



Chairman's report – Annual General Meeting, 4 April 2024

Scandinavian Tobacco Group's Annual General Meeting is a special occasion, and I am pleased to present the Board's report for the financial year 2023. A year where we have taken important steps to achieve our vision to become the undisputed and sustainable global leader in cigars and where we have made significant progress in our strategy – Rolling towards 2025.

2023 became a year influenced by macro-economic uncertainties and higher inflation, impacting consumer behaviour and cost developments. Our financial performance was impacted by these factors, yet we delivered another set of solid financial results for the year and delivered on our commitment to return any excess capital to our shareholders.

Before the formal presentation of the report, I would however, on behalf of the Board of Directors, like to offer a sincere thank you to every employee in Scandinavian Tobacco Group for their contributions in the past year. They have once again, with their commitment and dedicated efforts, steered the organisation through another dynamic year. All of our 10,000 employees globally deserve credit for enabling the Company to our satisfaction cope with the many challenges – and to deliver on our objectives and our strategy. Thank you.

I will now move on to the formal report.

Let me start by reviewing the financial highlights of the past year. For the full year 2023, Scandinavian Tobacco Group delivered net sales of 8.7 billion kroner and EBITDA before special items of 2.1 billion kroner resulting in an EBITDA margin before special items of 24.1%.

The net sales were almost unchanged compared with 2022 with a negative impact from changes in exchange rates – primarily the decline in the US dollar – being offset by a positive impact from the acquisitions of the handmade cigar company Alec Bradley, and the nicotine pouch brand, XQS.

The EBITDA margin before special items was lower than in 2022 primarily as result of increasing cost inflation across the value chain and increasing investments in growth, including investments in our Growth Enablers.

Let me remind you of our Growth Enablers, which are:

1. international sales of handmade cigars
2. our retail stores in the US and
3. our next generation oral product portfolio

I will discuss the Growth Enablers in more detail later in my report, however for now I will mention that they comprised 8% of group net sales in 2023 and delivered double digit net sales growth compared with 2022.

Net profit decreased to 1.2 billion kroner, while free cash flow before acquisitions was close to 1.1 billion kroner. The Return on Invested Capital decreased to 11.4% reflecting the financial performance as well as an increase special items and in the net interest-bearing debt. Adjusted earnings per share decreased by 10% to 14.4 kroner per share.

These results are in line with the financial guidance for the year that we updated in August

and reiterated in November. The original guidance we delivered in March last year was lowered in connection with the half-year report as some US handmade cigar customers were cutting down on inventories reflecting the uncertain macro-economic outlook as well as the fact that an expected recovery in our European machine-rolled cigar business that took longer than anticipated.

However, with net sales close to 9 billion kroner, an EBITDA margin above 24% and a free cash flow before acquisitions above 1 billion kroner, allow me to conclude that 2023 has been another solid financial year for Scandinavian Tobacco Group.

Based on the results for 2023 and the financial position of the Company, the Board of Directors proposes a dividend of 8.40 kroner per share, which is an increase of 2% compared to the dividend for 2022. This is the eighth consecutive year we have increased the ordinary dividend. The 8.40 kroner per share corresponds to a total payment of about 731 million kroner to our shareholders.

In addition to the ordinary dividend payments, we remain committed to allocate any excess capital by repurchasing own shares. In February 2023, we completed a share buy-back program of a total value of 775 million kroner and in November 2023, we initiated a new programme of up to 850 million kroner which will run until the end of February 2025.

For the year of 2023, the total capital return exceeded 900 million kroner or close to 9% of the market value of Scandinavian Tobacco Group by the beginning of 2023.

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

I will now turn my attention to the financial performance for 2023 in each of the three commercial divisions.

Let us begin with our **Europe Branded Division**, comprising business-to-business sale of all product categories in Germany, Denmark, Sweden, France, Italy, Belgium, the Netherlands, Luxembourg, Spain, Portugal, the UK and Ireland.

In 2023, the division accounted for 33% of the total Group net sales. Reported net sales increased by 3% to 2.9 billion kroner with a (like-for-like) organic growth of 2%. The growth was driven by the new product category nicotine pouches, particularly the XQS brand. Further, our fine-cut brand BREAK did well in Germany. The largest product category in Europe Branded, the machine-rolled cigars delivered a negative development in net sales, despite sound pricing, as result of decreasing consumption in key market like France and the UK as well as due to decreasing market shares. During the last months of the year, the market share trend started to improve.

