



COMPANY PROFILE

2021

OUR MUST-WIN BATTLES STORIES

**A TRANSFORMATION
TO LEAD BUSINESS
GROWTH**
P. 16

**HOW TO SELL CIGARS
IN A PANDEMIC**
P. 19

**INTEGRATION - THE
KEY INGREDIENT FOR A
SUCCESSFUL ACQUISITION**
P. 21

KEEP IT SIMPLE
P. 24

**PLANNING THE
UNPLANNABLE**
P. 26

CONTENTS

WELCOME

2020 has been an extraordinary year with COVID-19 changing our lives fundamentally and creating unprecedented challenges for businesses.

PAGE 04



- 04** Welcome
- 07** Who we are
- 08** Our value chain
- 10** Financial performance 2020
- 12** Our brands and products
- 14** Our strategy

OUR MUST-WIN BATTLES STORIES

- 16** A transformation to lead business growth
 - 19** How to sell cigars in a pandemic
 - 21** Integration – the key ingredient for a successful acquisition
 - 24** Keep it simple
 - 26** Planning the unplannable
-
- 28** Our values - our people
 - 30** Corporate social responsibility
 - 30** Our management
 - 31** Stay up to date



A TRANSFORMATION TO LEAD BUSINESS GROWTH

Scandinavian Tobacco Group's North America Online & Retail (NAO&R) Division is tackling headwinds with a modernisation and upgrades of the online platforms. This has already accounted for a significant part of the business' year over year growth, with more to come. **PAGE 16**



KEEP IT SIMPLE

Scandinavian Tobacco Group's financial processes work on 12 separate enterprise resource planning (ERP) systems. Streamlining this and moving to a single system will make tasks, such as integrating acquisitions, simpler and free up time for people to focus on other business activities. **PAGE 24**

INTEGRATION - THE KEY INGREDIENT FOR A SUCCESSFUL ACQUISITION

The acquisition of Agio Cigars is the largest in the history of Scandinavian Tobacco Group. Once the deal was closed in 2020, the priority became integrating quickly to efficiently add value to the combined business.

PAGE 21



1 | EMPOWER WITH PASSION

SEAN WILLIAMS
BRAND AMBASSADOR COHIBA

OUR VALUES - OUR PEOPLE

Our four values provide the framework for what we should expect from ourselves and each other, every day. **PAGE 28**

WELCOME

A GLOBAL LEADER IN CIGARS

2020 was yet another transformative year. We accelerated the modernisation of our company, announced the biggest acquisition in the history of our Group and launched a new strategy, Rolling Towards 2025.



NIELS FREDERIKSEN
President and CEO

2 020 has been an extraordinary year with COVID-19 changing our lives fundamentally and creating unprecedented challenges for businesses.

Scandinavian Tobacco Group has successfully responded to COVID-19 and been able to keep employees safe while delivering on our promise to our consumers and customers. We are working diligently around the world to mitigate the impact of the pandemic and keep the business moving forward. I have been encouraged by the dedication of our employees and the resilience of our business, which allow us to

continue to deliver on our promise to our consumers and customers.

Part of our response is a new strategy, Rolling Towards 2025, to sharpen our focus on cigars and thus enable the company to grow. This represents an evolution rather than a revolution for the company. The strategy is based on five must-win battles – the focus areas where we need to succeed to reach our ambition of becoming a bigger and more profitable company. These will guide us in the right direction and result in outstanding cash-generation for ourselves and our shareholders.

The must-win battles are the theme for this 2021 edition of the Scandinavian Tobacco Group Company Profile Brochure. We have sought out examples of how different parts of our business are pursuing and delivering on these objectives to give a sense of the strategy in action and the progress being made.

You can read about the modernisation of our online channels, which will fuel the growth of our online and retail division in the US; the quick and effective use of tele sales in machine-rolled cigars for key European markets, helping us to adapt



to COVID-19; and the progress being made with the integration of the largest acquisition in Scandinavian Tobacco Group's recent history, Agio Cigars. There are further examples of our strategy in action with a simplification of finance processes for greater efficiency, and how our operations team has excelled in implementing COVID-19 measures to enhance our performance culture.

These articles will give you a sense of the hard work, dedication and innovation of our employees, whose efforts are enabling us to overcome the unprecedented circumstances we are working in around the world, to create value – for the company, our employees and shareholders.

I hope you enjoy the read.

Part of our response is a new strategy, Rolling Towards 2025, to sharpen our focus on cigars and thus enable the company to grow.

OUR MUST-WIN BATTLES STORIES

- 1 GROW OUR HANDMADE CIGAR BUSINESS**
A transformation to lead business growth
- 2 DRIVE SUSTAINABLE PROFIT GROWTH IN MACHINE-ROLLED CIGARS**
How to sell cigars in a pandemic
- 3 INTEGRATE NEW MERGERS AND ACQUISITIONS**
Integration – the key ingredient for a successful acquisition
- 4 SIMPLIFY EVERYTHING WE DO**
Keep it simple
- 5 EMBRACE A PERFORMANCE CULTURE**
Planning the unplannable

Read the articles on page 16-27

WHO WE ARE

Organised around a vision of being the undisputed, global leader in cigars, Rolling Towards 2025 will allow Scandinavian Tobacco Group to become a stronger, more simplified, and more attractive company to work for and do business with.



MARKETS WHERE WE
SELL OUR PRODUCTS

~ 100

EMPLOYEES
WORLDWIDE

11,000

LEADING
BRANDS



OUR VALUE CHAIN



1

IT STARTS WITH A SEED

All tobacco starts with a seed. The development of a tobacco plant depends on factors such as soil, sun, rain, position of the leaf on the tobacco plant and the time of harvesting. Our cultivation activities take place within Caribbean Cigar Holdings Group, in which we own a 20% stake.

2

WE PURCHASE RAW TOBACCO

We purchase raw tobacco from the majority of all tobacco growing countries. Tobaccos used for cigars, pipe tobacco and fine-cut tobacco are not the same. More than two thirds of the raw tobacco market for pipe tobacco and fine-cut tobacco is handled by three large wholesalers, whereas tobacco for cigars is purchased from a number of smaller suppliers.



