



Deploying Altadis operations in emerging markets



London, Friday June 30th, 2006

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Share and bonds particulars

Share : Isin code - ES0177040013 Reuters - ALT.MC (Madrid) ALDS.PA (Paris) Bloomberg - ALT.SM (Madrid) ALD.SM (Paris)

Bonds :
Maturity 02/10/08 - ES017683730 (Reuters) / Isin XS0176837309 (Bloomberg)
Maturity 02/10/13 - ES017683837 (Reuters) / Isin XS0176838372 (Bloomberg)
Maturity 11/12/15 - ES023695120 (Reuters) / Isin XS0236951207 (Bloomberg)

CIGARETTE

Over 50% of volumes in
emerging markets



Near & Middle East (I)

Progression of geographical coverage



1995

0.25 Bu

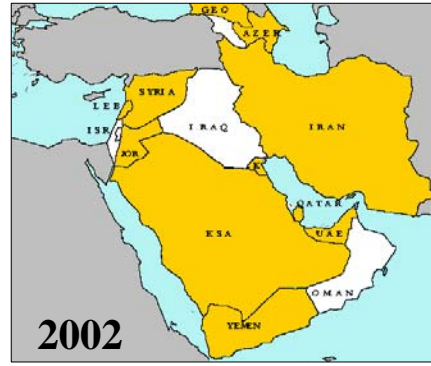
- Historical presence in Lebanon with GAULOISES and GITANES (dark tobacco) since the 60's
- Launching of GAULOISES Blondes in 1985 and GITANES Blondes in 1993



1998

0.5 Bu

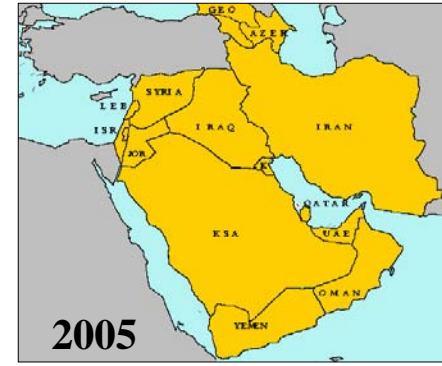
- Extension to GCC (Gulf Cooperation Council) countries and Jordan with GAULOISES Blondes and GITANES Blondes
- Development of successful and appealing marketing campaigns



2002

2.5 Bu

- Opening of Syria, Iran, Yemen, Georgia and Azerbaijan
- Great success of GITANES in Syria and good expansion of GAULOISES in Lebanon
- Excellent relationship with GOT (Syrian State Monopoly)
- Increasing brand franchise and consumer loyalty



