

# Investor update

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April, 2007

# **Altadis: Substantial value upsides**

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# Clear business strengths

- Cigarettes: Significant market positions in key continental European markets
  - ➔ Three key brands – Gauloises, Fortuna and Gitanes
  - ➔ A growing international business outside Europe
  - ➔ Morocco – now an Altadis key profit contributor
- No.1 in cigars in the world
  - ➔ No.1 in US
  - ➔ No.1 in premium cigars
  - ➔ Unrivalled portfolio of global, multilocal and local cigar brands (Montecristo, Cohiba, Backwoods, Dutch Masters, Farias,...)
- No.1 in tobacco logistics in Southern Europe
  - ➔ Integrated logistics business model (tobacco and non tobacco)
  - ➔ Broad range of products delivered to more than 450,000 points of sale
  - ➔ Highly profitable and cash generative

**Unique and diversified portfolio of tobacco assets**

# Strong diversification and resilient cash flows



Millions of Euros

	2002	2003	2004 <sup>(*)</sup>	2005 <sup>(*)</sup>	2006 <sup>(*)</sup>
Sales	3,182	3,385	3,557	4,112	3,970
EBITDA	971	1,078	1,104	1,232	1,148
Capital Expenditure <sup>(**)</sup>	-137	-143	-150	-171	-149
<b>EBITDA - CAPEX</b>	<b>834</b>	<b>935</b>	<b>954</b>	<b>1,061</b>	<b>999</b>

C.A.G.R.
5.7%
4.3%
2.1%
4.6%









(\*) Figures under IFRS

(\*\*) 2006 Capital expenditure: After €39m restatement related to the extension of the monopoly status in Morocco

- Attractive assets
- Mature industry – Limited capital expenditure requirements
- Diversified businesses reduce operating risk
- The strong operating performance translates into a stronger cash flow generation

**Cash flow generation contributes to make Altadis a unique asset**

# Sources of value upsides

	Cigarettes	Cigars	Logistics	HQ & other
Top-line				n/a
Efficiencies				
Others	n/a	n/a	n/a	

**There are further significant sources of value within Altadis  
on top of current guidance**

# New 2010 guidance



	<u>Prior 2007-09 guidance p.a.</u>			<u>2007-10 guidance p.a.</u>	
	Sales	Margin		Sales	Margin
Cigarettes	+2-4%	> +100 bps	→	+2.5-4.5%	> +250 bps
Cigars	+4-6%	+100 bps	→	> +8%	> +150 bps
Logistics	+3-5%	Stable	→	+3-5%	+25 bps
HQ & Other Non core asset disposals	> €200m		→	Reduction in effective tax rate €650m	