3

OUR PRODUCTION SETUP IS GLOBAL

We have a global supply chain with 14 manufacturing sites. Production is strategically located close to both tobacco growers and the consumers. Handmade cigars are produced in the Dominican Republic, Honduras and Nicaragua, while machine-rolled cigars are produced primarily in Europe, the Dominican Republic and Indonesia. Pipe tobacco and fine-cut are produced in Denmark.



4

WE SELL IN AROUND 100 COUNTRIES

We have sales companies in 14 countries throughout Europe, the US, Canada and Australia and we sell our products in around 100 countries via wholesalers, distributors and a variety of supermarkets and retail stores including our own.



5



IN THE US WE SELL ONLINE TO CONSUMERS

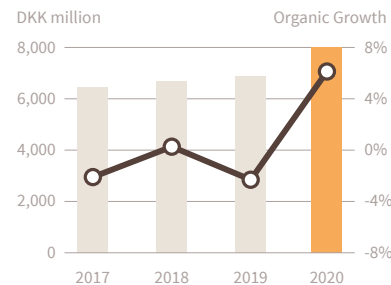
The market for catalogue and online sales to consumers is growing in the US. On average, approx. 80,000 packages are shipped weekly to American consumers from our distribution centre in Bethlehem, Pennsylvania. We own and operate seven retail stores in Pennsylvania, Texas and Florida.

FINANCIAL PERFORMANCE 2020

NET SALES

8,006
DKK million

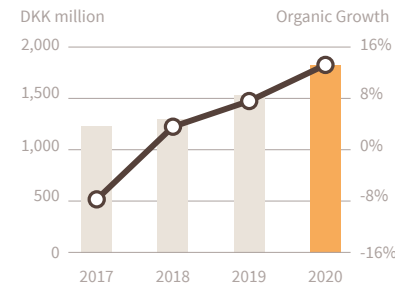
▲6.6%
Organic growth



EBITDA BEFORE SPECIAL ITEMS

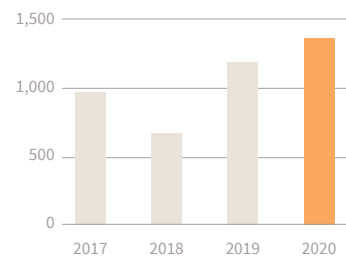
1,826
DKK million

▲14.0%
Organic growth



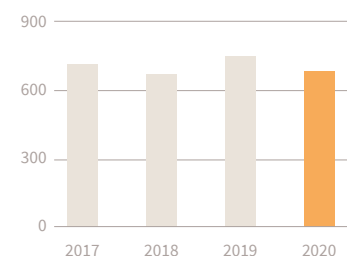
FREE CASH FLOW BEFORE ACQUISITIONS

1,394
DKK million



NET PROFIT

661
DKK million



TO BROWSE THROUGH ALL OF OUR FINANCIAL NUMBERS, GO TO

WWW.ST-GROUP.COM/ANNUALREPORT2020

NET SALES BY DIVISION

NORTH AMERICA ONLINE & RETAIL

Division North America Online & Retail includes direct to consumer sales of all product categories sold via the online, catalogue and retail channel in North America.

33%
2,662 DKKm

NORTH AMERICA BRANDED

Division North America Branded & Rest of World includes sales of all product categories to wholesalers and distributors that supply retail in US, Canada, Australia, New Zealand, International Sales (Norway, Finland, Switzerland, Israel and Russia), Asia, Global Travel Retail and contract manufacturing for third parties.

32%
2,527 DKKm

EUROPE BRANDED

Division Europe Branded includes sales of all product categories to wholesalers, distributors and direct to retail in Germany, Denmark, Sweden, France, Italy, Belgium, the Netherlands, Luxembourg, Spain, Portugal, as well as the UK & Ireland.

35%
2,817 DKKm

OUR BRANDS AND PRODUCTS

HANDMADE CIGARS

Our handmade cigars are rolled at our sites in three of the world's most significant tobacco-growing countries: the Dominican Republic, Honduras and Nicaragua.



MACHINE-ROLLED CIGARS

The production of the binder and wrapper for our machine-rolled cigars is carried out in Indonesia, Sri Lanka and the Dominican Republic whereas the automated cigar production takes place in Belgium, the Netherlands and the US.



PIPE TOBACCO

Our pipe tobacco is predominantly produced at our site in Assens, Denmark. Our facility in Assens remains one of the largest manufacturers of traditional pipe tobacco globally.



FINE-CUT TOBACCO

Our fine-cut tobacco is predominantly manufactured at our site in Holstebro, Denmark.



ACCESSORIES AND CONTRACT MANUFACTURING

Our accessories and contract manufacturing (ACM) category comprises four sub-categories: contract manufacturing, sales of fire products, accessories, matches and licenses.



OUR STRATEGY

*In the course of 2020, we conducted a review of Scandinavian Tobacco Group's corporate strategy. The result was a new updated strategy – **Rolling Towards 2025** - which we presented to the Group's 11,000 employees in 2020.*

Rolling Towards 2025 is 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 with five focused must-win battles and a set of defined values to support us in being our very best.

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.

Organised around a vision of being the undisputed, global leader, Rolling Towards 2025 will allow Scandinavian Tobacco Group to become a stronger, more simplified, and more attractive company to work for and do business with.

SHARPENED FOCUS

For over 250 years, Scandinavian Tobacco Group have been makers of rituals. We have honed our craft to make rituals: premium products and experiences to our consumers cemented by textures, flavors, and aromas.

Past achievements has brought the Group to where it is today, and will serve as a guide forward. However, in order to grow and outperform competitors in an industry with declining volumes we continually need to sharpen our strategic focus on the products, processes, and consumer experiences that really make a difference. Scandinavian Tobacco Group's new strategy **Rolling Towards 2025** will do exactly that.

UNDISPUTED GLOBAL LEADER

Rolling Towards 2025 will allow Scandinavian Tobacco Group to become a stronger, more simplified, and more attractive company to work for and do business with.