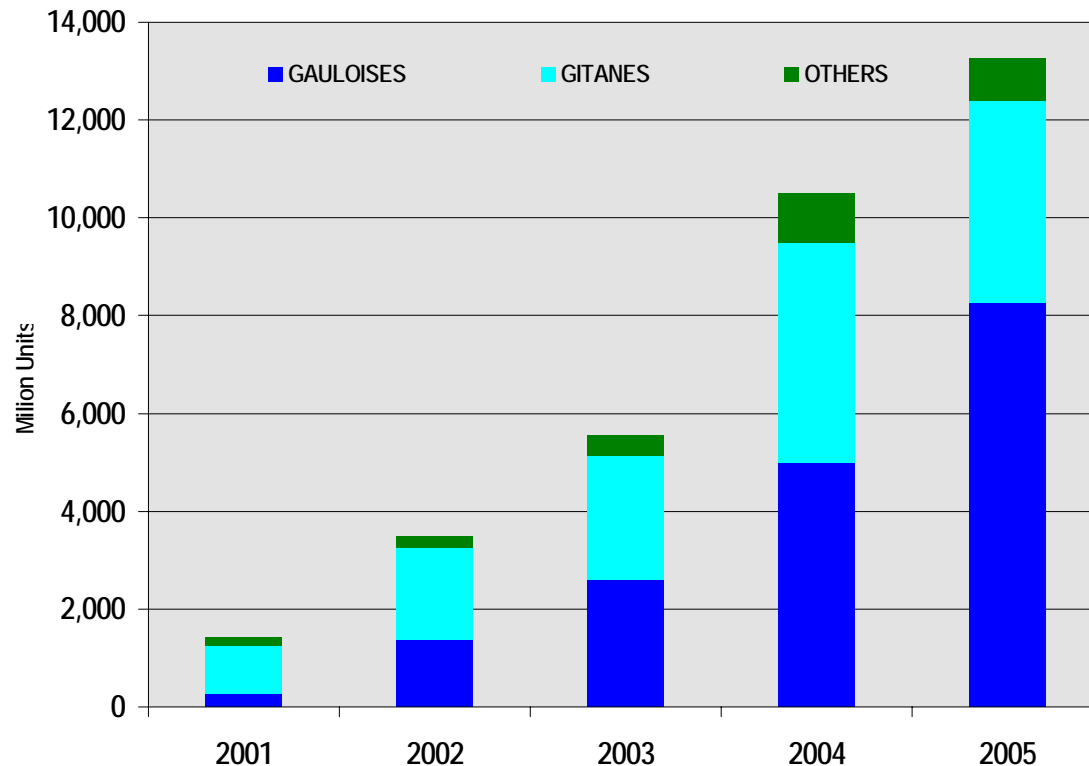
2005

13.7 Bu

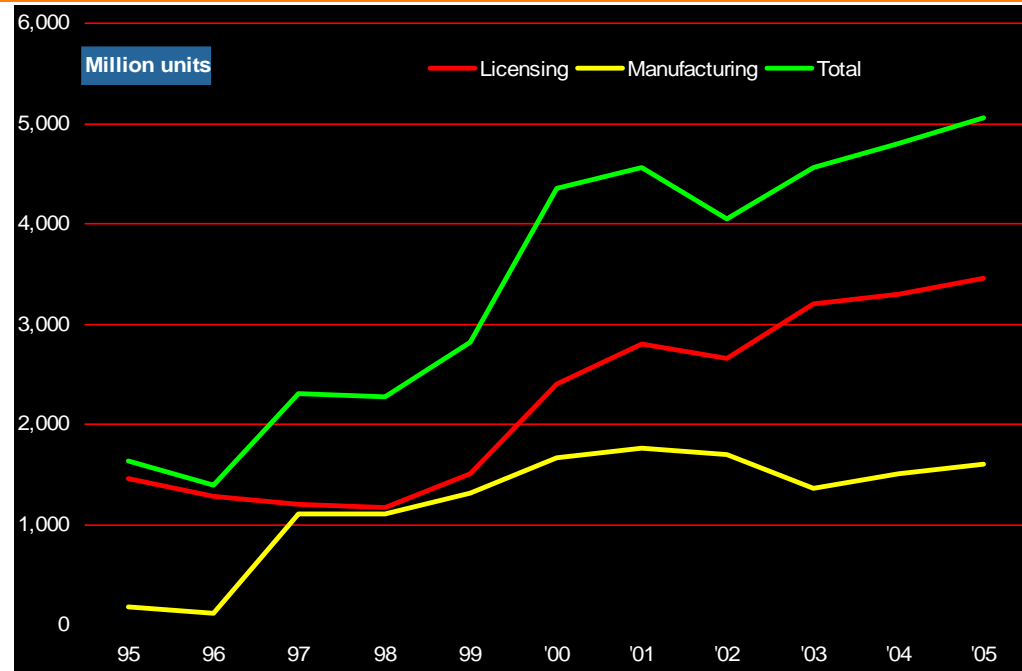
- Completion of regional coverage with launchings in Iraq, Israel, Palestine, Oman and Armenia.
- Extension of success throughout the whole region.
- Extension of the portfolio with FORTUNA and BRILLIANT in the lower price segments
- ALTADIS flagship brands have now acquired real brand equity
- A significant part of the business is made in a geopolitical difficult environment

Near & Middle East (II)

Regular and strong growth of volumes



- 85 % of the volumes are made in premium and sub-premium segments
- Profitability per unit is in constant progression

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Latin America: Argentina

- A long-lasting presence: Argentina, 3rd largest market in Latin America (36 bn Units), since 1972
- A very strong and loyal partner for 35 years: Nobleza Piccardo (BAT), holding 32% market share in spite of the strong development of local discount price producers
- A solid brand : PARISIENNES dark tobacco, positioned in the sub-premium segment, steadily representing 2.50 to 3.00 % Market Share and an increasing 51% Segment Share (> 800 Million Units)
- Launching of GITANES Blondes in 1994, in order to compensate the natural erosion of the dark segment