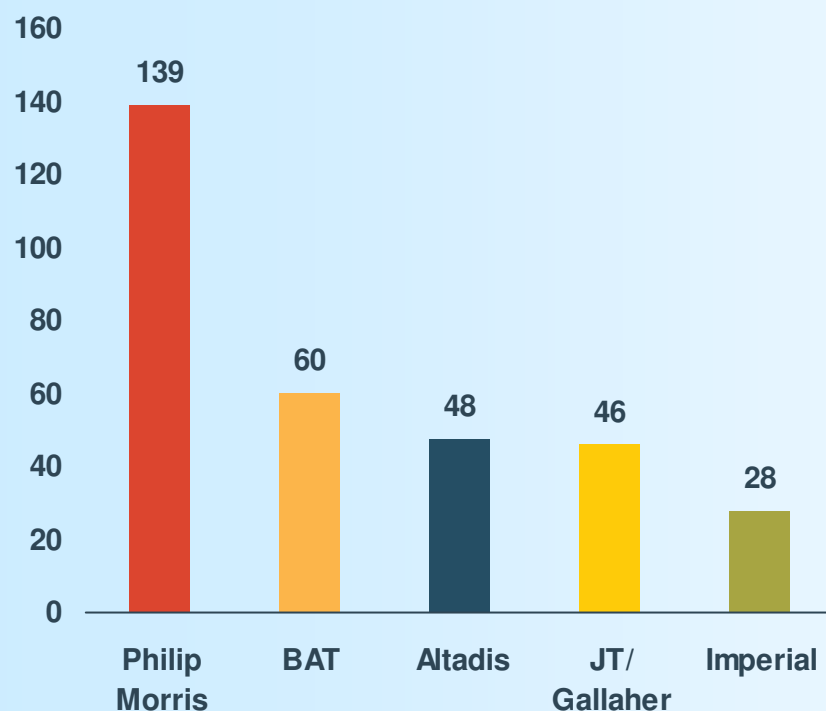
**Significant EBITDA upside available**

Altadis

Cigarettes

# A leading player in Western Europe

**Cigarette volumes in four largest markets in Continental Europe (bn)**



Sources: AFCF, price lists, MSI, ERC, Logista  
 Note: Included France, Germany, Italy and Spain (2005 data)

## Brands



- Rapidly growing international brand
- €375m Sales outside France in 2006 (22% of the total cigarette sales)
- Mid to premium pricing



- Growing international presence
- Latin positioning, value pricing



- Premium international brand

## A leading player in world's most profitable region

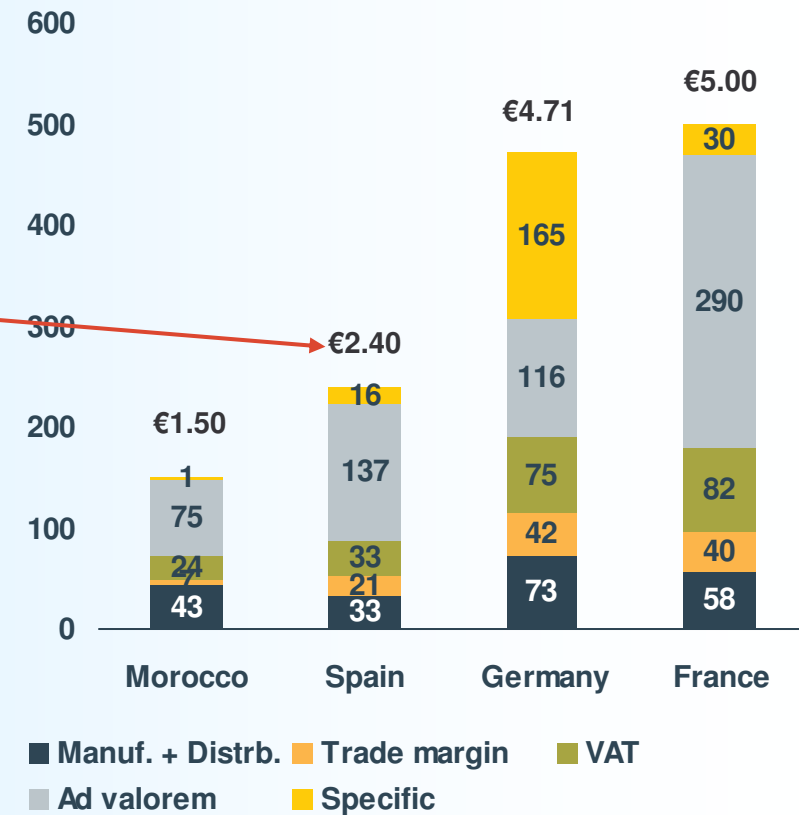


# Pricing power

Price development in Spain



Comparison of cigarette pricing (MPPC)