Our common purpose will unite Scandinavian Tobacco Group across brands, products and markets. It will give a new perspective on why we exists and provide guidance on how we conduct business and how we can strengthen the experience we offer to our consumers.

As we organise ourselves around a vision of being the undisputed, global leader in cigars we sharpen our focus on cigars, handmade as well as machine-rolled. This is where we will strengthen our business and pursue future investments. We will have strong returns from our other categories such as pipe tobacco and fine cut, yet cigars are our primary focus going forward and the first thing we need to succeed with to accelerate growth and value creation.

FIVE MUST-WIN BATTLES

Rolling Towards 2025 is based on five must-win battles – the focus areas we need to succeed with by 2025 to reach our ambition of becoming a bigger and more profitable company with outstanding cash generation for our shareholders.

PURPOSE

CRAFT THE RITUALS THAT MAKE US MORE

VISION

BE THE UNDISPUTED, GLOBAL LEADER IN CIGARS

OUR MUST-WIN BATTLES

Our five must-win battles represent our key priorities and dictate the prioritisation of time and resources.



GROW OUR HANDMADE CIGAR BUSINESS



DRIVE SUSTAINABLE PROFIT GROWTH IN MACHINE-ROLLED CIGARS



INTEGRATE NEW MERGERS AND ACQUISITIONS



SIMPLIFY EVERYTHING WE DO



EMBRACE A PERFORMANCE CULTURE

CASSANDRA SMELKO,
DIRECTOR STRATEGY AND
TRANSFORMATION, NORTH AMERICA

HEATHER ZDAN
CHIEF CONSUMER OFFICER

1
**GROW OUR
HANDMADE CIGAR
BUSINESS**

A TRANSFORMATION TO LEAD BUSINESS GROWTH

Scandinavian Tobacco Group's North America Online & Retail (NAO&R) Division is tackling headwinds with a modernisation and upgrades of the online platforms. This has already accounted for a significant part of the business's year over year growth, with more to come.

“We’re bringing together responsiveness, design, loyalty and personalization to create an overall unique proposition, which is more sophisticated and provides a better consumer experience”

If you pay a visit to CIGAR.com, you may notice a few changes encompassed in the transformation.

Scandinavian Tobacco Group's premium website for online sales in North America is now responsive for different types of devices, making it simpler for people use on their phones during lunchbreaks, has a higher end look and feel with more lifestyle images of people enjoying the products, a discussion forum with plenty of cigar-related content and a new loyalty programme to reward regular customers. “The result is that the site is more premiumized and high-end,” says Cassandra Smelko, Director Strategy Transformation, North America. “We’re bringing together responsiveness, design, loyalty and personalization to create an overall unique proposition, which is more sophisticated and provides a better consumer experience.”

The overhaul of CIGAR.com is part of the transformation of Scandinavian Tobacco Group's US handmade cigar business, to create new sources of growth in response to a changing market.

Handmade cigar volumes have been in a long, slow decline leading up to 2020. The shift in consumers shopping at brick-and-mortar to online had stalled in the category, and competitors have

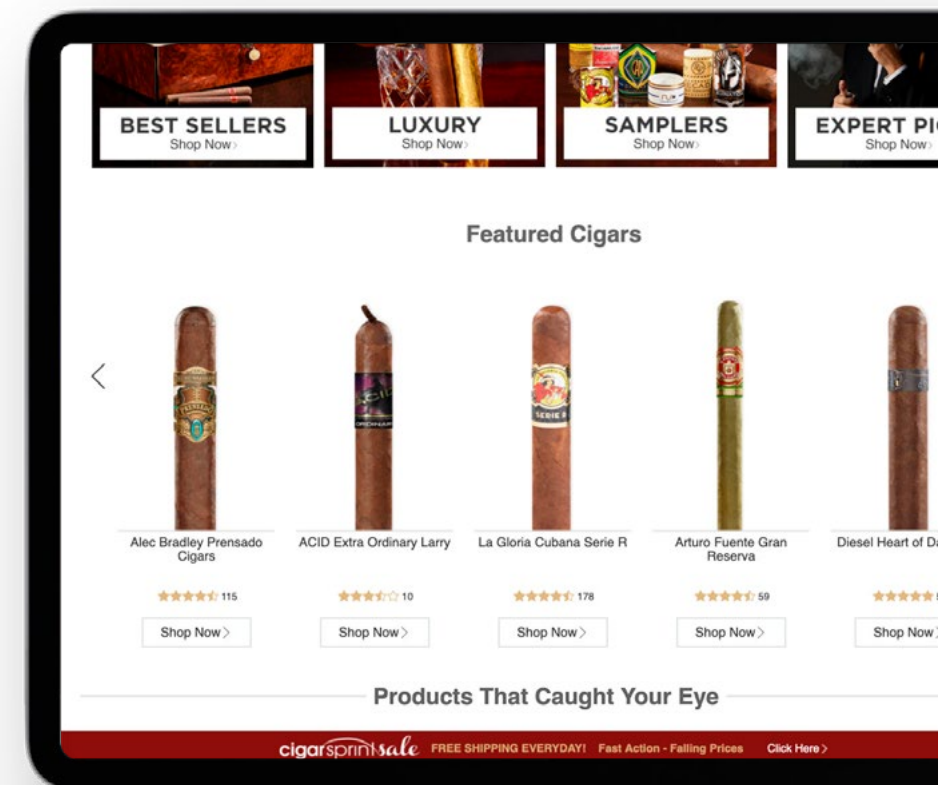
been pursuing aggressive price policies. There are also regulatory and compliance headwinds, such as excise tax, sales tax, shipping restrictions and adult signature requirements.

“The modernisation of our online platforms represents the largest transformation in the history of the North America Online & Retail Division. In the first half of 2020 we have pursued a number of quick wins and initiatives that lay the foundation for some major, new consumer programmes and we are executing according to plan,” says Heather Zdan, Chief Consumer Officer.

