



COMPANY PROFILE 2022



OUR FIVE MUST-WIN BATTLE STORIES

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COVID-19 has made 2021 another challenging year for all of us. Scandinavian Tobacco Group continued to adapt and cope successfully with the disruptions from the pandemic to our business, our consumers and employees.

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OUR VISION

BE THE UNDISPUTED, GLOBAL LEADER IN CIGARS



FROM ROUGH DIAMOND TO BUSINESS LEADER

The Forged Cigar Company is achieving significant growth through focusing on brands with untapped potential in the US, with a nimble team that responds quickly to the needs of retailers. Leading it is Sean Hardiman, a sales professional who has honed his skills during five years with Scandinavian Tobacco Group. **PAGE 20**



SEEKING THE SINGLE TRUTH

A new ERP platform will bring the whole of Scandinavian Tobacco Group together on a single IT system. This business transformation will provide better processes and data, supporting growth, simplification and integration of future acquisitions.

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SPANISH SUCCESS

With a focus on brands that appeal to new consumers, Scandinavian Tobacco Group has achieved growth and a significant gain in market share in Spain – even though overall volumes in this important market are declining.

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STRIVING FOR A MORE DIVERSE WORKFORCE

Scandinavian Tobacco Group is responding to the increased focus on diversity, equality and inclusion (DE&I) globally through raising awareness and seeking additional progress towards our targets for diversity in our workforce. **PAGE 17**



LETTER FROM CEO

KEEPING OUR PROMISE TO CIGAR SMOKERS

COVID-19 has made 2021 another challenging year for all of us. Scandinavian Tobacco Group continued to adapt and cope successfully with the disruptions from the pandemic to our business, our consumers and employees.



NIELS FREDERIKSEN
President and CEO

On the back of strong demand for handmade cigars we delivered particularly strong financial results and have given ourselves a strong foundation for a successful 2022.

We have delivered on our top priority, to keep our employees safe during the pandemic while maintaining business operations allowing us to keep our promise to cigar smokers around the world. We made good progress through 2021 on our “Rolling Towards 2025” strategy and edged closer to our vision of becoming the undisputed, global leader in cigars. Underpinning this strategy are our five must-win battles, focus areas where we need to succeed in order to reach our ambition, and these are the theme for this 2022 Scandinavian Tobacco Group Company Profile Brochure.

To show the progress of our strategy in action, we are presenting five examples of how different parts of our business

are delivering on these targets. In this brochure, you can read about the success of The Forged Cigar Company, a new US distribution company which is achieving significant growth, and how we continue to simplify and professionalise the company by moving towards a single Enterprise Resource Planning (ERP) system.

Scandinavian Tobacco Group aims to be the best acquirer and integrator in the industry and to achieve this ambition, we have introduced a new M&A Playbook with guidelines around future acquisitions. We also have a significant success story from Spain, where Scandinavian Tobacco Group has achieved growth and a significant market share gain even when overall volumes are declining, and the details of how we have been able to increase efficiency at our production sites.

These articles will give you a sense of the dedication and innovation of our employees, whose sterling work is

enabling Scandinavian Tobacco Group to manage and overcome the unprecedented circumstances we are all working in. I would like to extend my thanks to all the Group’s employees for their contribution to the company.

I hope you enjoy reading more in this Company Profile.

We have delivered on our top priority, to keep our employees safe during the pandemic while maintaining business operations allowing us to keep our promise to cigar smokers around the world

OUR MUST-WIN BATTLES

- 1 GROW OUR HANDMADE CIGAR BUSINESS**
From rough diamond to business leader
- 2 DRIVE SUSTAINABLE PROFIT GROWTH IN MACHINE-ROLLED CIGARS**
Spanish success
- 3 INTEGRATE NEW MERGERS AND ACQUISITIONS**
A disciplined and focused approach to M&A
- 4 SIMPLIFY EVERYTHING WE DO**
Seeking the single truth
- 5 EMBRACE A PERFORMANCE CULTURE**
Increasing efficiency, together

Read the articles on page [20-31](#)





WHO WE ARE

Scandinavian Tobacco Group is a global leader in cigars. For more than 250 years, we have been maker of rituals by providing premium tobacco products and experiences to consumers embedded by textures, flavours and aromas. With our portfolio of industry leading cigar brands, we deliver consumer experiences that really make a difference.