MPPC: Most Popular Price Category

**Tax regime in Spain now normalised allowing pricing to converge to EU practices**

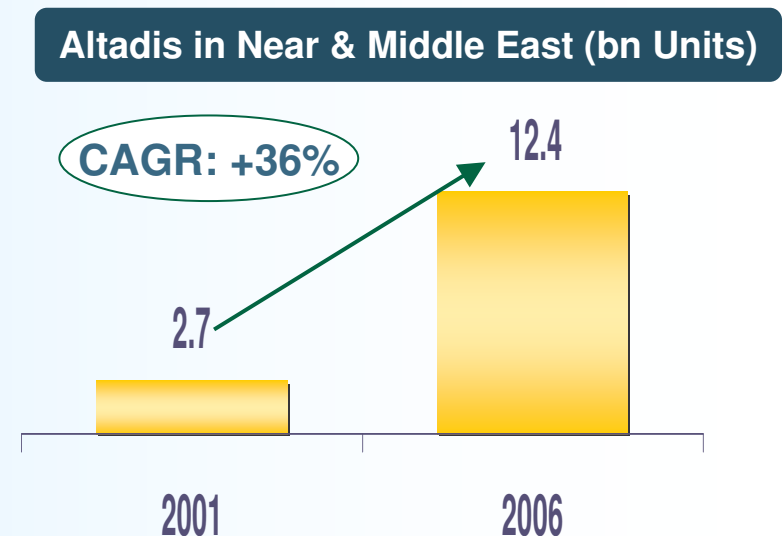
# Other growth prospects

## ■ Morocco

- Altadis International brands excellent performance (Fortuna: 8.1% Blond SoM in 2006)
- Monopoly status extended 3 more years (until end 2010)

## ■ Near & Middle East

- After strong take off, remaining potential for growth
- Focus on increasing margins



## ■ Montecristo super premium brand launching

**Growth opportunities in cigarettes outside Western Europe**

# Excellent efficiency track record



- Altadis resulted from the merger of 2 former state owned monopolies in the late 90's
- Altadis has significantly accelerated the optimisation of its cost base in all business lines, improving it by 3 per cent since 2004

European listed players	Cost savings 2004-2006 (m€)	Relative to FY06 sales	Relative to FY06 costs
Gallaher	44	1.8%	3.0%
Imperial	71	1.5%	2.8%
BAT	158	1.1%	1.6%
Altadis	86	2.2%	3.0%

Source: Company announcements and annual reports

Notes:

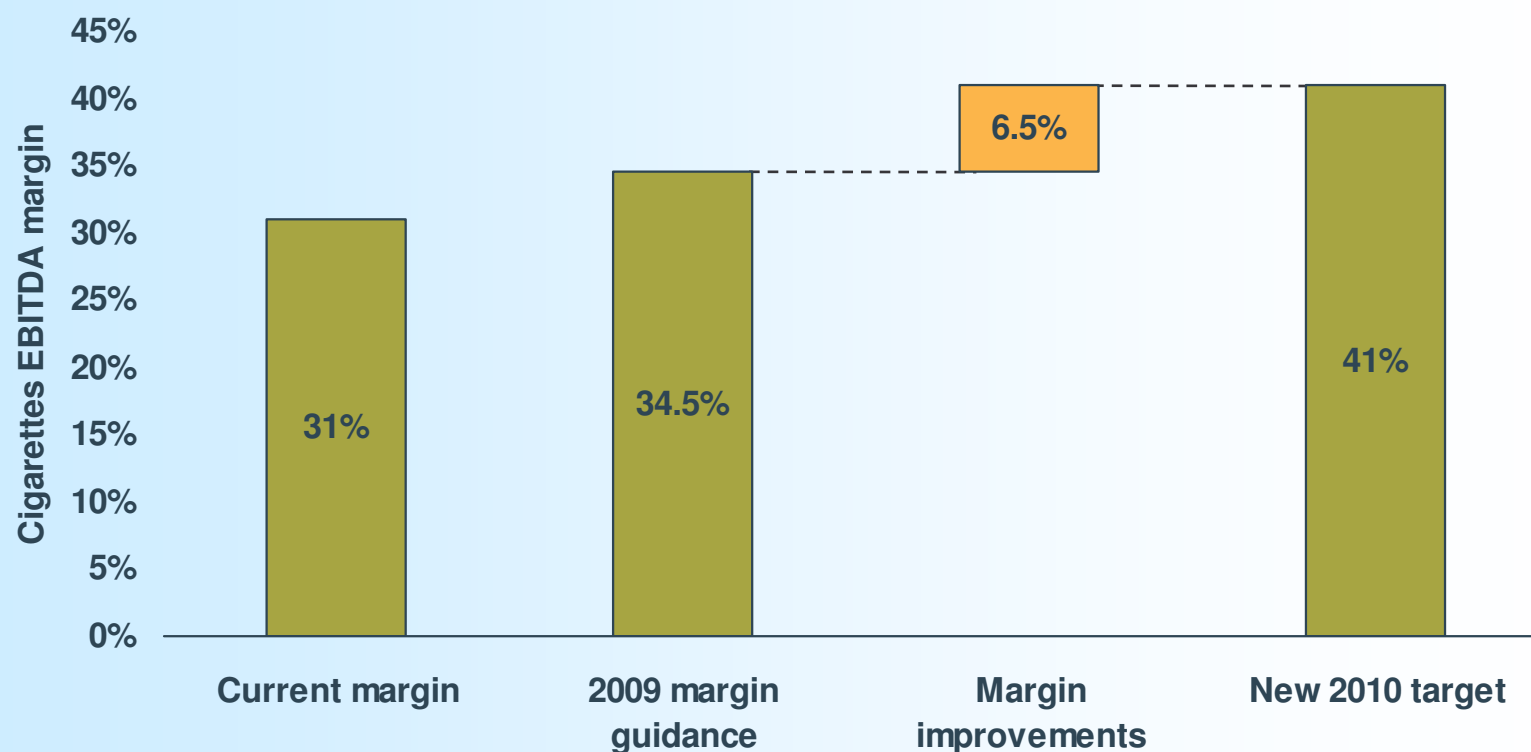
1. Gallaher, Imperial and BAT announced cost saving 2004-2006. Altadis actual cost savings in the period (excluding A&P savings)