MORE PERSONAL, MORE LOYALTY

The aim of this multi-year strategy initiated in late 2019 which is expected to be fully implemented by the end of 2021, is to increase revenue and EBITDA. Each of the five direct to consumer business units focused on the handmade category will have a more distinct look and feel and a product range, marketing channels, promotion and loyalty schemes which are more differentiated.

Four of the business units already exist – Cigars International, Thompson Cigar, CigarBid, and CIGAR.com. A new business unit will be introduced with an integrated social and community focus that also fosters an ecommerce retail element.



Continues ▶

“It’s about increasing customer reach and increasing share of wallet,” Zdan says. “The overall aim is to deliver an exceptional consumer experience by digitalizing, improving user experience, introducing more personalization and adding more value in terms of loyalty.”

PURSUING NEW GROWTH

The modernisation of the online platforms is being implemented in 17 workstreams, such as Personalized Marketing, Website Redesigns and Consumer Profiling. The five business units will address the unique preferences of the eight distinct consumer segments and their purchasing patterns, reinforcing existing strengths while also allowing the pursuit of new growth. Smaller business units are helping to unlock capital to fund those objectives – the Thompson Cigar Auction website

has been shut down, customers migrated to CigarBid Auctions and marketing efforts optimised in the Pipes and Cigars business, which is experiencing a declining market. Responsive websites have been launched for Thompson Cigar, Cigars International and CIGAR.com.com, which has also been redesigned with a premium look and feel and personalized product recommendations driven by artificial intelligence.

The results are already showing. All of the key performance indicators are positive month-over-month and there has been a drastic change, with significant consumer migration to the online channel. From March until the end of 2020, NAO&R saw significant growth coming from these initiatives, and more is yet to come.

“We test new digital experiences with a small segment of our consumers to ensure changes are well received,” Smelko says. “Overall, we’re seeing positive results and we have learned some lessons along the way, but that’s what allows us to serve our consumers even better in the future.”

THE MODERNISATION HAS THREE OVERARCHING BUSINESS OBJECTIVES

Create clear propositions and brand delineation between NAO&R business units and competitors

Win market share and reach new consumers, especially younger, premium smokers

Protect profitability and focus on higher margin segments

The overall aim is to deliver an exceptional consumer experience by digitalizing, improving user experience, introducing more personalization and adding more value in terms of loyalty.



CHRISTIAN GRØNBECH
VICE PRESIDENT COMMERCIAL EXCELLENCE

MICHAEL SEIER PETERSEN
INTERNATIONAL CHANNEL DEVELOPMENT MANAGER

HOW TO SELL CIGARS IN A PANDEMIC

COVID-19 restrictions meant customer visits were out. So Scandinavian Tobacco Group’s sales reps switched to the telephone – it took some time getting used to, but the result has been increasing market share.

Sales reps are used to life on the road – in the car, visiting customers, day in and day out. But not in a pandemic.

Many stores closed and those which were open implemented social distancing. Either way, there was no time or space for retailers to speak to Scandinavian Tobacco Group reps when queues of customers stretched out the door.

In a quick and effective adaption to the new COVID-19 reality, tele sales proved an effective addition in Scandinavian Tobacco Group’s key European markets – and the results are clear.

The switch came with challenges, but by implementing tele sales rapidly and ironing out issues as they came up, the European team successfully contributed to increasing market share, a key method of driving sustainable profit in machine-

rolled cigars across categories. The combined market share in the largest European markets (France, Belgium, the Netherlands, UK, Germany, Spain and Italy) was 33.3% in the second quarter of 2020, versus 32.7% in the first quarter.

“Firstly, it’s about people and our sales force – keeping everyone safe and also engaged and motivated in this unknown situation. And then it’s about agility and

moving fast, so we have a discussion about what to do but each one ends with an action plan that we implement and refine as we go,” says Regis Pelerin, Marketing Activation Manager for France and Italy.

“Sometimes being bold can bring you more value than discussing the nitty gritty details for months – and then you find the answer but by then the question has changed. This is where we are trying to make a difference and show we can move fast and increase share in market and volume.”

WEEKEND WONDER

On Thursday 12 March, International Channel Development Manager Michael Seier Petersen and Competence Development & Implementation Manager Peter Brüggemann were appointed to lead a COVID-19 taskforce. They had to be ready to brief Scandinavian Tobacco Group’s markets on Monday 16 March on how they were going to handle the coming lockdowns across Europe.

The focus was on getting customers to overstock as there was an expectation

REGIS PELERIN
MARKETING ACTIVATION MANAGER
FRANCE AND ITALY

THE FRENCH MARKET

2.7%

points increase in market
share in France in May



of hoarding, and to avoid out of stock situations. Further to ensure customers bought Scandinavian Tobacco Group products to provide cash flow, which is even more important in a crisis.

It was clear that people would have to work remotely. Sales by telephone was the obvious solution but it posed challenges for reps and customers who were used to dealing with each other in person. This was addressed by providing a script that covered the essentials and biweekly meetings to assess how best to engage with customers in this situation, and how best to motivate reps who were working under pressure.

“This was something that previously might have taken us months to discuss and implement,” said Christian Grønbech, VP Commercial Excellence. “The team and market in cooperation here was quite fantastic – they implemented new ways of working over a weekend, introduced new measurements and started to embed it in the organisation. Change is a constant in our industry, and when we face it and have to react swiftly, we can actually do it.”

By reacting swiftly and clearly and supporting its sales reps, Scandinavian Tobacco Group achieved two important things – increasing market share and launching new products by phone, for the first time. In May, there was a market share increase in France of 2.7 %-points, to 51.2%.

Importantly, market shares grew for the top two brands, Signature and Mehari’s and the main premium brand La Paz.

LEARN AND GO AGAIN

Of course, the first challenge was to keep people safe. The second was, experienced reps had no idea of how to interact with their contacts by phone, including some of the usual best performers.

This required training, regular monitoring and sharing of best practice, as everyone learnt from each other – including basic things such as avoiding calls during lunchtime for many retailers. Perhaps most important was regular check ins, sometimes with a fun theme such as a competition or a breakfast meeting with a skiing theme, so people didn’t feel isolated from colleagues when working from home.