10,000

EMPLOYEES WORLDWIDE

1,000,000

ACTIVE ONLINE CONSUMERS IN THE US

UNRIVALLED CIGAR BRAND PORTFOLIO



SIGNATURE

COHIBA

100

DISTRIBUTION MARKETS

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 11 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 MORE THAN 100 COUNTRIES

We have sales companies throughout Europe and the US, and we sell our products in around 100 countries via wholesalers, distributors and a variety of supermarkets and retail stores including our own 7 cigar super stores in Pennsylvania, Texas and Florida in the US.

5

IN THE US WE SELL ONLINE TO CONSUMERS

The market for catalogue and online sales to consumers is growing in the US. In 2021, we sent out 25 million catalogues and had around 1 million active online consumers shopping from our five websites customised for different consumer profiles.



OUR PORTFOLIO AND BRANDS

In Scandinavian Tobacco Group, we take pride in our brands. Within handmade cigars, we are the market leader in the US, and we have leading positions outside the US. In machine-rolled cigars, we are the market leader outside the US and have a broad assortment of global brands.

HANDMADE CIGARS

LEADING BRANDS



MACHINE-ROLLED CIGARS

LEADING BRANDS



SMOKING TOBACCO

LEADING BRANDS

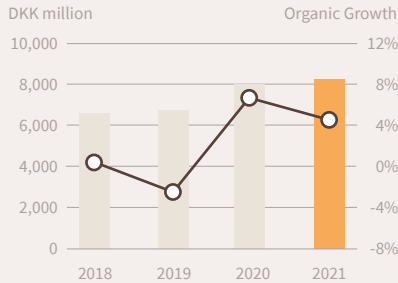


FINANCIAL PERFORMANCE 2021

NET SALES

8,233
DKK million

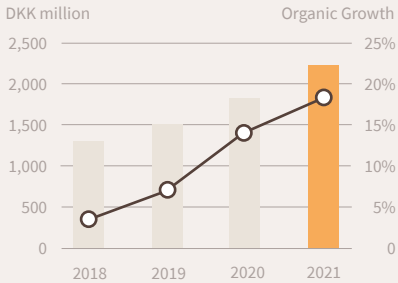
▲4.5%
Organic growth



EBITDA BEFORE SPECIAL ITEMS

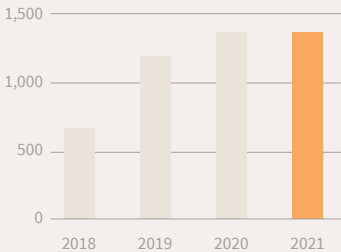
2,233
DKK million

▲18.4%
Organic growth



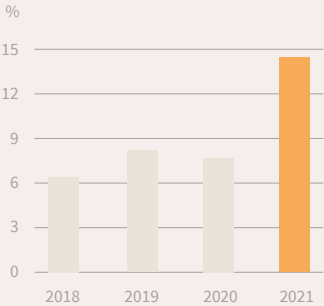
FREE CASH FLOW BEFORE ACQUISITIONS

1,393
DKK million



RETURN ON INVESTED CAPITAL

14.5
%



TO BROWSE THROUGH ALL OF OUR FINANCIAL NUMBERS,
READ OUR ANNUAL REPORT 2021

[ANNUAL REPORT 2021](#)