2. Gallaher percentages and EBITDA margin excludes logistic business

## Best recent cost reduction story in the industry

# Further margin improvement

- 2009 Existing guidance 34.5%
- 2010 target after price increases 41%



**Significant value upsides on top of existing guidance**

Altadis

# Cigars



# Cigars summary

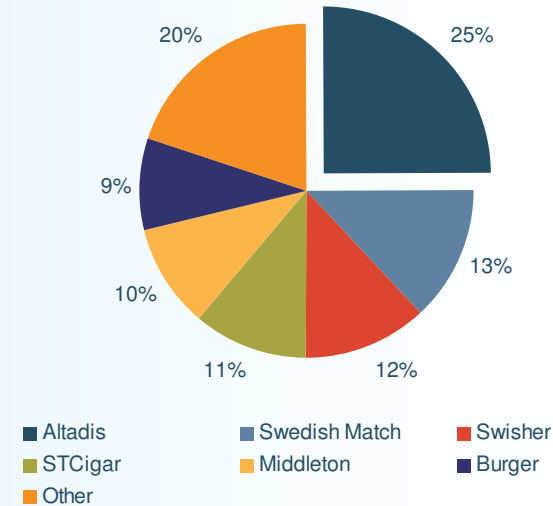
- Strong global leadership position and brands in a dynamic category
- Facing as leader changing trends and increasing competition
- Clear potential in many markets, which Altadis is ready to capture
  - ➔ Cuban cigars in US + Pricing power worldwide
  - ➔ Emerging markets growth
- Significant efficiency upside to increase margins

# #1 Cigars business worldwide

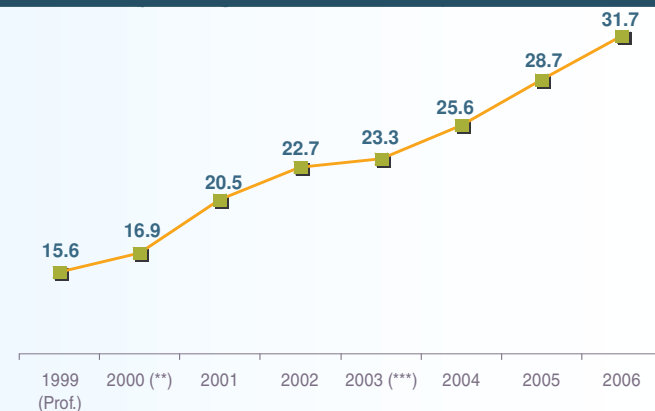


- Leadership in core markets, including USA and premium segment
- Broadest portfolio with presence in all segments
  - ➔ Unique premium business with Cuban brands
- Proven ability for margin improvement
  - ➔ Portfolio mix improvement towards premium and natural
  - ➔ Further efficiency improvement possible

## Global market share



## Cigars EBITDA margin evolution



(\*) From 2004 EBITDA prepared in accordance with IFRS  
(\*\*) Acquisition of 50% HSA and merger of USA entities  
(\*\*\*) Acquisition of 800 JR Cigar