The EBITDA before special items declined by 10% to 683 million kroner with an EBITDA margin of 23.8% compared with 27.7% in 2022. The margin development is a result of a declining gross margin - impacted by the negative volume development in machine-rolled cigars as well as product and market mix changes. Operating expenses increased due to general cost inflation as well as investments in our markets to regain market share and net sales growth.

Our North America Branded & Rest of World Division comprises business to business sale of all product categories in North America and Rest of World. In our organisational structure the division includes the European markets where we do not have own sales organisations, International Sales, Global Travel Retail as well as our contract manufacturing business.

In 2023, the division accounted for 35% of the Group net sales. Compared with 2022 the net sales decreased by 5% to 3 billion kroner. The net sales are evenly split between the product categories, though with handmade cigars being the largest by 30% of net sales in the division.

The decrease in net sales was driven by a lower consumption of handmade cigars in the US, lower net sales of fine-cut tobacco in Norway as well as Australia where net sales in 2022 were higher as result of a change in our distribution model. The net sales of handmade cigars to our international market increased by a double-digit percentage rate.

The EBITDA before special items was 1.1 billion kroner with an EBITDA margin of 36.3% compared with 38.4% in 2022. The negative margin development was primarily driven by general cost inflation and our investments in growth.

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. Handmade cigars are by far, the largest product category with more than 80% of the net sales in the division.

The division comprises 9 brick and mortar cigar Superstores in Pennsylvania, Texas and Florida and six online business units each uniquely positioned towards a specific consumer group.

In 2023, the division accounted for 32% of the Group net sales. Compared with 2022 the net sales increased by 2% to 2.8 billion kroner. Excluding a negative impact from the decrease in the value of the USD, net sales growth was 5%.

The online business as well as the retail business delivered positive growth. Online was supported by a stabilisation of active consumers on file, despite the continued lower consumption of handmade cigars in the US, good pricing and a significant increase in the distribution of a third-party Next Generation Products. Retail continued to deliver double digit growth and accounted for 9% of the divisional net sales in 2023.

The EBITDA before special items was 443 million kroner with an EBITDA margin of 15.7% compared with 14.5% in 2022. The margin development is primarily a result of the scale benefits of higher volumes as well as cost efficiencies, not least the implementation of the AutoStore warehouse – an automatic storage and picking system – in our distribution center in Bethlehem, Pennsylvania.

The North America Online & Retail Division will continue the retail expansion in the coming years and in 2024, we expect to open 3 new stores and prepare for additional openings in 2025.

After this walkthrough of the financial results, I will turn to an update on the progress made during 2023 on the execution of the Group strategy, Rolling Towards 2025.

In 2020, we launched the strategy Rolling Towards 2025 which lays out our vision and gives the strategic direction for the Group for the five-year period until 2025. The strategy cements our focus on cigars with our ambition to become a larger company, to grow the EBITDA margin and to create outstanding cash generation to support our continued growth. In 2022, the vision was updated to embrace the importance of and the increased focus on sustainability. The vision is to

Be The Undisputed and Sustainable Global Leader in Cigars.

Rolling Towards 2025 is based on six 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. All six must-win-battles are described in detail in the Annual Report.

Let me briefly mention a few of the progresses we have made during the past year.

We aim to **grow our handmade cigar business** by expanding in the important US market but also across our international markets. We intend to do this by a combination of gaining market share and by selected acquisitions, but also by building more touchpoints with our consumers.

Let me give you a few examples:

- The launch of the “Cohiba Experience” by opening the first exclusive Cohiba Cigar Lounge in Santa Barbara, California in partnership with Ritz-Carlton
- The opening of 2 new retail Superstores in Texas bringing the total to 9 by the end of 2023.
- The opening of 3 Club Macanudo concept stores – one in Margaritaville, in the state of Louisiana USA, one in Jakarta, Indonesia and one in Taipei, Taiwan. All these openings have taken place in the early months of this year, but are good examples of how we meet our consumers at multiple touch-points.
- We added Alec Bradley to our brand portfolio of handmade cigars early in the year as well as the addition of La Perla Habana to our exclusive brand portfolio within our online business.

We aim to continue to increase consumer engagement to the handmade cigar category and to strengthen our position in the category.

We want to **drive sustainable profit growth in machine-rolled cigars**. Although, 2023 became a year where we did not deliver on this ambition, we have continued to build upon the strategic pillars to create long-term growth, namely sound pricing and - portfolio simplification - and we worked to regain market shares. We expect to deliver on this must-win-battle in the years to come.

We need to explore different opportunities to grow our business both within cigars and in Next Generation Products, and we need to successfully **integrate new mergers and**

acquisitions to ensure any acquisitions add value to our shareholders by improving our group ROIC.

