2%. Organic net sales growth was slightly above 2%. For all product categories pricing remained a key focus area with price/mix impact for the largest product category, machine-rolled cigars being up by about 6%.

EBITDA before special items decreased by 10% to DKK 173 million with an EBITDA margin before special items of 24.0% (27.6%). The margin development is driven by lower supply-chain productivity and increasing expenses for freight and distribution.

### First six months of 2022

Net sales for the first six months of 2022 were unchanged at DKK 1,317 million and organic growth was negative by -2%. Gross profit before special items decreased by 1% to DKK 717 million and the gross margin was 54.5% (54.9%). EBITDA before special items decreased by 10% to DKK 332 million with an EBITDA margin of 25.2% (28.0%).

# Quarterly Financial Data

DKK million	2022		2021			2022	2021	
	Q2	Q1	Q4	Q3	Q2	6M	6M	12M
<b>Reported data</b>								
Net sales	2,278	1,938	2,012	2,182	2,156	4,215	4,039	8,233
Gross profit before special items	1,074	1,019	985	1,102	1,071	2,093	2,026	4,113
EBITDA before special items	544	532	474	627	606	1,076	1,133	2,233
Special items	-23	-18	13	-26	-24	-40	-41	-55
EBIT	433	427	393	510	492	860	911	1,814
Net financial items	-44	-14	-16	-29	-21	-57	-32	-77
Profit before tax	400	423	385	489	480	823	894	1,769
Income taxes	-90	-95	-78	-106	-104	-185	-194	-378
Net profit	310	328	307	383	376	638	700	1,391
<b>Other financial key data</b>								
Organic EBITDA grow th	-14.6%	-2.7%	14.2%	0.9%	20.8%	-9.0%	32.6%	18.4%
Organic net sales grow th	-1.8%	-1.7%	1.8%	-2.2%	7.5%	-1.7%	9.8%	4.5%
Gross margin before special items	47.2%	52.6%	49.0%	50.5%	49.7%	49.7%	50.2%	50.0%
EBITDA margin before special items	23.9%	27.4%	23.5%	28.7%	28.1%	25.5%	28.1%	27.1%
Free cash flow before acquisitions	143	129	307	564	434	272	523	1,393
<b>North America Online &amp; Retail</b>								
Net sales	737	568	658	696	703	1,305	1,267	2,620
Gross profit before special items	285	227	264	279	277	512	508	1,050
EBITDA before special items	101	75	125	113	132	176	231	470
Net sales grow th	4.9%	0.8%	2.9%	-6.6%	-10.8%	3.1%	-0.8%	-1.6%
Organic net sales grow th	-7.5%	-6.3%	-1.2%	-5.7%	-2.0%	-7.0%	8.9%	2.4%
Gross margin before special items	38.7%	39.9%	40.1%	40.0%	39.4%	39.2%	40.1%	40.1%
EBITDA margin before special items	13.7%	13.2%	19.1%	16.2%	18.8%	13.5%	18.2%	17.9%
<b>North America Branded &amp; RoW</b>								
Net sales	819	773	656	768	761	1,593	1,454	2,877
Gross profit before special items	416	448	346	422	422	864	795	1,562
EBITDA before special items	305	328	215	335	311	633	585	1,135
Net sales grow th	7.7%	11.6%	14.6%	4.7%	21.0%	9.6%	19.0%	13.8%
Organic net sales grow th	-0.5%	6.6%	10.4%	4.3%	25.6%	2.9%	24.2%	15.3%
Gross margin before special items	50.8%	57.9%	52.8%	54.9%	55.4%	54.2%	54.7%	54.3%
EBITDA margin before special items	37.2%	42.4%	32.9%	43.7%	40.9%	39.7%	40.2%	39.5%
<b>Europe Branded</b>								
Net sales	721	596	699	718	692	1,317	1,318	2,735
Gross profit before special items	373	345	375	402	373	717	723	1,501
EBITDA before special items	173	159	171	214	191	332	370	754
Net sales grow th	4.2%	-4.8%	-1.7%	-4.6%	1.8%	-0.1%	-2.6%	-2.9%
Organic net sales grow th	2.4%	-6.6%	-2.3%	-5.1%	1.7%	-1.9%	-2.4%	-3.1%
Gross margin before special items	51.7%	57.8%	53.7%	56.1%	53.8%	54.5%	54.9%	54.9%
EBITDA margin before special items	24.0%	26.7%	24.4%	29.8%	27.6%	25.2%	28.0%	27.6%
<b>Group costs</b>								
EBITDA before special items	-34	-31	-38	-36	-28	-65	-52	-126

# 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 2022.

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 on 30 June 2022 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 30 June 2022.