## The world leader in cigars

# Brands support substantial upside

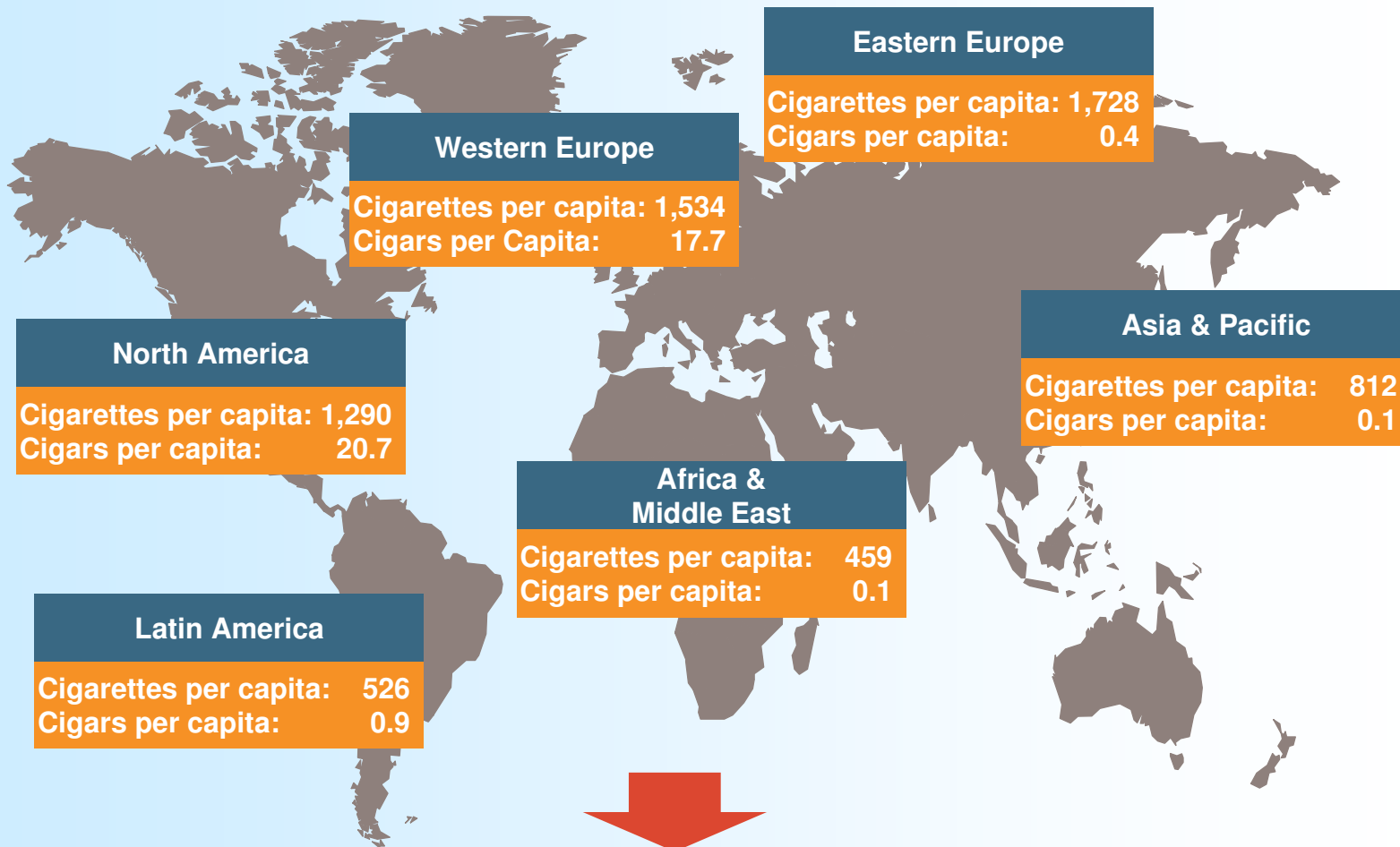
- Altadis premium cigar portfolio moving towards luxury-end
  - ➔ Higher price and margin
- Significant opportunities in many markets
  - ➔ Further growth in low consumption areas
    - Asia & Pacific, Eastern Europe, Africa & Middle East, Latin America
  - ➔ Further opportunity for premium cigars in the US, enhancing the whole category