NET SALES BY DIVISION

32%

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%

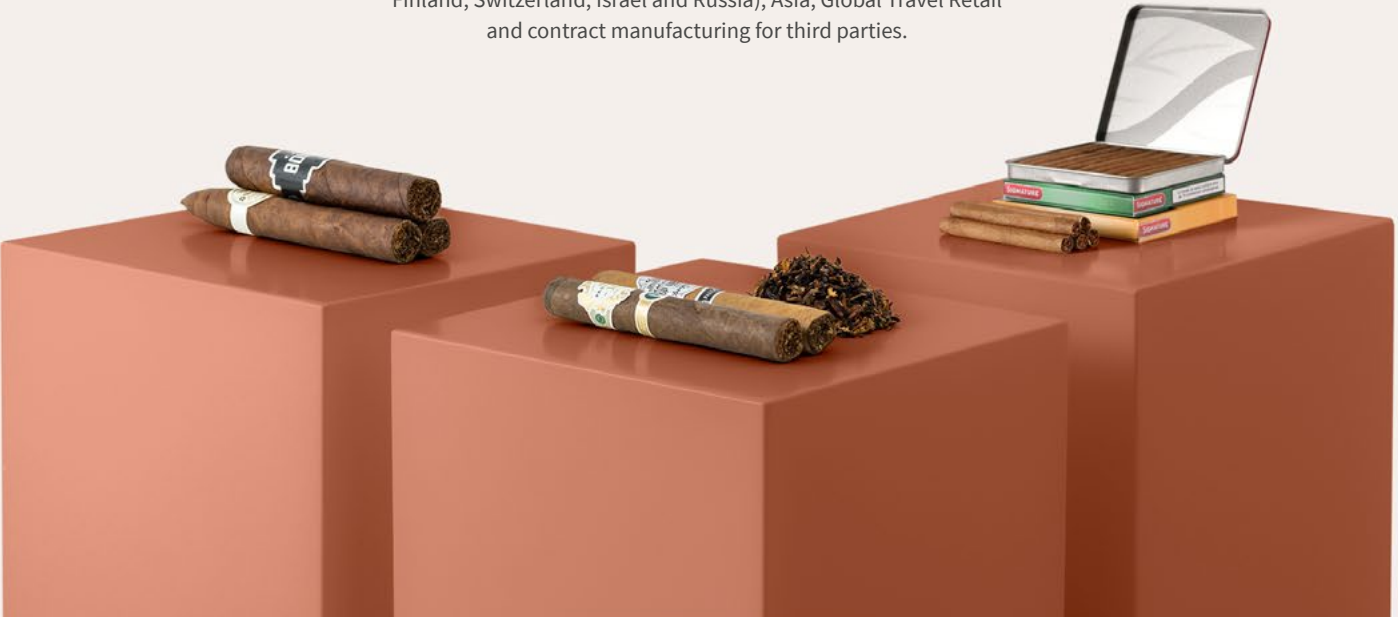
EUROPE BRANDED

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%

NORTH AMERICA BRANDED & REST OF WORLD

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.



SUSTAINABILITY

When Scandinavian Tobacco Group in 2019 decided to reboot and lift our sustainability work, we set out on what we knew would be a multi-year journey that would call for careful self-analysis, the creation of new and more robust capabilities, honest dialogue with our key stakeholders, and a strategy to provide a roadmap for our work.



PEOPLE AND COMMUNITIES
How we engage with our employees and the communities where they work and live



PLANET
How we work to ensure sustainable production



ETHICS
How we promote responsible actions in our business and industry



GOVERNANCE
How we embed strong oversight and transparency in our business

PILOT INITIATIVES SHOW PROMISE

Scandinavian Tobacco Group is already working to identify areas for lasting emissions reductions in our business and manufacturing operations. The Group's Operations division in 2021 launched a number of pilot initiatives to test different ideas for reducing or further limiting emissions.

"We are already trying to anticipate next steps and place some smart bets on activities that we believe can really move the emissions needle downward and the carbon agenda forward" says Graham Cunningham, Chief Supply Chain Officer for Scandinavian Tobacco Group.

"We are doing this methodically and in a way that is consistent with international best practice. It's also key to our target setting discussions as these experiments provide us with a sense of both opportunity and impact looking forwards."

READ THE FULL STORY AND MORE IN OUR
[SUSTAINABILITY REPORT 2021](#)



A more efficient production footprint – in terms of where you're placed and what's being produced in different locations – is another lever we can use to impact greenhouse gas emissions

STRIVING FOR A MORE DIVERSE WORKFORCE

Scandinavian Tobacco Group is responding to the increased focus on diversity, equality and inclusion (DE&I) globally through raising awareness and seeking additional progress towards our targets for diversity in our workforce.

Our global goals are supported by different local initiatives, each relevant to societal conditions where the Group operates.

In the US, for example the Group in 2021 partnered with an external DE&I consultancy to facilitate management workshops focused on gender and racial equity considerations in the workforce.

"A diverse and multicultural workplace brings several advantages, including greater creativity and increased productivity, broader cultural awareness, and, we hope, recognition as a desirable employer" says Caryn Metzger, Head of People Services, North America.

READ THE FULL STORY AND MORE IN OUR
[SUSTAINABILITY REPORT 2021](#)



50%

Four out of eight of the members of our Executive Board are women

-3.7%

Group CO₂ equivalent emissions (Scope 1 and 2) decreased by 3.7% in 2021 compared to 2020.

-3.1%

Water use in our production facilities declined in 2021 by 3.1% compared to 2020.

-16.4%

Overall reduction in tobacco waste of 16.4% in production sites.

TO READ MORE ABOUT OUR SUSTAINABILITY INITIATIVES,
READ OUR SUSTAINABILITY REPORT 2021

SUSTAINABILITY REPORT 2021

OUR STRATEGY

In 2020, we revised and updated our strategy. With Rolling Towards 2025 we renewed the vision and strategic direction for the Group until 2025 as we cemented our focus on cigars and our goals to become a larger company, to grow EBITDA and to create outstanding cash generation to support our continued growth and for our shareholders.