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, 24 August 2022

## EXECUTIVE MANAGEMENT

Niels Frederiksen  
CEO

Marianne Rørslev Bock  
CFO

## BOARD OF DIRECTORS

Henrik Brandt  
CHAIRMAN

Claus Gregersen

Marlene Forsell

Dianne Neal Blixt

Anders Obel

Henrik Amsinck

Mogens Olsen

Lindy Larsen

Hanne Malling

## STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY - 30 JUNE

## CONSOLIDATED INCOME STATEMENT

DKK million		Q2 2022	Q2 2021	6M 2022	6M 2021
<b>Net sales</b>	1, 2	<b>2,277.7</b>	<b>2,155.7</b>	<b>4,215.4</b>	<b>4,038.6</b>
Cost of goods sold	1, 2	-1,203.7	-1,084.5	-2,122.1	-2,012.7
<b>Gross profit before special items</b>	<b>1, 2</b>	<b>1,074.0</b>	<b>1,071.2</b>	<b>2,093.3</b>	<b>2,025.9</b>
Other external costs	1, 2	-296.5	-240.3	-561.9	-473.3
Staff costs	2	-233.3	-224.8	-455.7	-419.8
<b>Earnings before interest, tax, depreciation, amortisation and special items (EBITDA before special items)</b>	<b>2</b>	<b>544.2</b>	<b>606.1</b>	<b>1,075.7</b>	<b>1,132.8</b>
Depreciation and impairment		-47.1	-49.9	-93.1	-100.2
<b>Earnings before interest, tax, amortisation and special items (EBITA before special items)</b>		<b>497.1</b>	<b>556.2</b>	<b>982.6</b>	<b>1,032.6</b>
Amortisation and impairment		-41.6	-40.2	-82.3	-80.7
<b>Earnings before interest, tax and special items (EBIT before special items)</b>		<b>455.5</b>	<b>516.0</b>	<b>900.3</b>	<b>951.9</b>
Special items, costs and impairment	3	-22.7	-24.1	-40.4	-40.9
<b>Earnings before interest and tax (EBIT)</b>		<b>432.8</b>	<b>491.9</b>	<b>859.9</b>	<b>911.0</b>
Share of profit of associated companies, net of tax		10.6	9.0	20.4	15.6
Financial income		30.9	11.0	72.9	24.1
Financial costs		-74.5	-31.7	-130.2	-56.3
<b>Profit before tax</b>		<b>399.9</b>	<b>480.2</b>	<b>823.0</b>	<b>894.4</b>
Income taxes		-90.0	-104.2	-185.2	-194.1
<b>Net profit for the period</b>		<b>309.8</b>	<b>376.0</b>	<b>637.8</b>	<b>700.3</b>
<b>Earnings per share</b>					
Basic earnings per share (DKK)		3.4	3.9	6.9	7.3
Diluted earnings per share (DKK)		3.4	3.9	6.9	7.3
<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, realisation of previously deferred (gains)/losses to financial items					
Cash flow hedges, deferred gains/losses incurred during the period		3.0	2.2	8.7	3.8
Tax of cash flow hedges		-0.6	-0.4	-1.9	-0.8
Foreign exchange adjustments on net investments in foreign operations		354.9	-74.3	470.9	166.5
<b>Other comprehensive income for the period, net of tax</b>		<b>357.3</b>	<b>-72.5</b>	<b>477.7</b>	<b>169.5</b>
<b>Total comprehensive income for the period</b>		<b>667.1</b>	<b>303.5</b>	<b>1,115.5</b>	<b>869.8</b>

## Net sales

In the second quarter of 2022, net sales were DKK 2,278 million (DKK 2,156 million). Adjusted for positive exchange rate impact of DKK 150 million and the acquisition of Moderno Opificio del Sigaro Italiano of DKK 12 million, the organic growth in net sales was negative by 1.8%. For the first six months of 2022, net sales came to DKK 4,215 million (DKK 4,039 million).