Moving from monthly to weekly objectives send a message to sales staff that no one could predict the future, and targets would be adapted as the situation became clearer. Achievable volumes were set in coordination with those on the ground, because it was simply impossible to tell how retailers would react and orders could differ widely each week.

“Firstly, sustainable growth is a consequence of the right people with the right equipment and right motivation – and that meant keeping everyone on board and engaged and motivated in this unknown situation,” says Petersen.

“Then it’s about agility. Each discussion should end up with an action plan to show we can move fast and increase share in market and volume. You can’t have a plan 100% ready to go in the current situation – it’s about execution. Try something and if it fails, fail fast, learn from it and try again.”



LAURIE RÆBILD
DIRECTOR TRANSFORMATION
MANAGEMENT OFFICE

JURJAN KLEP
PRESIDENT AND SENIOR VICE PRESIDENT
EUROPE BRANDED DIVISION

INTEGRATION - THE KEY INGREDIENT FOR A SUCCESSFUL ACQUISITION

The acquisition of Agio Cigars is the largest in the history of Scandinavian Tobacco Group. Once the deal was closed in 2020, the priority became integrating quickly to efficiently add value to the combined business. The process is going well, and there are some lessons which can be applied to future acquisitions.

Closing an acquisition is far from the end of the story – in many ways, it's just the start.

Scandinavian Tobacco Group aims to grow, strengthen its brand portfolio and leverage its costs through successful mergers and acquisitions, and the integration of its largest acquisition to date – Agio Cigars, a leading European company with 3,200 employees – bodes well for the future. In fact, as Senior Vice President of the Europe Branded Division Jurjan Klep puts it, the success of a transaction can only be judged by the success of its integration – which is also part of the Group's new strategy.

There are three key success factors in the Agio Cigars integration. Two of these have been achieved: integrating without disrupting the business and building the organisation around strong skills and capabilities, without losing key personnel. And the third factor, delivering synergies, is on track.

“Overall, it's really looking good and adding value to the business. There are always things you want to do better, and these are important to learn so we can integrate even better in the future,” Klep says. “We haven't seen any disruption in the business – in fact we have grown our market share, whereas previously with acquisitions there has been some loss at the start.”

MORE COMPETITIVE AND PROFITABLE

The combination of Scandinavian Tobacco Group and Agio Cigars is expected to deliver substantial cost synergies in sales and marketing, production and back office functions. When the full integration has

There are three key success factors in the Agio Cigars integration. Two of these have been achieved: integrating without disrupting the business and building the organisation around strong skills and capabilities, without losing key personnel. And the third factor, delivering synergies, is on track.

been completed by the end of 2022, it is anticipated that Agio Cigars will contribute to an increase in Scandinavian Tobacco Group's EBITDA margin before special items of more than 2%-points, based on estimates of net synergies of DKK 225 million.

Integrating Agio Cigars into a new company structure – with three divisions, fewer sales offices and an optimised production footprint – shows the adaptability needed to stay competitive in an industry with declining volumes. As a result, Scandinavian Tobacco Group is building a significantly more competitive and profitable company with a powerful brand portfolio, strong market positions

and robust supply chain for the benefit of employees, shareholders, customers and consumers.

“The blueprint for the new organisation is built on the strengths of both companies and on the best practices that have been identified in each,” says Laurie Ræbild, Director Transformation Management Office.

“We have involved employees from both Scandinavian Tobacco Group and Agio Cigars to ensure we get the most comprehensive view and fair and equal treatment for both groups. There is a good mix of people, with the right experience and skills, in key roles in the new organisation.”

DO IT BETTER

Just because the integration is progressing well, it doesn't mean the team isn't looking at things that could be done better in the future. One change that will be a considerable help is that Scandinavian Tobacco Group is moving to a single enterprise resource planning (ERP) system, which will make integrating different IT systems considerably easier.

“Each workstream was managed by people already in the company, and they did a very good job alongside their regular duties,” Ræbild says. Having professional project managers running each workstream alongside our colleagues would have eased the massive and structured project work that had to be done, as they have direct experience of running complicated cross-functional projects that influence and depend on each other. The Strategy & Transformation

RECENT SCANDINAVIAN TOBACCO GROUP ACQUISITIONS

2020

Agio Cigars, leading European cigar company.

2019

Pipe tobacco trademarks and designs from Dunhill Tobacco Company of London Limited.

2018

Peterson Pipe Tobacco, pipe tobacco business of Kapp and Peterson Limited.

Thompson Cigar, leading US online cigar retailer.

2014

Verellen, Belgian brand owner and manufacturer of machine-rolled cigars and Torano, a handmade cigar brand.

2013

PipesandCigars.com, catalogue and online retail business.

2011

Lane Limited, U.S.-based manufacturer and brand owner of pipe-tobacco, fine-cut tobacco and machine-rolled cigars, from Reynolds American Inc.

department is taking into account all these learnings, which will be key drivers of future M&A.

Importantly, almost the entire process has been carried out remotely due to COVID-19 and the associated challenges in communication. Face-to-face meetings are particularly important when employees are uncertain of what the future holds, so the successful integration so far is testament to the adaptability of those involved. A dedicated change management team, with people on site and communicating regularly and often, could also help with that in the future, Ræbild adds.

“Our ambition is to be a great integrator, and we're not there yet. It's very much about how we are organised and simplifying the processes we have. The areas to improve are a fragmented IT landscape, complex processes and lack of professional project managers and by addressing these, we can achieve our ambition to become the best integrator in the industry,” Klep says, summing up.

“The positive mindset, team spirit and motivation of the people involved in the Agio Cigars integration are making it one of the most successful acquisitions in the history of Scandinavian Tobacco Group, and I would like to thank all our colleagues for their hard work in making this so.”

RECENT ACQUISITIONS



Dunhill





REBECCA CHEN
DIRECTOR GLOBAL PROCESS OWNER

STIG RUTVING
VICE PRESIDENT FINANCIAL SERVICES



KEEP IT SIMPLE

Scandinavian Tobacco Group's financial processes work on 12 separate enterprise resource planning (ERP) systems. Streamlining this and moving to a single system will make tasks, such as integrating acquisitions, simpler and free up time for people to focus on other business activities.