Asia Pacific: Two main markets for Altadis

■ Cambodia (6 bn units market):

- Altadis has been present since 1988, with 18% market share in 2005
- ALAIN DELON: N°1 international brand
- Steady growth since the launching date: CAGR 00-05: 9%
- Despite low retail prices, Altadis has strongly improved its profitability since 2002
- Reasonable development opportunities on the low price segment



■ Viet-Nam

- Launching of FINE end 2004, within a partnership with the Comity People of Ho Chi Minh City
- High potential and very dynamic market with respect to its size, population structure, consumption habits and economical changes in the coming years (WTO agreement)
- Expectations: install our brand with a constant and strong growth and with a long term view

Russia

- Acquisition of Balkan Star in November 2004
- Year 2005: INTEGRATION
 - ➔ Management and IT
 - ➔ Support of existing major brand: Balkan Star (quality stabilisation and packaging modernisation)
 - ➔ Selecting the most efficient distribution
 - ➔ Setting up sales force and joint venture with Imperial to merge merchandising forces
 - ➔ 30.4 bn units sold
- Year 2006: EXTENSION AND LAUNCH OF ALTADIS BRANDS
 - ➔ Geographical extension of Gauloises and Gitanes
 - ➔ New launches: Brilliant was launched on March 31st, in the medium price segment (about 10-11 roubles retail price)
- Increasing competition, not passing fully excise tax increases to retail prices



Poland

- Acquisition in 1995
- Recent Altadis market share evolution:

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
10.3%	11.5%	12.8%	11.8%	8.9%	8.6%

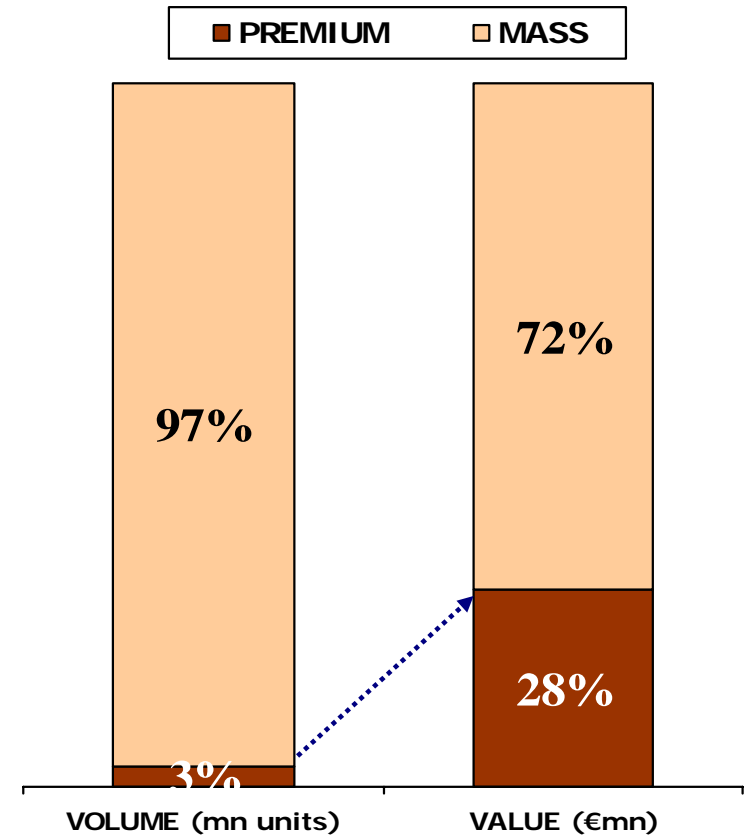
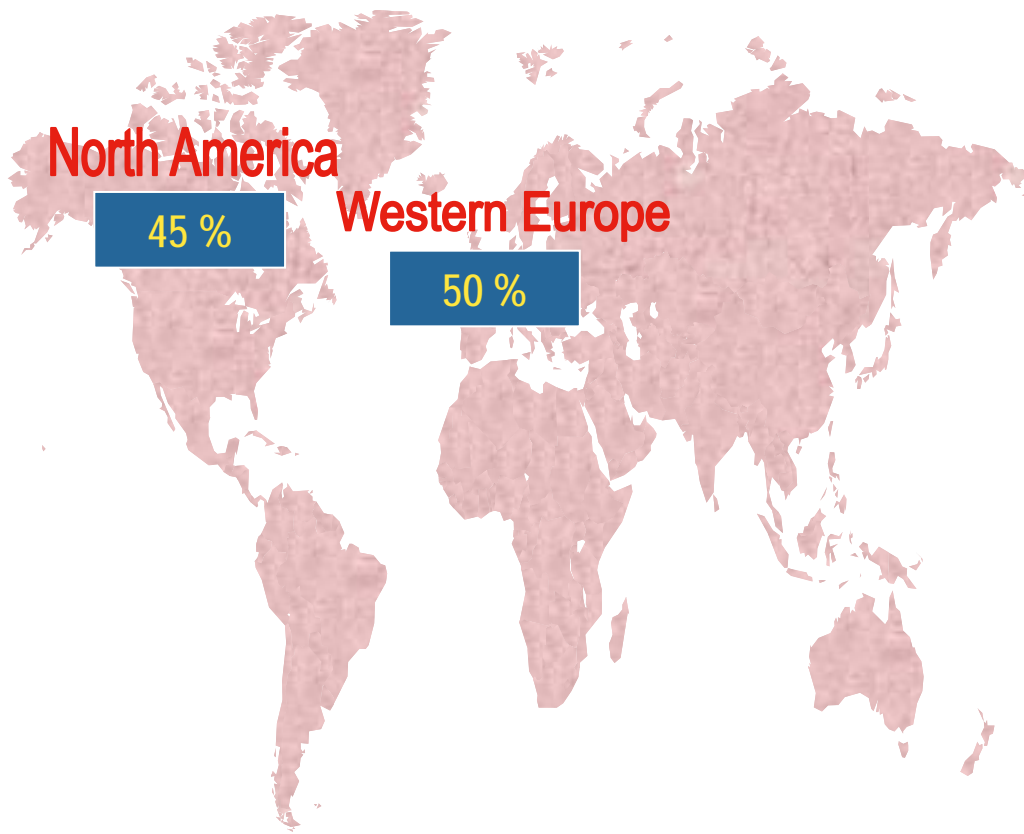
- Continuous price wars (no transfer of excise tax increases) since the beginning. Practically all players have started price war in turn
- Altadis has defended its market share (6.4 bn units sold in 2005) trying to preserve a breakeven situation in the Polish market: launches of IRIS and TIGER brands
- Efficient manufacturing operation. Development of exports from Poland (currently more than 50% of its annual production is for export markets)