## Profit

Gross profit before special items in the second quarter of 2022 was DKK 1,074 million (DKK 1,071 million) driven by a positive impact from exchange rates being offset by a decrease in the gross margin primarily driven by the change in product and market mix particular in NABROW. Gross margin before special items was 47.2% (49.7%) with decreasing margins in all three divisions.

Operating expenses in the second quarter increased to DKK 530 million (DKK 465 million) driven by the inflating freight, distribution and utility costs, increased consultancy and IT costs, as well as increased travel activities as result of diminishing COVID-19 restrictions. The OPEX ratio increased to 23.3% (21.6%) driven by the higher cost base compared to net sales in the second quarter.

EBITDA before special items in the second quarter of 2022 amounted to DKK 544 million (DKK 606 million). The development is explained by slightly improved net sales, being more than offset by the increase in operating expenses. Exchange rate developments impacted positively by DKK 26 million. Organic EBITDA growth was negative by 14.6%.

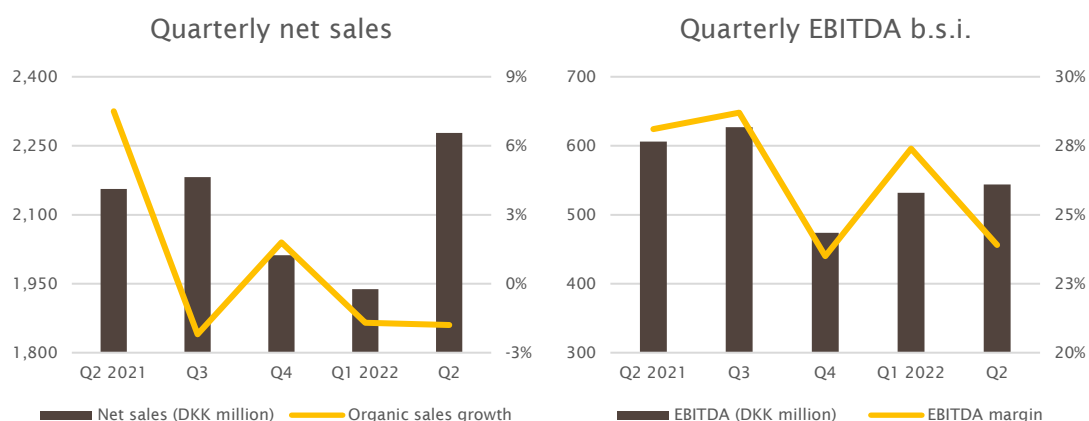
EBITDA margin before special items in the second quarter of 2022 was 23.9% (28.1%).

During the second quarter DKK 23 million (DKK 24 million) have been expensed as special items. Special items relating to the integration of Agio Cigars was DKK 2 million (DKK 18 million). DKK 5 million have been expensed in relation to the production footprint (DKK 6 million). Cost expensed in relation to Project OneProcess was DKK 16 million. See note 3 for an overview of special items.

Net profit for the second quarter was DKK 310 million (DKK 376 million). Earnings Per Share ("EPS") were DKK 3.4 (DKK 3.9). EPS adjusted for special items, fair value adjustments and currency gains/losses, net of tax decreased to DKK 3.6 (DKK 4.1).

In the first six months of 2022, gross profit before special items was DKK 2,093 million (DKK 2,026 million) with a gross margin of 49.7% (50.2%). EBITDA before special items was DKK 1,076 million (DKK 1,133 million) with an EBITDA margin of 25.5% (28.1%) Special items were DKK -40 million (DKK -41 million), net profit was DKK 638 million (DKK 700 million) with EPS adjusted for special items, fair value adjustments and currency gains/losses, net of tax decreased to DKK 7.2 (DKK 7.4).