Many incoming invoices must be printed, approved and scanned several times before appropriately authorized for payment. This is still a common method of processing invoices in some parts of Scandinavian Tobacco Group, where there is no invoice workflow system to support the process.

An employee needs to purchase office supply items or incur expenses in connection with a business trip. There is a policy setting out how this should be done and what can be spent, but it may vary from one location to another,

and the guidelines may not be simple to find.

These are examples of how business leaders with a global responsibility that span up to 12 enterprise resource planning (ERP) systems need to navigate differentiated processes and policies, and have little system support to ease the administration.

"The fact we are still using this kind of invoice process was a bit old fashioned," says Stig Rutving, Vice President Financial Services, who joined Scandinavian Tobacco Group in 2020. "In future, we will

push to have a purchase order approved before the commitment is made, instead of approving the invoice - and we will automate approvals, where we can guide staff through system design, to stay within policy.

"We will work to increase the ease of use of all financial administrative processes. Where approvals are needed, it should be a simple task popping up on your phone that only requires a tap of a button, saving a huge amount of time and administration across the company. We can then use this time to grow the business and improve efficiency."

It becomes so much easier for people to navigate in their responsibility area and we can really empower people to take decisions at the lowest level possible. In this way, it will provide much more agility.

EMPOWERMENT AND AGILITY

Data has become less transparent and processes have become more complicated as Scandinavian Tobacco Group has expanded through acquisition of family-owned companies, each using its own legacy system and data structures. The overall aim of these processes and structures is the same, but variations across locations limits efficiency and makes global transparency only possible if

reported in fixed formats. The new Global Financial Services organisation – headed by Rutving, who works with Rebecca Chen, Director Global Process Owner – aims to ensure effective and standardised transactional finance processes across the company. Standardisation will create a reliable, single set of data as the basis for sound business decisions and ease the process of integrating new acquisitions.

"It's about empowerment and agility," says Rebecca Chen, Director Global Process Owner. "It becomes so much easier for people to navigate in their responsibility area and we can really empower people to take decisions at the lowest level possible. In this way, it will provide much more agility."

Expenses and office supply are just two practical examples of the improvements that can be expected from this transformation, which will pave the way for moving to a single, global ERP, called One Process Project.

"My hope is that, with as much automation as possible, we can protect the values of the company and ensure that we have smooth administrative processes

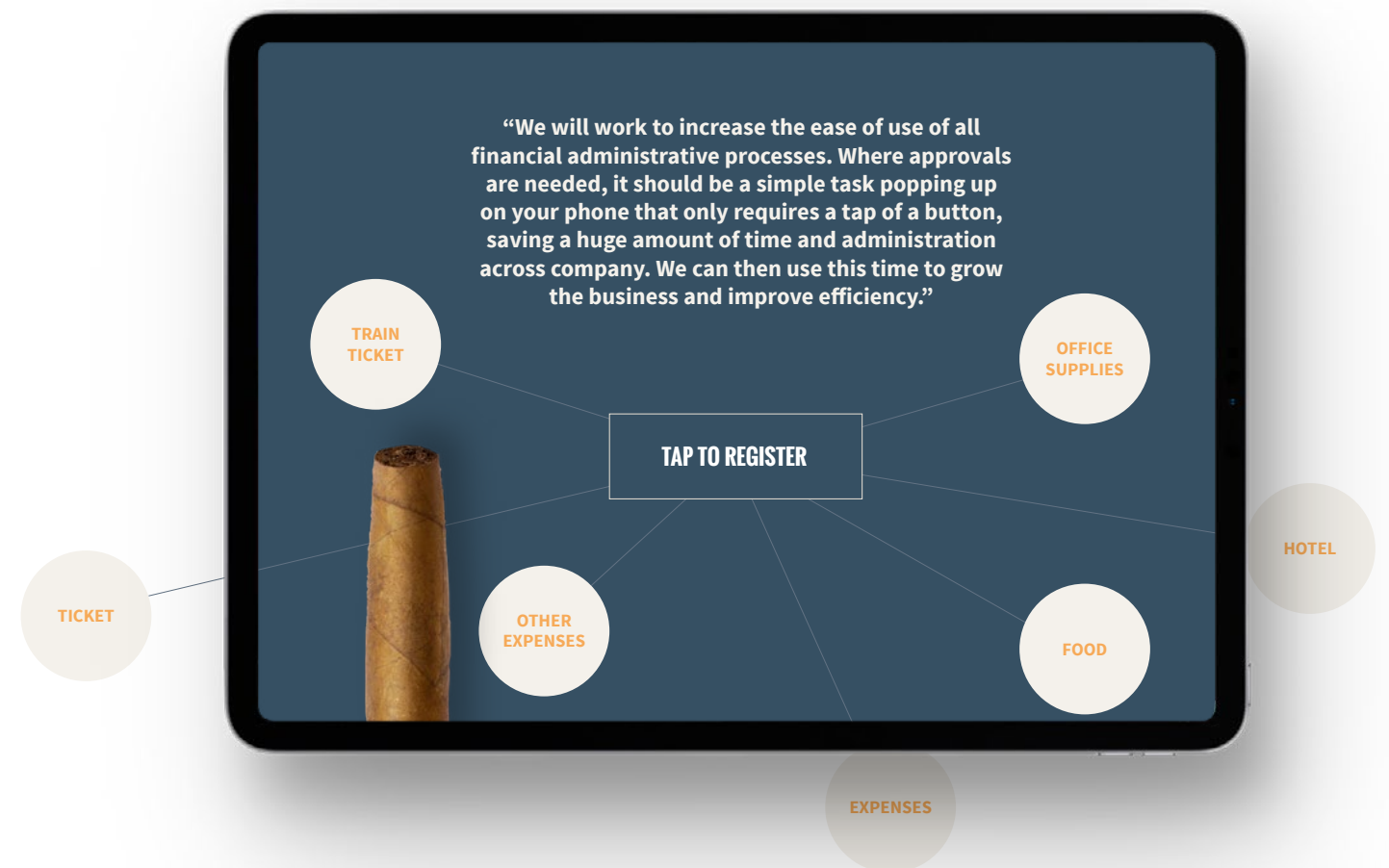
that are easy to use," Rutving says. "By creating transparency and simplicity in data structures, we will help business managers and decision makers to make the right decisions based on solid data that we create."