CIGAR

Emerging market
potential



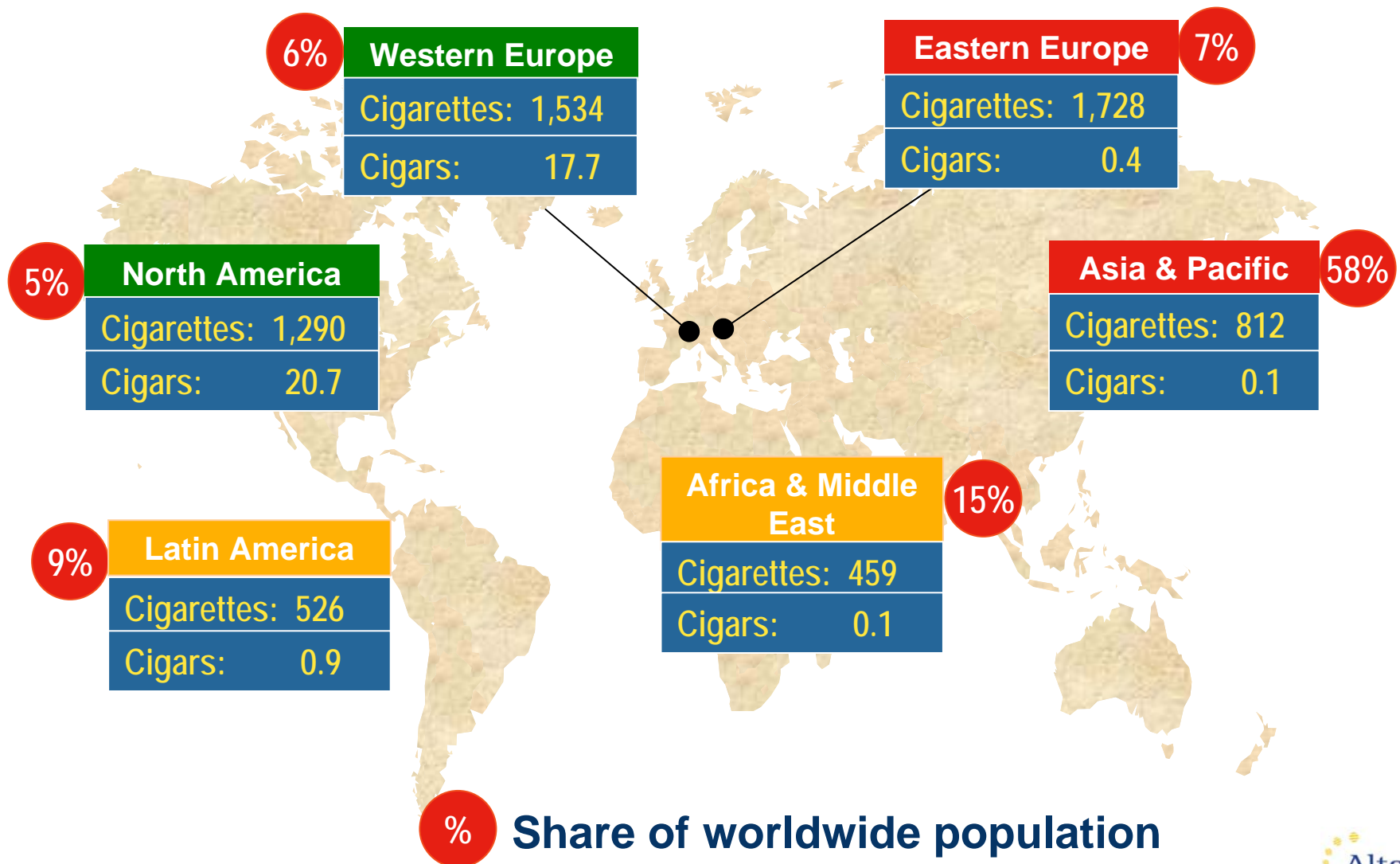
Cigar Worldwide Market is highly concentrated in North America and Western Europe