## Unrivalled brand portfolio



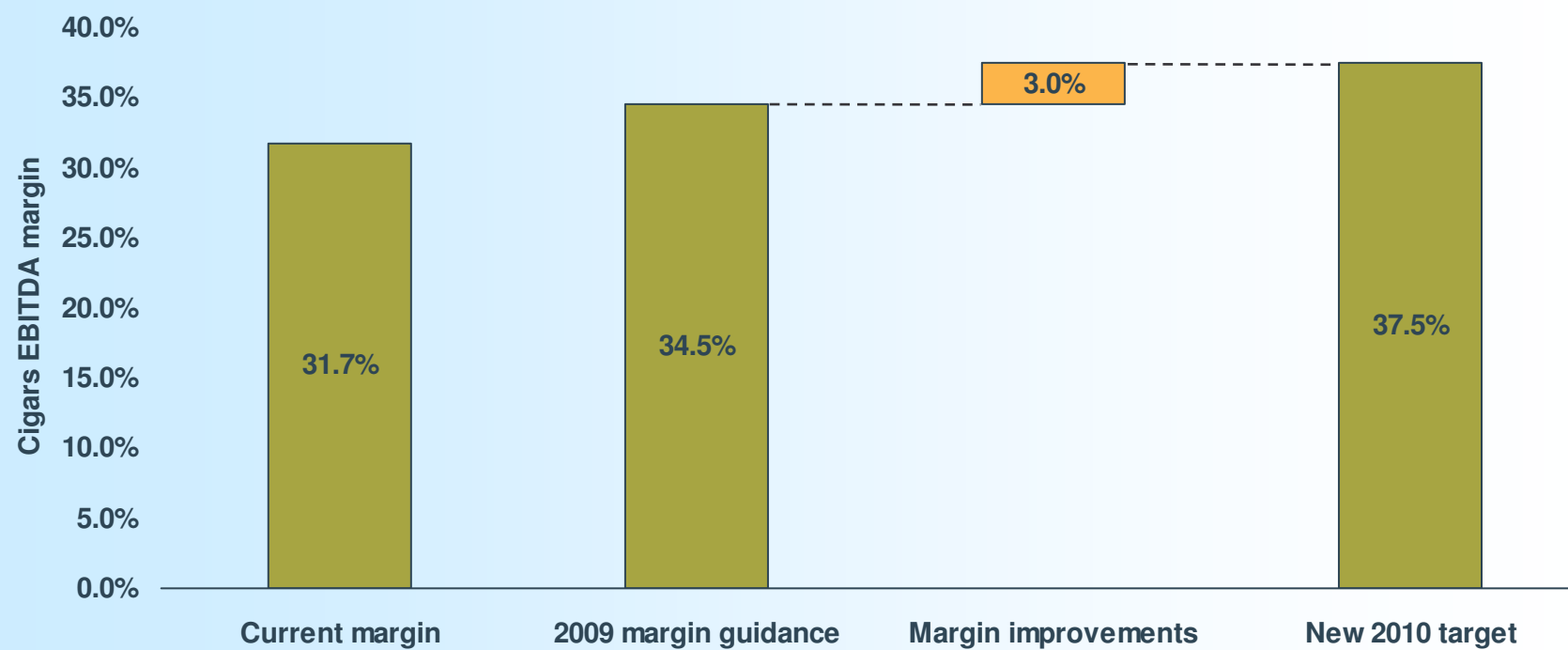


# Cigars consumption by region



**Western Europe (54%) and North America (41%)= 95%  
of worldwide cigar market with significant growth potential in  
other markets**

# Further margin improvement



**Significant value upsides on top of existing guidance**



# Logistics

- #1 tobacco logistics platform in Europe
  - Spain, France, Italy, Morocco, Portugal
- #1 logistics service provider in Southern Europe
- #1 wholesaler in France
- Strong sales growth and EBITDA margins
  - 2002-06 sales CAGR of 12.6%
  - 26% EBITDA margin
- Merger of Altadis French distribution and Logista
- Opportunities to unlock cash

**Strong business with some sources of incremental value**

# Existing markets

- Organic expansion reinforcing our position in core sectors and markets:
  - ➔ Productivity improvement
  - ➔ Cross selling opportunities
  - ➔ Know how exchange
  - ➔ Improved integration with manufacturers
  
- Growth through acquisitions will be driven by geographic and sectorial focus, reinforcing our leadership positions on that sectors