During 2023, we invested almost 600 million kroner in new companies and brands. Both Alec Bradley and XQS are now fully integrated within our commercial divisions. Together with La Perla Habana – which was acquired by our US online business in 2023 – and acquisitions in the past three years within the cigar business including Agio Cigars, Italian MOSI, and the US brand Room101, we have significantly strengthened our market positions during the past 3 years through acquisitions.

Through these acquisitions and with the launch of brands like Ström in the nicotine pouch category, we have in the last few years added multiple strong brands to our portfolio of both cigars and Next Generation Products.

Let me also give you a short update on our sustainability agenda – Rolling Responsibly – an integrated part of our Group strategy: During 2023 we have had several priorities, but let me mention a few:

Firstly, we have embedded sustainability initiatives into key business processes and will continue to do so in the future.

Secondly, we have commenced the preparation to meet regulatory compliance demands set forth by the Corporate Sustainability Reporting Directive, where we took the decision to deliver our first fully integrated Annual Report combining the financial and sustainability reporting already this year, one year ahead of the regulatory requirement. With many learnings and the experience, we have gained by integrating the reports this year, we believe we are well prepared to be fully compliant next year.

And finally, we are working towards reaching our commitments on climate. The Group reduced its scope 1 and scope 2 emissions by 4.3% in 2023. Since the baseline was set in 2020, the reduction equals 22.9%. We have now set the baseline for our scope 3 emissions, and we intend to submit our targets for scope 3 emissions to Science Based Targets initiative, “SBTi”, for approval in 2024.

The must win battle, **simplify everything we do** remains a core focus for us to reduce complexity and to make it easier to drive the business. The project - called OneProcess – is one important example where we will transform the Group’s current multiple ERP systems into one global system over the coming years. During 2023, the first wave of the roll-out was completed which included Denmark and Sweden and we expect to continue the roll-out in Europe later this year. The final phase of the full global roll-out is expected by the end of 2025.

Let me conclude my comments on the strategic direction of Scandinavian Tobacco Group by providing a little more detail on the organizational change we announced in relation to the release of the Annual Report.

We are operating in an increasingly challenging environment characterized by changing consumer behaviour, economic uncertainty, and stricter regulations.

To address these challenges, we are adjusting our commercial setup by creating one global commercial organization. We are merging our three commercial divisions into one and strengthening our category organizations. While cigars remain our core business, we will invest in the growth enablers that have already proven successful and establish Next-

Generation Oral as an independent category in addition to handmade cigars and a third category covering machine-rolled cigars and smoking tobacco. This way, we adapt to the changing needs of our consumers and customers, creating quality and choice.

With this simpler structure, we can prioritise better and re-allocate resources to where the growth opportunities are.

The financial reporting structure we use today will remain unchanged.

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

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

Claus Gregersen has informed the Board he wishes to retire from the Board of Directors.

Our three employee-elected Board Members, which are elected for a four-year period, are Mark Draper, Thomas Thomsen and Karsten Dam Larsen.

I would like to take this opportunity to thank Claus Gregersen for being a very engaged member of the Board for the past five years and for his valuable contributions to our work and collaboration.

The Board of Directors proposes Jörg Biebernack as new member. Jörg is currently holding the position as CEO of the German brewery Paulaner Brauerei and has held a number of international leadership positions in sales and marketing in consumer goods companies and within strategic business development.

The Board of Directors annually carries out an evaluation of its own work and performance and its collaboration with the Executive Management. 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 2023.

In 2023 the evaluation process was carried out as an internal process where I as chairman, conducted interviews with all members of the Board and Management. The overall result of the evaluation was that the Board and the cooperation with the Management are working well and there have been no significant changes made to the way the Board works based on the evaluation. The evaluation also showed that there is a broad agreement on what the strategic priorities are for the Company.

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

To align with general market practice, it is proposed that the fee to the chair of the Remuneration Committee and the Nomination Committee, respectively, is:

is increased from 25% to 50% of the base annual fee as a Board member, and that the fee to the other members of each committee is increased from 12.5% to 25% of the base annual fee. We propose that all other fees are unchanged from last year.

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 2023, the total cost of remuneration offer the Executive Management amounted to 15.2 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 2023 was in accordance with the Remuneration Policy. We further believe that the remuneration of the Executive Management fairly reflects the results achieved by the company.

The Remuneration Policy is this year – four years after its initial adoption by the shareholders – again up for approval by the shareholders. The Board of Directors only proposes few changes to the policy, mainly to provide more flexibility for the Board of Directors in the remuneration of the Executive Management. We recommend that the policy be approved by the shareholders.