Estimate: 95% in W.Europe & North America

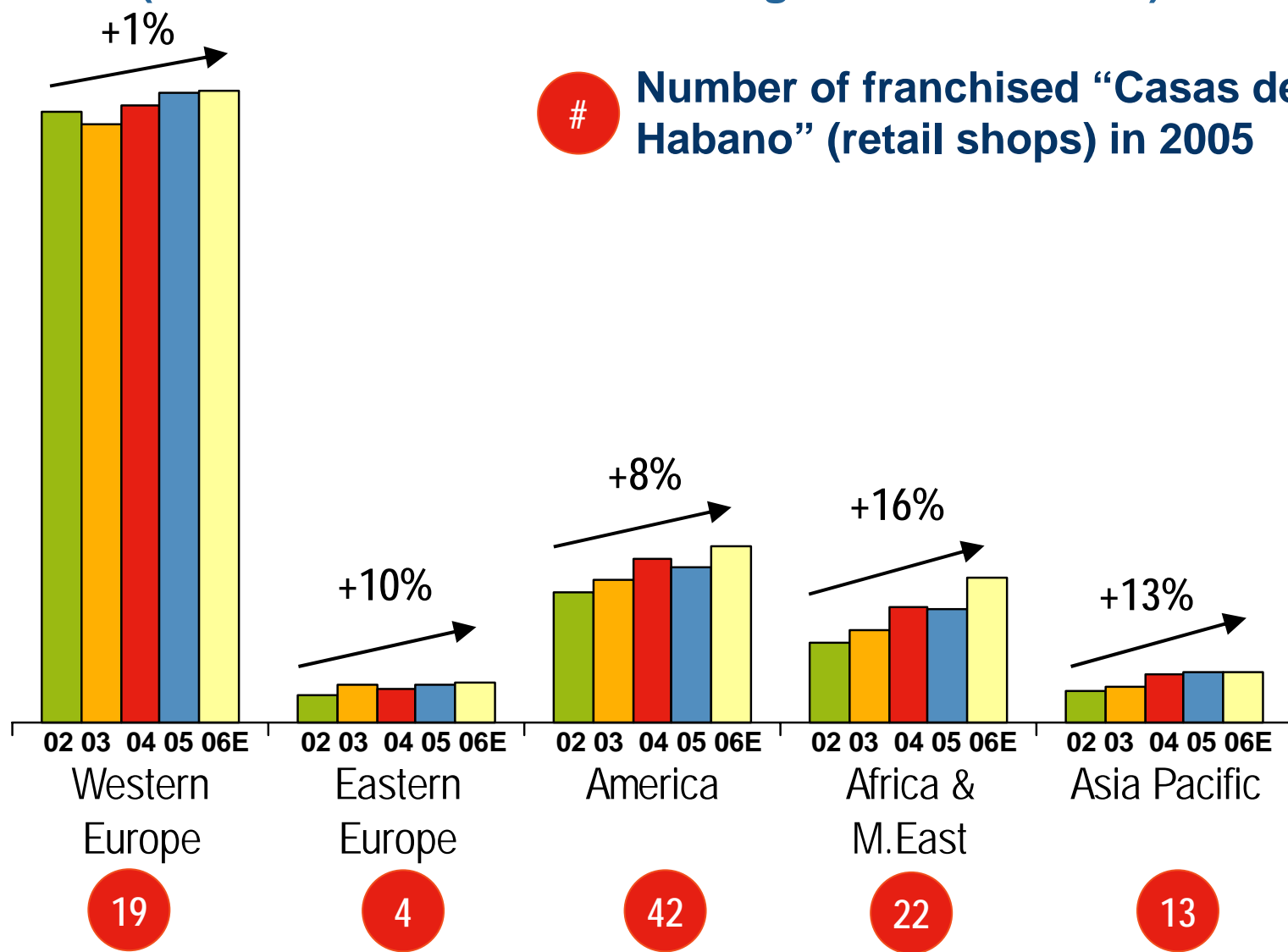
Consumption by Region shows a significant opportunity in emerging markets