**Reinforce the leading position combining organic growth and acquisitions**

# Other

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# Disposals and capital structure

- Opportunity for lower average tax rate
- Initiatives to unlock significant distributable reserves
  - ➔ French distribution activity contribution to Logista underway
- Disposals of non core assets
  - ➔ Total non core assets of €650m
  - ➔ Most achievable by end of 2008

# Summary

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# New 2010 guidance



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**Significant EBITDA upside available**

# Significant unrecognised value

- Substantial EBITDA uplift above current guidance
- Significant EPS and cash flow benefits also from:
  - ➔ Reduction in tax rate
  - ➔ Disposals of non core assets
- Corporate restructuring to improve capital efficiency underway

# **Imperial's approach**

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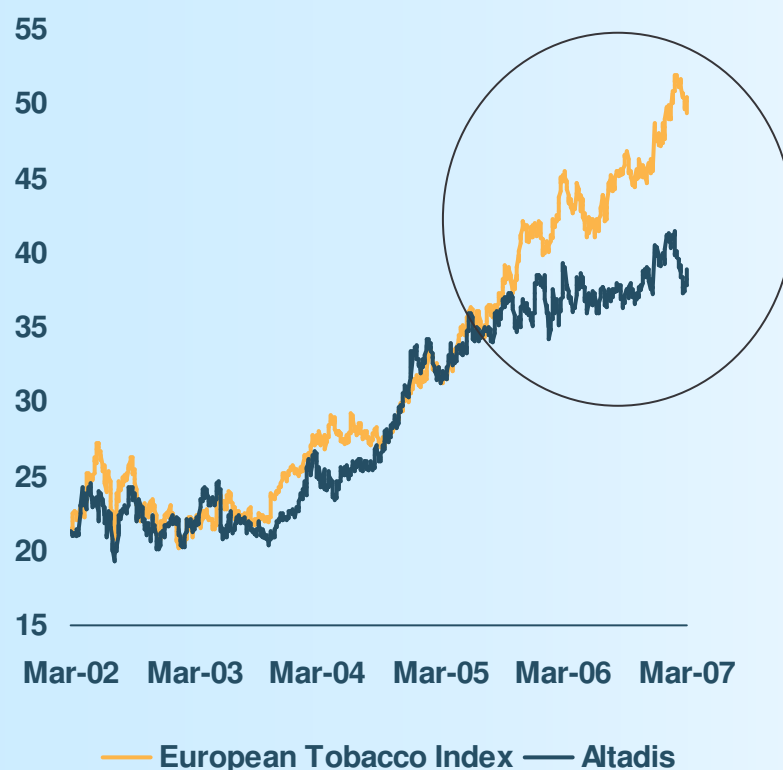
# Imperial's proposal

- Imperial's indicative proposal of €47 has been rejected because it fails to reflect:
  - The strategic value of the Company
  - The diversity of its unique assets
  - Its prospects for future growth

**Imperial's conditional proposal does not reflect full value**

# Opportunistic timing

- Altadis share price in line with peers until decoupling in 2006



*Note: Index includes BAT, Imperial and Gallaher*

- Altadis results temporarily depressed in 2006 due to exceptional conditions
- Underperformance due to Spanish tax situation
- Situation normalised, pricing power returned

## Approach from Imperial does not reflect full value for Altadis

# **Multiples do not capture Altadis growth potential and strategic value**



- Multiple implied by Imperial's proposal does not reflect the following:
  - Altadis EBITDA in 2006 depressed by exceptional factors
  - Altadis offers a faster growth profile than industry average
  - Material upsides within Altadis today
  - High synergies potential
  - Diversified business with leadership positions and premium brands
  - Strategic value of the Company

**Altadis should command a higher multiple than the one implied by Imperial's proposal**

# Additional synergies for Imperial



	Cigarettes	Cigars	Logistics	HQ & other
Top-line			-	n/a
Efficiencies			-	
Others	n/a	n/a	n/a	

On top of the Altadis' upsides, significant synergies could be achieved by Imperial, essentially in cigarettes