MAKING IT FUN TO GROW

Standardised processes will make integration easier – for instance, by creating a template which can be followed for similar tasks in all future acquisitions – while still allowing for variations to meet specific requirements in particular countries within the same overall system.

This will assist with the ongoing integration of Agio Cigars, a leading European company which was acquired in 2020, and its 3,200 employees and provide a solid foundation for the future.

"Every time Scandinavian Tobacco Group makes an acquisition, we are bombarded with things we need to do and it's a lot of work," Chen says. "It's not fun to integrate a new acquisition with the structure we have now, as there are so many obstacles and risks we have to manage. Instead, we want to make it fun to grow."





ROGER FERRERA
QEHS MANAGER, HANDMADE CIGARS

PLANNING THE UNPLANNABLE

A focus on performance has enabled Scandinavian Tobacco Group to react swiftly to COVID-19 in its handmade and machine-rolled cigar factories. Protocols for safe working were quickly put in place and best practices adopted globally, and production has actually increased to meet rising demand.

Waking up on the morning of 1 January, there was no way Scandinavian Tobacco Group's Operations team could have planned out 2020.

The business of producing handmade cigars is particularly disrupted by COVID-19 because of social distancing and hygiene regulations, which significantly complicate the normal running of factories – where people work in relation to each other, how

they take breaks, and even how they get there at the start of the working day.

“We were very agile in our response,” says Roger Ferrera, QEHS Manager, Handmade Cigars. “We defined what are we going to do and our references to know we are doing the correct things, based on information from the Centers for Disease Control (CDC) and World Health Organization (WHO), made it easily understandable. In fact, in the Dominican

GRAHAM CUNNINGHAM
CHIEF SUPPLY CHAIN OFFICER



Republic and Honduras, we acted as a coach for other non Scandinavian Tobacco Group factories in Honduras and the Dominican Republic who were struggling with what to do”.

Across three continents, 14 production facilities and above 6,500 employees, the efforts of the Operations team have made Scandinavian Tobacco Group an industry leader in how to tackle the pandemic and ensure safe working conditions – all while increasing production at the same time. The company's factories were the first to reopen in some countries and plans were shared with competitors for how to keep employees safe.

“It's important not to drive yourself insane looking for the correct answer, because there isn't one globally,” says Graham Cunningham, Chief Supply Chain Officer. “You have to have a global framework defining a small number of core principles and then incredible local agility to adapt to what you see in the moment, to mine best practices and to continually refine as you go to improve. To do that, it's important for employees to help us and tell us what isn't going well and I'm particularly pleased by the feedback that we received from peer to peer observations across the Operational footprint. In short, the whole performance culture regardless of location or seniority is key.”

NEW BOUNDARIES

The Operations team's response to COVID-19 shows Scandinavian Tobacco Group's performance culture in action. The company is continuing to make the organisation more professional by embedding a focus on performance into its global operating model, based on accountability, agility, professionalism and efficiency.

Embracing a performance culture in this way will ensure the company is aligned and moving in the same direction and ensure consistent improvement in the business and for individuals.

“This has been about facing into the storm, taking responsibility, looking after our people and ensuring their safety, while also looking after the economy and keeping the business moving forward, and balancing those needs” Cunningham says.

Ferrera explains that as soon as the WHO issued a global alert, a response team was formed across all the company's factories. There were daily meetings and factories

were considered on an individual basis, as the pandemic was at a different level in different countries. A protocol was in place as soon as a pandemic was declared, and thus it was relatively simple to implement measures and standardise initiatives across factories.

Measures include temperature monitoring, giving people masks – including making reusable masks, when there was a shortage of certified products – changing production facility layouts to ensure people are distanced and adapting shift patterns to adapt to curfews.

“We redrew our boundary for responsibility for employees. Traditionally this is at facility gate, but we moved it back to the bus they take to work and ensured there was hygiene gel at entry and people were sat at a distance,” Ferrera says. “This best practice came out of Indonesia and we adapted them for Dominican Republic, Honduras and Nicaragua. It took just two weeks between seeing this best practice in Indonesia and using it worldwide.”

OFFERING A RESPITE

The response was based on previous experience with SARS and MERS, which meant that Cunningham took the issue of COVID-19 to the Executive Board already at the turn of the year. Standard seasonal flu policies were enacted, including increasing stock of antibacterial and hand gels, and this early work meant Operations was better prepared when the pandemic took off.

“This has been about facing into the storm, taking responsibility, looking after our people and ensuring their safety, while also looking after the economy and keeping the business moving forward, and balancing those needs”

“It was defined by common sense in many cases. We didn't know too much about the virus at that stage, but we started to ask ourselves, how can we ensure crowded areas are safe?”, Ferrera says.

The company is now manufacturing double the amount of handmade cigars than at the start of the pandemic. The Operations team has organised that radical increase in production while keeping people safe – a difficult job but very rewarding when done well.

“What has been very helpful, during these tough times, has been focusing on our purpose,” Cunningham says. “Millions of our consumers turn to our products every day and through their own personal rituals look for a respite from everything that's going on around them in the world, and we're actually quite privileged to be able to offer them that respite.”



EMPLOYEES IN THE DOMINICAN REPUBLIC CRAFTING HANDMADE CIGARS

OUR VALUES - OUR PEOPLE

To succeed, we need the right culture to ensure that we as an organisation, as colleagues, and as people, are in sync on how we do our everyday job. Our four values provide the framework for what we should expect from ourselves and each other, every day.