Units (Cigarettes/Cigars) per Capita and Year



Habanos: a key business to enlarge Altadis exposure to emerging markets

(Million Pieces of Premium cigars and % CAGR)

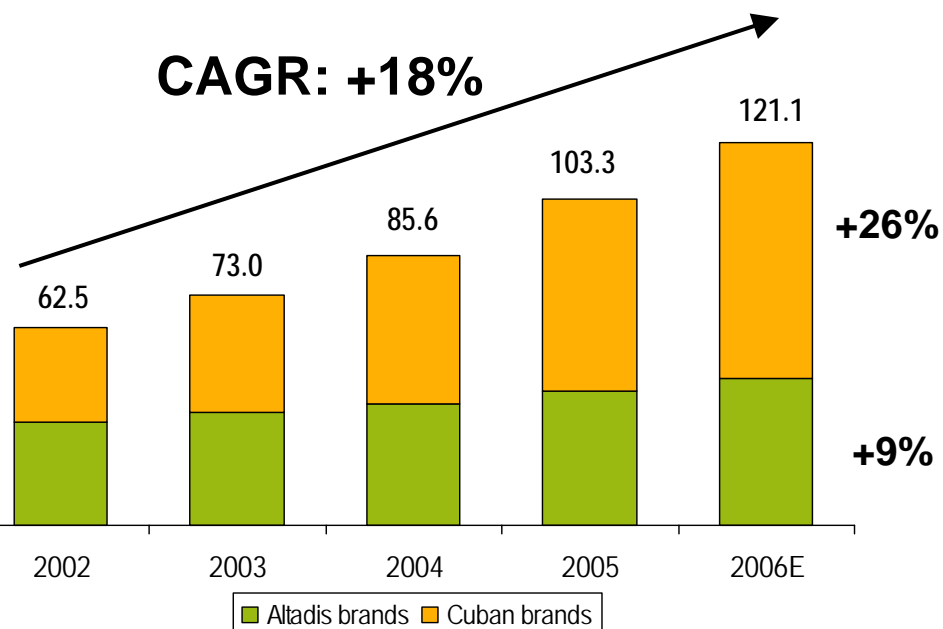


Altadis cigar export shipments

Export sales (excluding Cuban premium and USA exports): 18% CAGR for 2002-2006 in volume