Let me finish the report by addressing how we see the longer-term outlook for Scandinavian Tobacco Group before giving a little more detail to the financial expectations for 2024.

In the beginning of my report, I talked to the progress we have made in implementing Rolling Towards 2025, our strategy which aims to build a larger and more profitable company. Acquisitions have been a key source of growth historically and we expect them to remain a key pillar to our strategy.

However, we are also increasing our investments to support stronger growth in the coming years.

We expect our core categories (which are cigars and smoking tobacco) to deliver flat to low single digit annual net sales growth while Next Generation Products are expected to deliver double digit annual net sales growth.

Near term, the financial results and especially the EBITDA margin will be impacted by our increasing investments in growth, but these are important to support our ability to deliver stronger and sustainable financial performance over time.

The impact on the Group EBITDA margin from the current level of investments in growth is temporary and we expect margins to revert towards 24% by the end of the strategy period.

Beyond the strategy period we expect to continue to deliver annual topline growth with like-for-like margin enhancements as well as continuous cost efficiencies. We expect to update the market on our strategy plan beyond Rolling Towards 2025, in the first half of 2025.

The largest uncertainties to deliver on our financial ambitions are major changes to consumer trends and regulation, material and fast occurring cost inflation as well as the financial performance of our portfolio of Next Generation Products.

With this I will now turn to the financial expectations for 2024.

2024 is expected to be another year with consumption of handmade cigars declining at or more than the historic structural decline rates. The market for handmade cigars has not yet fully stabilized following the pandemic, and consumers are still adapting to changes in disposable income and higher interest rates. However, we expect price increases on our products, continued growth in our online and retail distribution channels as well as in our international markets to more than offset the decrease in consumption. We expect net sales of handmade cigars to increase compared with last year.

The consumption of machine-rolled cigars and smoking tobacco in our European markets is expected to develop close to their structural decline rates with price increases and recovery of market share expected to offset the volume decline.

Net sales from our portfolio of Next Generation Products are expected to increase by more than 50% driven by market share expansion and roll-out to new markets.

Based on these expectations Group reported net sales are expected in the range of 8.8-9.1 billion kroner. The Growth Enablers are expected to increase to a level of 10% of Group net sales in 2024.

The EBITDA margin before special items is expected in the range of 22%-24%. The margin is impacted by increased investments in our Growth Enablers, cost inflation and mix changes. These impacts will only be partly offset by price increases and continued cost optimisations.

The largest uncertainties for net sales and the EBITDA margin remain changes in consumer behaviour and in market and/or product mix as well as unexpected cost inflation.

Free cash flow is expected in the range of 0.8-1.0 billion kroner and is impacted by a range of special investments of up to 300 million kroner. These special investments are related to strengthening growth, regulatory compliance and efficiency.

They include the retail expansion in the US, Track & Trace implementation in the EU and the continued roll-out of our SAP 4/Hana ERP solution which I referred to earlier by the name of OneProcess. The investments in Track & Trace as well as the SAP roll-out are of a temporary nature. Our working capital is furthermore impacted negatively by expansion into new product groups as we build inventory for market growth and market expansion.

Adjusted EPS is expected in the range of 12.5-14.5 kroner including an estimated impact from the current share repurchase programme of 0.5kroner.

Compared to the pre-pandemic year 2019, the year before the launch of Rolling towards 2025, group net sales and EBITDA before special items have increased by 30% and 39%

respectively resulting in an increase in the group EBITDA margin from 22.5% to 24.1%, free cash before acquisitions remains well above DKK 1 billion and close to DKK 5 billion of capital returned to our shareholders. Furthermore, we have seen a significant improvement in the return on invested capital. In perspective, these are results we are proud to have accomplished and we intend to continue to deliver improved financial performance over time.

Our shareholder return policy remains unchanged:

We recognize the importance of the ordinary dividend to many shareholders. Therefore, the ambition is to deliver an annual growth in the ordinary dividend payment per share. Based on the proposal for the ordinary dividend of 8.40 kroner a share, the 2023 increase is 2% above the dividend per share in 2022 and as I mentioned previously, we have now for eight years in a row, increased the annual dividend payment per share.

Furthermore, any capital that the Board evaluates to be in excess will be distributed to shareholders by way of dividends and/or share buy-backs. Our capital distribution will of course always take into account potential acquisitions and other liquidity needs. With the current share repurchase programme of up to 850 million kroner, we do deliver on the commitments addressed in our shareholder return policy.

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 again thanking and congratulating employees and management on the solid 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.