## Quarterly development, Q2 2021-Q2 2022



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

DKK million	30 Jun 2022	30 Jun 2021	31 Dec 2021
<b>INTANGIBLE ASSETS</b>			
Goodwill	5,403.2	4,981.1	5,142.5
Trademarks	3,073.8	3,042.9	3,044.6
IT software	134.4	86.0	88.4
Other intangible assets	215.6	226.6	218.9
<b>Total intangible assets</b>	<b>8,827.0</b>	<b>8,336.6</b>	<b>8,494.4</b>
Property, plant and equipment	1,688.2	1,424.1	1,448.3
Investments in associated companies	217.7	168.6	187.5
Deferred income tax assets	149.8	131.8	130.2
<b>Total non-current assets</b>	<b>10,882.7</b>	<b>10,061.1</b>	<b>10,260.4</b>
Inventories	3,246.1	3,005.6	2,935.9
Trade receivables	986.6	937.0	852.4
Other receivables	111.7	70.0	98.8
Corporate tax	49.0	78.0	69.5
Prepayments	122.3	45.5	84.6
Cash and cash equivalents	74.7	225.2	173.6
Assets classified as held for sale	108.5	32.8	108.5
<b>Total current assets</b>	<b>4,698.9</b>	<b>4,394.1</b>	<b>4,323.3</b>
<b>Total assets</b>	<b>15,581.6</b>	<b>14,455.2</b>	<b>14,583.7</b>

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

DKK million	30 Jun 2022	30 Jun 2021	31 Dec 2021
Share capital	93.0	97.5	97.5
Reserve for hedging	-0.1	-11.5	-6.9
Reserve for currency translation	1,164.6	450.9	693.7
Treasury shares	-307.5	-258.9	-570.5
Retained earnings	8,104.6	8,044.9	8,754.0
<b>Total equity</b>	<b>9,054.6</b>	<b>8,322.9</b>	<b>8,967.8</b>
Borrowings	3,673.0	3,422.7	2,918.0
Deferred income tax liabilities	691.1	616.2	698.9
Pension obligations	319.8	297.3	307.4
Other provisions	17.6	20.0	17.9
Leasing liabilities	308.0	159.1	149.4
Other liabilities	63.9	6.4	58.4
<b>Total non-current liabilities</b>	<b>5,073.4</b>	<b>4,521.7</b>	<b>4,150.0</b>
Trade payables	485.0	550.0	504.5
Corporate tax	170.4	195.1	102.4
Other provisions	26.9	139.5	64.3
Leasing liabilities	48.7	45.2	48.5
Other liabilities	722.6	680.8	746.2
<b>Total current liabilities</b>	<b>1,453.6</b>	<b>1,610.6</b>	<b>1,465.9</b>
<b>Total liabilities</b>	<b>6,527.0</b>	<b>6,132.3</b>	<b>5,615.9</b>
<b>Total equity and liabilities</b>	<b>15,581.6</b>	<b>14,455.2</b>	<b>14,583.7</b>

**Net interest-bearing debt**

Net interest-bearing debt increased by DKK 1,002 million to DKK 4,268 million versus the end of 2021. The development was primarily driven by exchange rate changes, the purchase of own shares partly being offset by the positive free cash flow from operations. The leverage ratio (net interest-bearing debt to LTM EBITDA before special items) increased to 2.0x (1.5x at 31 December 2021).

**Return on Invested Capital**

The return on invested capital (ROIC) decreased to 13.6% versus 14.5% by the end of 2021 driven by an increase in invested capital of DKK 488 million totalling DKK 13.0 billion (DKK 12.5 billion), and a decrease of DKK 51 million in EBIT (12 months rolling) driven by the operational performance.