# Appendix

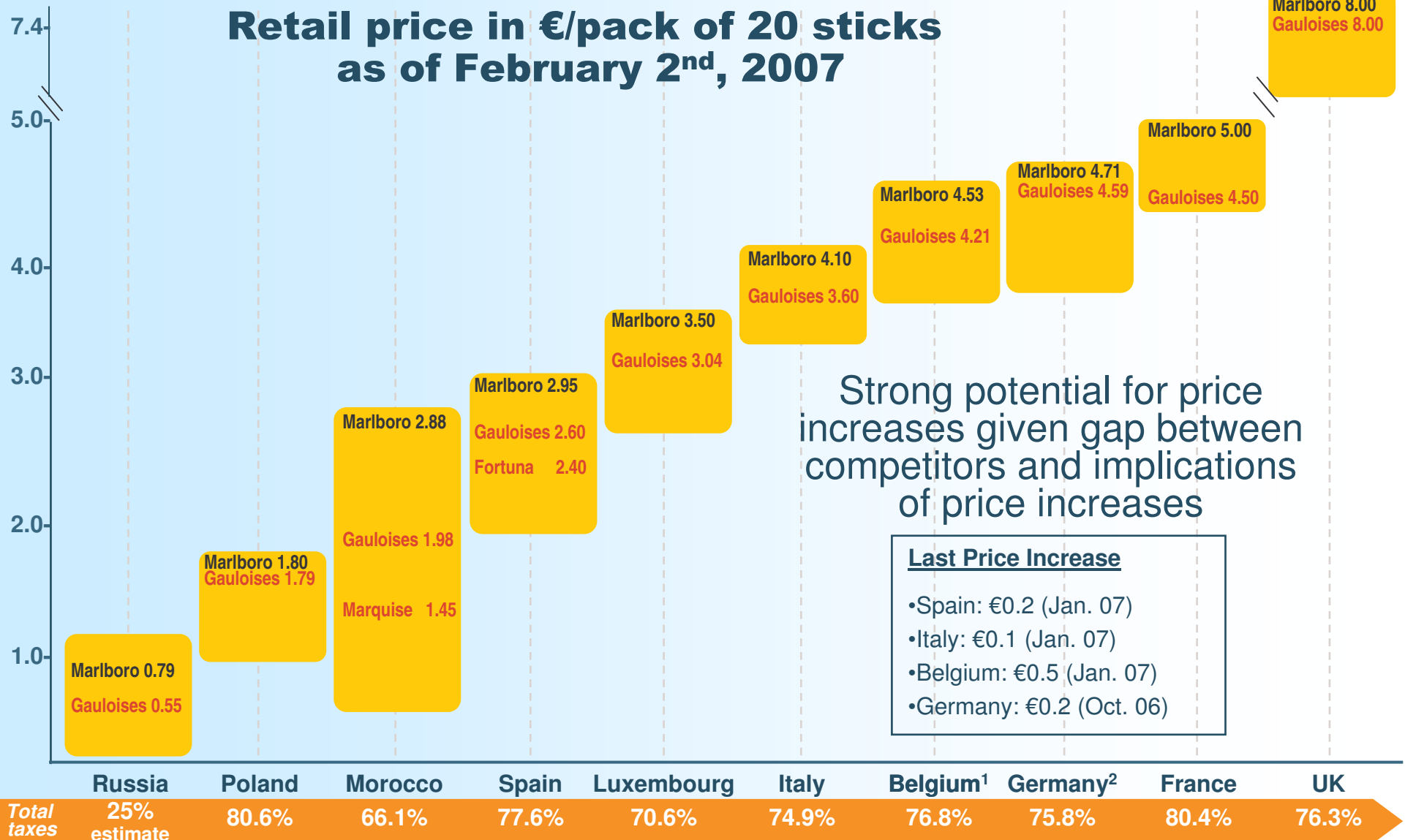
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# Pricing power in Spain & Morocco



**Retail price in €/pack of 20 sticks  
as of February 2<sup>nd</sup>, 2007**



Total taxes (excise tax + VAT) on retail price, for MPPC - Most popular price category

<sup>1</sup> Retail price for packs equivalent of 20 cigarettes. For 19 cigarettes (which is the standard) prices are respectively € 4.30, € 4.00

<sup>2</sup> Retail price for packs equivalent of 20 cigarettes. For 17 cigarettes (which is the standard) prices are respectively € 4.00, € 3.90