Rolling Towards 2025

The revised strategy is based on five must-win battles; areas where we need to succeed by 2025 and that will allow us to improve the products, processes and consumer experiences that really make a difference. Each must-win battle is supported by four enablers that ensure efficient operations and IT infrastructure,

establish a steady intake of new talent into the Group while identifying new paths to growth.

We have made good progress in all areas of the strategy in 2021 and edged closer to our vision of becoming the undisputed, global leader in cigars. Within each of the

must-win battles we launched, advanced and completed initiatives that allowed us to continue the modernisation and professionalisation of Scandinavian Tobacco Group.

OUR PURPOSE

**CRAFT THE
RITUALS THAT
MAKE US MORE**



OUR VISION

**BE THE
UNDISPUTED,
GLOBAL LEADER
IN CIGARS**



OUR 5 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**





FROM ROUGH DIAMOND TO BUSINESS LEADER

The Forged Cigar Company is achieving significant growth through focusing on brands with untapped potential in the US, with a nimble team that responds quickly to the needs of retailers. Leading it is Sean Hardiman, a sales professional who has honed his skills during five years with Scandinavian Tobacco Group.



Now I've learned more about our customers - how to work with them and our team to achieve the best results. And when I look back, I'm proud that this personal journey has made me a stronger contributor, with new skills that are helping to build the business of The Forged Cigar Company and deliver results for Scandinavian Tobacco Group



Sean Hardiman was a rough diamond when he was hired by Scandinavian Tobacco Group in 2016.

Five years after joining the company, he has harnessed the right skills to take charge of The Forged Cigar Company, a stand-alone US distribution company with its own dedicated sales force developed to deepen support for the brick and mortar business through investment in brands with strong potential.

"I was just rough around the edges. I spoke my mind with no filter. Now it's more refined. When I talk it is much more calculated and it comes from actually understanding what I'm talking about," Hardiman says.

"Now I've learned more about our customers - how to work with them and our team to achieve the best results. And when I look back, I'm proud that this personal journey has made me a

stronger contributor, with new skills that are helping to build the business of The Forged Cigar Company and deliver results for Scandinavian Tobacco Group."

FACE OF A BOUTIQUE, BODY OF A MACHINE

Largely funded from within General Cigar Company, The Forged Cigar Company was created to fulfill a need in the marketplace by providing increased value to retailers and greater support in helping them grow their business. This is accomplished through a deeper investment in its brands and in enabling the team to be nimble in responding to the needs of retailers in meeting marketplace demands.

"From the moment we decided to do this, it took just four to five months to have everything up and running with sales people on the street," says Regis Broersma, President and SVP North America Branded and Rest of World. "Marketing needs to do two times the work because we have split the brands

into two businesses and instead of one launch a year, now there's two. Finance teams and invoicing were set up, warehouse people have to ship more cigars, the factory has to scale up - it's truly a team effort."

The Forged Cigar Company has taken brands from General Cigar Company - including Partagas, La Gloria Cubana, El Rey Del Mundo, Bolivar Cofradia, Diesel and Chillin' Moose - and put more focus on them, with a dedicated sales force. The business has achieved net sales growth of 34% in its first year with 189 new accounts and 16,299 new distribution points.

"The success is based on collaboration and speed," Broersma says. "The Forged Cigar Company is unique because the face is boutique but the body is machine, with the resources of a big company. And it's a basket of legendary brands, whereas other companies might just have one."

ACHIEVEMENTS IN 2021

34%
net sales growth

189
new accounts

16,299
new distribution points

BRAND SUCCESS AND CONSUMER PULL

Hardiman has more than 11 years in the premium cigar category, both as a retailer and as a sales manager. He has a deep passion for the industry, a firsthand knowledge of what makes brands a success at the retail level and knows how to drive consumer pull. The Forged Cigar Company has leveraged on Hardiman's experience and connections to recruit sales professionals with a diverse range of backgrounds, from dyed-in-the-wool cigar industry experts to those with deep experience in large corporates, to provide a diverse range of views and skills.



The company management have given me every tool to be successful and to improve as a sales rep and as a person,” Hardiman says. “I’m grateful for this support and so pleased that I’m able to pay it back with this success



In addition to supporting brick and mortar retailers in growing their businesses, The Forged Cigar Company will leverage relationships with its proprietary network of cigar factories to meet the changing demands of retailers and consumers.

Under the guidance of Hardiman, the sales team can move fast, adapting and pivoting as needed to deliver valuable support

to the retailer, and will provide product innovations that meet the needs and wants of consumers.