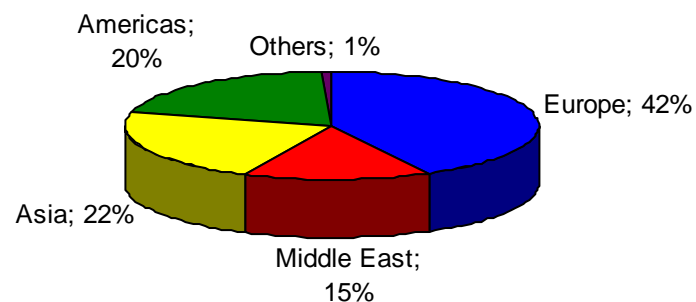
(Million Units)

CAGR: +18%

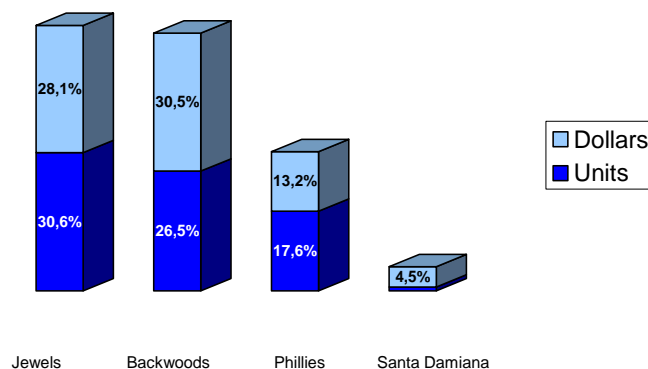


2005 USA Export sales in Volume:
117 mn units (+16%)

2005 International sales



Key brands (%)



LOGISTICS



2003 - 2006

Turning around

Logistics in Morocco

Logistics in Morocco: starting point (July 2003)

- Tobacco distribution only
- Old fashioned organisation and tools
- Poor commercial relationship with retailers
- Key initial facts & figures :
 - 27 distribution centers
 - 23,000 tobacco retailers
 - 95 active tobacco sku's
 - Monopoly for tobacco wholesaling distribution granted until December 31st, 2007

Key moves: Network; Infrastructures; Teams

■ Network

- Optimisation: Selection of 7,000 potential top retailers to get an increased level of service
- Support to shop modernisation (shelves, electronic terminal)
- Customization of the network (creations, suppressions, etc.)

■ Infrastructures & Tools

- Regional Warehouses creations in Casablanca, Fès, Marrakech & Kénitra,
- Major transport fleet renewal (trucks, delivery vans etc..)
- IT investments: supply chain, sales & orders, geographic GPS positioning, transport optimization, etc.

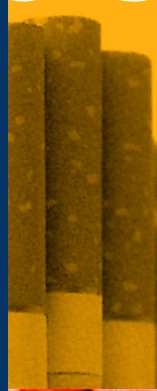
■ Teams

- Over 30% of new recruits, mostly dedicated to retailers (sales persons, delivery persons) and to providers (supply chain, marketing & development)
- Over 50% of renewal in the management by both either internal & external recruitment

Business Development

- More than €50 mn economic sales in 2005
- Service to the retailers :
 - ➔ “Wafa” program for selected PoS: 1,500 shelves & terminals installed; 4,500 targeted for end 2006; 7,000 for 2007
 - ➔ Direct shipments to those selected shops also targeted in the same planning
 - ➔ Upgrading the deliveries to rural areas for 11,000 PoS, keeping cash & carry system for the remaining retailers
- Non tobacco goods:
 - ➔ Prepaid phone cards: already around 17% of Maroc Telecom sales, target is more than 30%. Recent move to e-phone cards thanks to our electronic terminals
 - ➔ First convenience product line: smokers items (about 20% market share on the year 1 for lighters)
 - ➔ Other convenience products to be launched: sweets, snacks, batteries, etc.
 - ➔ New range of services: using our top PoS and the IT connection to develop bill payment services (telecoms, water, electricity...)

CONCLUSION



Emerging markets are key for Altadis current performance and future outlook

- Altadis management is focusing on organic growth:
 - ➔ Emerging markets are key drivers for organic growth specially in a medium term perspective
 - ➔ Acquisitions of RTM in 2003 and Balkan Star in 2004 were two accelerators
 - ➔ Business development through existing operations also provides a successful story for Altadis in this matter:
 - Middle East for cigarettes
 - Habanos worldwide business and export business for cigars

- OUTLOOK: Altadis will concentrate in developing operations and profitability within the regions selected by the Group (Europe and the Mediterranean region for Cigarettes, major emerging countries for Cigars and Morocco for Logistics)