1

**EMPOWER WITH
PASSION**

2

**BLEND OUR
STRENGTHS**

3

**CULTIVATE
COURAGE**

4

**LIGHT THE WAY
FORWARD**



1 | EMPOWER WITH PASSION

SEAN WILLIAMS
BRAND AMBASSADOR COHIBA

I believe that if someone truly loves what they do then they will do it with a sense of pride and ownership. This mindset empowers us to take on our roles with passion. Being empowered with passion for me means taking ownership and embracing accountability for my role in the success of the brand and the overall organisation.

2 | BLEND OUR STRENGTHS

TARAN SALABSKY
DIRECTOR OF CREATIVE OPERATIONS

Each individual throughout the Group has a unique skillset and perspective. Sharing these skillsets has been key to our past successes and will be instrumental in our future achievements. Thinking strategically, challenging the status-quo, and creating ideas brings value when we share and listen to our colleagues and blend our strengths. I believe each person brings something unique to the table and through collaboration with others we broaden the horizon of what is possible for our future.



3 | CULTIVATE COURAGE

OLENA KISHKINA
INTERNATIONAL MARKETING
EXCELLENCE MANAGER

Courage is arguably the most important quality in business if you think about it; other essential business concepts like leadership, innovation and sales fade in the absence of courage. Take away courage, the business loses its strength and competitive advantage. Cultivating this competence in the organisation is about making people comfortable with taking worthy actions despite the potential risk. I truly believe that this is one of our key success enablers on the transformational journey that our Group is pursuing.

4 | LIGHT THE WAY FORWARD

MARK DRAPER
DIRECTOR, PUBLIC AFFAIRS AND
CORPORATE SOCIAL RESPONSIBILITY

Whether working with our industry associations to shape our regulatory environment, or explaining to a financial partner how we approach our CSR work, I see regularly that our external stakeholders watch our Group carefully and measure our actions against our values. That is why it is so important to light the way forward and exercise leadership, responsibility, and sustainability in our company and in our industry.



CORPORATE SOCIAL RESPONSIBILITY

In 2020, we adopted our first CSR strategy focusing on four areas, each with its own defined ambitions, activities and goals. Those focus areas are:



PEOPLE & COMMUNITIES

How we work with our employees and the communities where they work and live



PLANET

How we work to ensure sustainable consumption and production



ETHICS

How we promote responsible action in our business and industry



GOVERNANCE

How we embed strong oversight and transparency in our CSR work

FOR MORE INFORMATION ABOUT OUR CSR STRATEGY, READ THE FULL REPORT HERE

[ST-GROUP.COM/REPORTS](https://st-group.com/reports)



OUR MANAGEMENT

1

NIELS FREDERIKSEN
PRESIDENT AND CEO

2

MARIANNE RØRSLEV BOCK
EXECUTIVE VICE PRESIDENT
AND CFO

3

JURJAN KLEP
PRESIDENT AND SENIOR VICE
PRESIDENT, EUROPE BRANDED
DIVISION

4

YULIA LYUSINA
HEAD OF STRATEGY AND
TRANSFORMATION AND SENIOR
VICE PRESIDENT

5

RÉGIS BROERSMA
PRESIDENT AND SENIOR VICE
PRESIDENT, NORTH AMERICA
BRANDED & ROW DIVISION

6

HANNE BERG
CHRO AND SENIOR VICE
PRESIDENT

7

SARAH SANTOS
PRESIDENT AND SENIOR VICE
PRESIDENT, NORTH AMERICA
ONLINE & RETAIL DIVISION

8

GRAHAM CUNNINGHAM
CHIEF SUPPLY CHAIN OFFICER

RETAIL EXPANSION

During 2020, we opened three new cigar Super-stores in the US; in Fort Worth, Texas and Tampa and Lutz, Florida.



CIGAR SUPER-STORE IN
FORT WORTH, TEXAS

STAY UP TO DATE



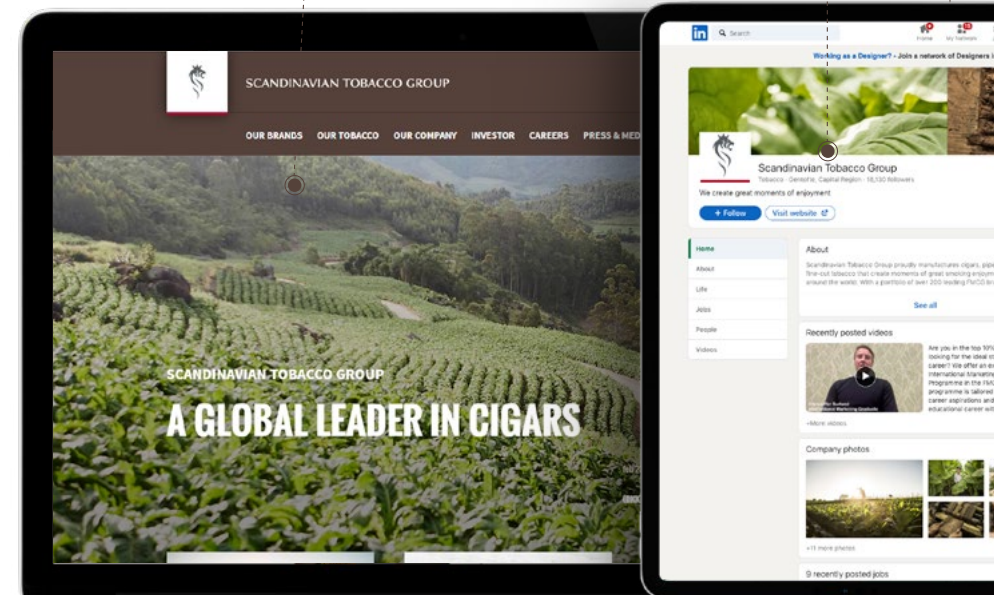
FOLLOW US ON LINKEDIN

linkedin.com/company/scandinavian-tobacco-group
linkedin.com/company/cigars-international/
linkedin.com/company/general-cigar



CORPORATE WEBSITE

Visit our website if you want the full story about our business, our brands, our tobacco and our people. Go to www.st-group.com for more information.





SCANDINAVIAN TOBACCO GROUP A/S
Sandtoften 9
2820 Gentofte
Denmark

www.st-group.com

CVR 31 08 01 85