“The company management have given me every tool to be successful and to improve as a sales rep and as a person,” Hardiman says. “I’m grateful for this support and so pleased that I’m able to pay it back with this success.”



REGIS BROERSMA
President and SVP North America Branded & RoW



SEAN HARDIMAN
National Sales Manager



Claes Berland
Marketing Manager, Signature Global

Peter Schönheyder-Vitek
VP Brand Marketing



SPANISH SUCCESS

With a focus on brands that appeal to new consumers, Scandinavian Tobacco Group has achieved growth and a significant gain in market share in Spain – even though overall volumes in this important market are declining.

Spain has long been known as a very traditional market for cigars, based on wealthy, middled aged, male consumers. Scandinavian Tobacco Group has brought it back to the future.

Total volume in Spain had been declining over five to 10 years. With fewer consumers to fight for, Scandinavian Tobacco Group decided to focus on compact cigars and introduced filters and the development of flavours.

“It was a traditional market – a very traditional offer for a traditional consumer, declining year on year – and we’ve driven it to become more modern,” says Claes Berland, Marketing Manager, Signature Global. “We dared to do something different. We looked at what we believed was going to be big and focused on it. We now see an inflow of consumers that are different than before, with a wider age spread and more women.”

OFFSET DECLINE AND INTO GROWTH
In 2017, Scandinavian Tobacco Group had a market share in Spain of 13%. As a result of the new focus on new categories, the future winning segments such as compacts, filters and flavours, that share is soon to reach a milestone of 25%, largely driven by the Signature brand. The acquisition of Agio Cigars in 2020 has also helped to reinforce market share.

“Signature is now aiming to be a leading brand in Spain,” Berland says. “If we had not done this the market would be double digit decline. We offset the decline and went into growth.”

Rather than conduct 10 or 20 launches a year, across the whole portfolio, the business focused on specific brands and ensured these performed and delivered after launch.

“We were focused and single minded and stuck with it – we said, this is our target and this is what we’re betting on, everyone is behind it and then we get these results. We can really outperform the market if we focus on something and give it time and see it through,” says Eva Ramos, Marketing Manager, Spain & Portugal.

“It was a market opportunity we, as a company, could capture with the right products at the right time.”

FOCUS PAYS OFF

It was not a question of addressing underperformance, but rather a continued and focused effort, with the impact now being clearly seen in the numbers. It is supported by the capability of the organisation and the backing of a strong international company, with global product capability that fits local needs.

As a result, Scandinavian Tobacco Group has become more valued to key customers in Spain, by providing a bigger portfolio that is stronger and more balanced, covering all consumer needs.

Now, other markets are now able to look at Spain and consider a possible route to gaining market share.

“What’s happening now in Spain is we’re hitting a milestone for our performance. The focus on winning segments is paying off,” says Peter Schönheyder-Vitek, VP Brand Marketing.



What’s happening now in Spain is we’re hitting a milestone for our performance. The focus on winning segments is paying off



Yulia Lyusina
SVP Strategy, Transformation and Sustainability

Laurie Ræbild
Head of Sustainability and previous Director Group Project's Portfolio Management Office



A DISCIPLINED AND FOCUSED APPROACH TO M&A

Scandinavian Tobacco Group aims to be the best acquirer and integrator in the industry. Part of this is a new M&A Playbook, which defines guidelines around future acquisitions – from selecting targets through to eventual integration – to ensure these create the maximum value for the company.

GROWING MARKET SHARE IN SPAIN

Brand portfolio covering all segments

Competitive sales force

Adapting to legislation

Brand name change for Café Crème to Signature



Other brands also contribute to market share

PRIORITIES FOR EUROPE BRANDED

ACCELERATE PRICING

SIMPLIFY PORTFOLIO

WIN THE KEY CUSTOMERS

WIN IN WINNING SEGMENTS



The completion of Scandinavian Tobacco Group's acquisition of Agio Cigars in 2020 was far from the start of the process. Or its end.

Agio Cigars, the largest acquisition in Scandinavian Tobacco Group's history, had been on the radar screen for several years. Its business had been screened for how it could create value if acquired, including synergies, creating scale and a strong portfolio that was complementary to the Group's. When the conditions and price were right, the deal was completed, paving the way for the equally critical process of integration.

Bringing all these elements together into a single, best-practice playbook is a key element in Scandinavian Tobacco Group's ambition to be the best acquirer and integrator in the industry. The M&A Playbook defines guidelines around future

acquisitions and help ensure these create the maximum value for the company.