**CONSOLIDATED CASH FLOW STATEMENT**

1 JANUARY - 30 JUNE

DKK million	Q2 2022	Q2 2021	6M 2022	6M 2021
Net profit for the period	309.8	376.0	637.8	700.3
Depreciation, amortisation and impairment	88.7	90.1	175.4	180.9
Adjustments	132.7	138.4	251.9	250.8
Changes in working capital	-123.9	59.2	-393.2	-221.1
Special items, paid	-35.9	-47.2	-76.1	-100.4
<b>Cash flow from operating activities before financial items</b>	<b>371.4</b>	<b>616.5</b>	<b>595.8</b>	<b>810.5</b>
Financial income received	16.4	11.0	39.7	15.0
Financial costs paid	-35.1	-29.4	-58.8	-47.6
<b>Cash flow from operating activities before tax</b>	<b>352.7</b>	<b>598.1</b>	<b>576.7</b>	<b>777.9</b>
Tax payments	-94.6	-108.8	-128.2	-156.9
<b>Cash flow from operating activities</b>	<b>258.1</b>	<b>489.3</b>	<b>448.5</b>	<b>621.0</b>
Acquisitions	-3.7	-	-3.7	-
Investment in intangible assets	-61.1	-13.6	-73.9	-18.1
Investment in property, plant and equipment	-58.9	-47.3	-112.7	-88.8
Sale of property, plant and equipment	2.8	3.0	2.8	4.0
Dividend from associated companies	2.3	2.3	7.7	4.5
<b>Cash flow from investing activities</b>	<b>-118.6</b>	<b>-55.6</b>	<b>-179.8</b>	<b>-98.4</b>
<b>Free cash flow</b>	<b>139.5</b>	<b>433.7</b>	<b>268.7</b>	<b>522.6</b>
Repayment of lease liabilities	-16.5	-13.4	-31.4	-29.3
Other financing	-	-	-	-21.5
RCF	722.2	416.7	688.5	555.1
Repayment bank loans	-0.9	-	-2.1	-
Dividend payment	-692.0	-626.7	-692.0	-626.7
Purchase of treasury shares	-194.3	-153.1	-327.7	-294.8
<b>Cash flow from financing activities</b>	<b>-181.5</b>	<b>-376.5</b>	<b>-364.7</b>	<b>-417.2</b>
<b>Net cash flow for the period</b>	<b>-42.0</b>	<b>57.2</b>	<b>-96.0</b>	<b>105.4</b>
Cash and cash equivalents, net at 1 April / 1 January	118.0	167.7	173.6	117.0
Exchange gains/losses on cash and cash equivalents	-1.3	0.3	-2.9	2.8
Net cash flow for the period	-42.0	57.2	-96.0	105.4
<b>Cash and cash equivalents, net at 30 June</b>	<b>74.7</b>	<b>225.2</b>	<b>74.7</b>	<b>225.2</b>

**Cash flows**

Cash flow from operations before changes in working capital in the second quarter of 2022 was DKK 382 million (DKK 430 million). The development was driven by the lower operational results.

Working capital in the second quarter of 2022 had a negative impact on the cash flow by DKK 124 million (positive of DKK 59 million) mainly due to sales tying up cash in receivables as well as lower level of other liabilities.

Cash flow from investing activities amounted to DKK -119 million (DKK -56 million). The increase was driven by higher investments in intangible- and tangible assets, comprising the acquisition of Room101, OneProcess and retail expansion.

Free cash flow before acquisitions in the second quarter of 2022 was positive by DKK 143 million (DKK 434 million). The cash conversion ratio was 77% (120%).

For the first six months of 2022 cash flow from operations before changes in working capital was DKK 842 million (DKK 842 million). Working capital had a negative impact of DKK 393 million (DKK -221 million) with a significant impact from a higher level of inventories, increase in receivables and prepayments and a lower level of trade payables, provisions and other liabilities. Free cash flow before acquisitions was DKK 272 million (DKK 523 million) and the cash conversion ratio was 64% (86%).

## STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 30 JUNE 2022

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
<b>Equity at 1 January 2022</b>	<b>97.5</b>	<b>-6.9</b>	<b>693.7</b>	<b>-570.5</b>	<b>8,754.0</b>	<b>8,967.8</b>
<i>Comprehensive income for the period</i>						
<b>Net profit for the period</b>	-	-	-	-	<b>637.8</b>	<b>637.8</b>
<i>Other comprehensive income</i>						
Cash flow hedges	-	8.7	-	-	-	<b>8.7</b>
Tax of cash flow hedges	-	-1.9	-	-	-	<b>-1.9</b>
Foreign exchange adjustments on net investments in foreign operations	-	-	470.9	-	-	<b>470.9</b>
<b>Total other comprehensive income</b>	-	<b>6.8</b>	<b>470.9</b>	-	-	<b>477.7</b>
<b>Total comprehensive income for the period</b>	-	<b>6.8</b>	<b>470.9</b>	-	<b>637.8</b>	<b>1,115.5</b>
<i>Transactions with shareholders</i>						
Capital reduction	-4.5	-	-	569.5	-565.0	-
Purchase of treasury shares	-	-	-	-336.0	-	<b>-336.0</b>
Share-based payments	-	-	-	-	5.6	<b>5.6</b>
Settlement of vested PSUs	-	-	-	29.6	-29.6	-
Settlement in cash of vested PSU's	-	-	-	-	-6.2	<b>-6.2</b>
Dividend paid to shareholders	-	-	-	-	-731.3	<b>-731.3</b>
Dividend, treasury shares	-	-	-	-	39.3	<b>39.3</b>
<b>Total transactions with shareholders</b>	<b>-4.5</b>	-	-	<b>263.1</b>	<b>-1,287.2</b>	<b>-1,028.6</b>
<b>Equity at 30 June 2022</b>	<b>93.0</b>	<b>-0.1</b>	<b>1,164.6</b>	<b>-307.5</b>	<b>8,104.6</b>	<b>9,054.6</b>