"We want to be more disciplined and focused in how we do M&A and the Playbook is a way of helping us to become the best integrator in the industry. To create best value for shareholders, we should follow structured processes and adding analytical and strategic perspectives and learnings from previous acquisitions as we go," says Yulia Lyusina, SVP Strategy and Transformation.

IMPROVING ALL THE TIME

Scandinavian Tobacco Group aims to be the undisputed global leader in cigars and has a proven track record in M&A. Most recently, the 2018 acquisition of Thompson Cigar for USD 62 million strengthened the Group's position in the US online channel and created significant synergies and value.

The acquisition of Agio Cigars, for €210 million, brought a good geographic fit, complementary brands and enabled utilisation of excess capacity. It was a major acquisition that brought significant cost savings and allowed us to enhance our capabilities in machine-rolled cigars.

We've worked hard to align on the objectives and criteria for why we want to do M&A in our three commercial divisions and in which categories

Both deals created an approximate return on invested capital of 20%.

With this proven M&A strategy, Scandinavian Tobacco Group has both the capacity and appetite for further acquisitions and there are further opportunities. The M&A Playbook now sets out a structured and disciplined approach from strategic screening through negotiations and deal execution to integration planning and implementation.

"We've worked hard to align on the objectives and criteria for why we want to do M&A in our three commercial divisions and in which categories. We are clarifying objectives and defining strategic criteria for our target companies – essentially, defining which companies we should go for and why. Our aim is to create value that surpasses value of individual companies and integrate in the best way with respect



to people, culture and unique capabilities" says Laurie Ræbild, Head of Sustainability and previous Director Group Project's Portfolio Management Office.

END TO END THINKING

One thing the Playbook does not set out is timing or frequency of acquisitions – rather, these need to be the right target and at the right time. Agio Cigars, for example, was on the radar screen for years before the acquisition actually took place.

"The acquisition and integration of Agio Cigars has been very successful but

looking back we can see where we need to improve for next time," says Lyusina. "With this Playbook we now have a detailed plan of how to run acquisitions, with four basic sections and depth and details that can be adapted according to the actual acquisition and the complexity.

"We often acquire strong brands and companies with deep and respected heritage, and it's important for us to help protect this heritage and craftsmanship. Now it's real end to end thinking and all under one must-win battle, from start to finish."



SEEKING THE SINGLE TRUTH

A new ERP platform will bring the whole of Scandinavian Tobacco Group together on a single IT system. This business transformation will provide better processes and data, supporting growth, simplification and integration of future acquisitions.

Every decision is taking longer than it should. With 12 legacy ERP systems of business management software, data is generated and recorded differently all across Scandinavian Tobacco Group. It's a result of how the company has grown. Now is the logical moment to unite these systems to simplify processes and improve the quality of data used for business decisions.

"For many years Scandinavian Tobacco Group has been under investing in IT, and now we have to catch up," says Kenneth Messerschmidt, Chief Information Officer. "We need to invest to make our IT landscape modern, to simplify it and to really be able to support global processes, standardise and use best practices."

Scandinavian Tobacco Group has carried out five acquisitions since 2016. It has

inherited these companies' IT systems, leaving a fragmented landscape where different parts of the company operate on different systems.

ONE GLOBAL WAY OF WORKING

ONEProcess is the largest IT investment in the history of Scandinavian Tobacco Group. It is a significant business transformation and a new global ERP platform, provided by SAP, will be a key



enabler for the execution of the Rolling Towards 2025 strategy. The programme will unite the current 12 ERP systems and will harmonise and simplify core business processes, improve quality of global master data and create a robust compliance and control environment.

SAP is the best fit with regards to functionality and best-practice processes, has a proven footprint and provides the strongest implementation partners.

Once implemented, this will simplify and standardise critical business processes and data, particularly in commercial, production, supply chain and finance departments – essentially reducing time spent on determining quality of data and providing a better and faster basis for taking informed business decisions, supporting growth, simplification and integration of future acquisitions.

"It has been a natural evolution that as Scandinavian Tobacco Group has

expanded, we have ended up with multiple IT systems that harmonised across our company" says Rasmus Vienberg, Head of Information Management.

"It's always daunting for a business to look at this journey, but everyone knows that the result – creating one global way of doing core aspects of your work – is a huge benefit and will leave us with huge benefits in our hands for better decision making. A pre-requisite for being a success is that we focus on the business aspect and improving the processes and data that people depend on."

REAL TIME DATA

An ERP application is the IT backbone in supporting an organisation's processes, and any change to such application will impact the entire organisation. Work on ONEProcess has been underway since March 2020 to ensure business preparation. Work will continue through 2022 in preparation for roll-out, in waves

across the organisation, from Spring 2023 with full implementation expected in 2024-25.

As a cross-functional and cross-divisional project, ONEProcess will involve employees and resources from almost all areas of the organisation. Adopting the newest technologies in the market and best-in-class standards will create opportunities for employees to learn new skills and increase their competencies.

It has been a natural evolution that as Scandinavian Tobacco Group has expanded, we have ended up with multiple IT systems that harmonised across our company

"Today, we sometimes spend more time discussing what is the right dataset rather than how to act on the data – essentially, we're debating what is the truth, because we have information coming from so many different systems," says Messerschmidt. "In future with ONEProcess, we'll be able to make faster and better decisions based on real time data, across markets and products, and this will also contribute greatly to our bold M&A agenda."

ONEPROCESS AIMS TO ADDRESS THREE KEY GAPS IN HOW THE BUSINESS WORKS

Standardised processes and ways of working in one integrated ERP platform

Real time and comparable data across divisions and geographies

Automation of labour-intensive tasks





INCREASING EFFICIENCY, TOGETHER

Scandinavian Tobacco Group has significantly improved production efficiency in its handmade cigars factories, based on employing techniques from the Lean business philosophy. It has been achieved with a focus on safety, improving quality, standardisation and closely monitoring production.

There was something not quite right about the Macanudo Inspiration White handmade cigars.

A customer of the cigars, being manufactured at Scandinavian Tobacco Group's factory in Honduras, had highlighted incorrect information on the universal product code (UPC), the line of numbers which appears below a product's barcode. This was creating issues for

customers, as the cigars were not scanning properly into their systems for accurate records of their stock.

The operations team reacted swiftly: a root cause analysis quickly identified variation in how the UPC codes were being printed, resulting in some working as usual and others not scanning – an issue that was quickly fixed.

“There are four focus areas in our performance culture: safety, customer experience, adherence to schedule and efficiency. It is based on Lean techniques, so we put the structure in place and build on it to improve day to day,” says Johan Gebruers, Head of QEHS and Lean.

Safety performance is improving, with the total recorded injury frequency rate per 200,000 hours at 0.46 in 2021, compared

with 1.14 in 2020, and handmade cigar output is increasing significantly (see box).

“This is not about one single result achieved by one person, but rather a culture of enhanced performance, achieved by all our employees working together. With thousands of people in production, working together towards the same goal, we achieve sustainable results.”

EVERYONE TOGETHER

Lean is a philosophy which aims to provide a new way of thinking about organising activities to deliver more value to the company and a better experience to its customers while eliminating waste.

The Macanudo Inspiration White production example is just one of many elements in how Scandinavian Tobacco Group has used kata – a Lean technique based on a four-step plan to determine an objective, grasp the current condition, define the next target and move towards it – to increase the efficiency of its operations. The approach is centred around the four focus areas so any potential issues can be spotted and dealt with quickly.

“Everyone is involved in kata, all the supervisors and employees working

together to achieve that goal every day. Everyone supports it because they can see it's working,” says Jahayra Alvarenga Ortiz, Lean Coordinator in Honduras.

The number of cigars manufactured per hour has risen from 45 in 2017, when kata was introduced, to 53 in 2021.

START WITH SAFETY

The starting point is safety, with the key objective that all employees go home safe when they finish work and that every accident is one too many. From 2017, the operations team gathered information, undertook root cause analyses and implemented solutions with the eventual aim of reaching zero accidents.

This was based on the Lean DNA performance management principles, such as ensuring everything has a purpose and is in the correct place, daily meetings on the shop floor with safety as a first topic and making it highly visible with information boards throughout the factory.

The kata boards include real time performance against targets, so everyone can see progress and any issue slowing production can be spotted and quickly addressed.



We immediately see if we are producing fewer cigars than we are supposed to, so we can tell something is going on and take action straight away



“We immediately see if we are producing fewer cigars than we are supposed to, so we can tell something is going on and take action straight away,” says Alvarenga Ortiz. “Otherwise, you would only know days afterwards, and only then could you start to analyse, look for the cause and solve it.”

This also helps with quality control while standardisation – identifying best practice and extending it across production sites – has further added to efficiency gains.

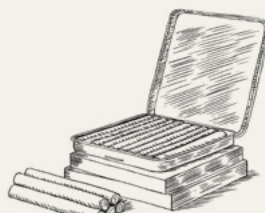
“With Lean, we have changed the way we solve problems and have become more objective when it comes to detecting the root cause,” says Gebruers. “Basically, the way we solve problems now is more structured.”