**Equity**

Total shareholders' equity as at 30 June 2022 amounted to DKK 9,055 million (DKK 8,968 million at 31 December 2021). 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 ongoing share buy-back programme and dividend payment to shareholders. As at 30 June 2022 the equity ratio was 58.1% (61.5% at 31 December 2021).

At the Annual General Meeting held on 31 March 2022 the shareholders approved to reduce the share capital by nominally DKK 4,500,000 by cancelling some of the Company's treasury shares. After the reduction, which took place 4 May 2022, the nominal value of the Company's share capital is DKK 93,000,000. Please refer to Company Announcement 29/2022.

## 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>

## 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 2021.

**Accounting policies**

This report has been prepared in accordance with the accounting policies set out in the Annual Report for 2021.

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 2022, 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 half of 2022, 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**

6M 2022 DKK million	North America Online & Retail	North America Branded & RoW	Europe Branded	Group costs / not al- located	Total
Net sales	1,305.4	1,592.7	1,317.3	-	4,215.4
Cost of goods sold	-793.2	-729.0	-599.9	-	-2,122.1
<b>Gross profit before special items</b>	<b>512.2</b>	<b>863.7</b>	<b>717.4</b>	-	<b>2,093.3</b>
Staff and other external costs	-336.5	-230.6	-385.6	-64.9	-1,017.6
<b>EBITDA before special items</b>	<b>175.7</b>	<b>633.1</b>	<b>331.8</b>	<b>-64.9</b>	<b>1,075.7</b>
Depreciation and impairment				-93.1	-93.1
Amortisation and impairment				-82.3	-82.3
<b>EBIT before special items</b>				<b>-240.3</b>	<b>900.3</b>
Special items, costs and impairment				-40.4	-40.4
<b>EBIT</b>				<b>-280.7</b>	<b>859.9</b>
Share of profit of associated companies, net of tax				20.4	20.4
Financial income				72.9	72.9
Financial costs				-130.2	-130.2
<b>Profit before tax</b>				<b>-317.6</b>	<b>823.0</b>

## NOTE 2

## SEGMENT INFORMATION AND NET SALES (continued)

6M 2021 DKK million	North America Online & Retail	North America Branded & RoW	Europe Branded	Group costs / not al- located	Total
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>-</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>

DKK million	6M 2022	6M 2021
<b>Category split, net sales</b>		
Handmade cigars	1,548.6	1,474.1
Machine-rolled cigars	1,451.0	1,426.4
Smoking tobacco	611.8	590.6
Accessories and CMA	604.0	547.5
<b>Total net sales</b>	<b>4,215.4</b>	<b>4,038.6</b>

Licence income and other sales of DKK 32.1 million (DKK 22.5 million) are included in the category 'Accessories and Contract Manufacturing'.

DKK million	6M 2022	6M 2021
<b>Geographical split, net sales</b>		
Americas	2,253.5	2,132.0
Europe	1,621.3	1,688.4
Rest of World	340.6	218.2
<b>Total net sales</b>	<b>4,215.4</b>	<b>4,038.6</b>

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

DKK million	6M 2022	6M 2021
Integration and transactions costs (Agio Cigars)	5.0	23.1
Production footprint	13.5	17.8
OneProcess	21.9	-
<b>Total special items</b>	<b>40.4</b>	<b>40.9</b>