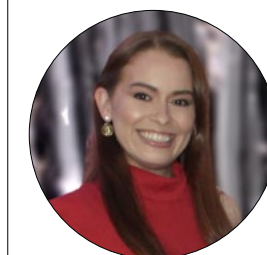
OPERATIONAL HIGHLIGHTS

OVERALL EQUIPMENT EFFECTIVENESS HANDMADE CIGARS

45% 2019  74% 2021

OVERALL EQUIPMENT EFFECTIVENESS MACHINE-ROLLED CIGARS

61% 2019  69% 2021



JAHAYRA ALVARENGA ORTIZ
Lean Coordinator in Honduras



JOHAN GEBRUERS
Head of QEHS and Lean

RITUALS THAT MAKE US MORE

At Scandinavian Tobacco Group, we've always believed in the power of rituals, and for over 250 years, we've honed our craft to make premium products that break us out of routine. We are makers of rituals that enable us to see beyond the present towards a better future.

#1 | TEA ON THE PATIO

LAUREL TILLEY

BRAND AMBASSADOR MACANUDO, US

"My favorite time of the day is in the morning. There is nothing better for me than waking up early, especially on a nice day, going out to my patio, getting a cup of tea and a good book just starting the day fresh. It is something about a fresh, bright shiny day that is so wonderful. I love being able to be completely in my zone with my book and relax."



#2 | GARDENING

YURI GUILLEN MADERA

PROCESSING AND CIGAR MAKING, DOMINICAN REPUBLIC

"My ritual takes place in the afternoon. When I get home after a challenging day at work, I water my garden and make sure the flowers have all they need. After wetting the garden, I sit on the couch to read a book or magazine then light up a cigar while my wife makes coffee. Between the cigar, coffee and reading, followed by the music of the birds, my day begins to settle down for a well-deserved rest."



#3 | A WALK FOR BALANCE

MARK RENARD

INTERNATIONAL MARKETING MANAGER, THE NETHERLANDS

"My daily ritual to start the day full of energy and taking on each challenge ahead is to have a short walk with my now two-year-old daughter. We talk about the things we see outside, and with working from home so much it's an active start of the day and provides a good balance for me. It's this simple, personal ritual that makes a great impact, which I pursue as well at work."



#4 | START FULL OF ENERGY

ANNE KØLLE

HEAD OF GROWTH INCUBATOR, DENMARK

"I always start my day full of energy! Most days, I wake up before the alarm goes off at 05:30am and either head straight to the gym or go for a walk outside. That way I feel energised and prepared for the day ahead. When I return, I wake up my son and prepare breakfast for us. Then we eat together and sit and talk for 15 minutes before leaving in opposite directions for a busy day."



EXECUTIVE MANAGEMENT AND EXECUTIVE BOARD

The Executive Management consists of our CEO and CFO.
The day-to-day operations of our Group are managed by the Executive Board.



1

NIELS FREDERIKSEN
PRESIDENT AND CEO

2

MARIANNE RØRSLEV BOCK
EXECUTIVE VICE PRESIDENT
AND CFO

3

GRAHAM CUNNINGHAM
CHIEF SUPPLY CHAIN OFFICER

4

JURJAN KLEP
PRESIDENT AND SENIOR VICE
PRESIDENT, EUROPE BRANDED
DIVISION

5

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

6

YULIA LYUSINA
SENIOR VICE PRESIDENT,
STRATEGY AND
TRANSFORMATION

7

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

8

HANNE BERG
SENIOR VICE PRESIDENT
AND CHRO

STAY UP TO DATE



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CORPORATE WEBSITE

Visit our website if you want the full story about our business, our brands, our tobacco and our people.

▶ www.st-group.com

EXPANDING OUR SUPER STORES

Scandinavian Tobacco Group owns and operates 7 cigar super stores in Pennsylvania, Texas and Florida. We intend to invest further in our retail expansion and will open 6-8 super stores over the next two to three years.



Hamburg, PA



The Colony, TX



Fort Worth, TX



Tampa, FL



Lutz, FL

2000

BETHLEHEM
PA RETAIL STORE
OPENED

2007

BETHLEHEM
PA SUPER STORE
OPENED

2012

HAMBURG
PA SUPER STORE
OPENED

2018

THE COLONY
TX SUPER STORE
OPENED

2020

FORT WORTH
TX, SUPER STORE
OPENED

LUTZ AND TAMPA,
FL, SUPER STORES
OPENED

2022

SAN ANTONIO
TX



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