

CIGAR BU

Antonio Vázquez

Strategy for cigar:

How to combine the portfolio segmentation
with a non-global market





Las Autoridades Sanitarias advierten que el tabaco perjudica seriamente la salud.

Contents

- The World Cigar market:
- Altadis Strategy: from local player to world leader 1998-2002
 - Altadis position in 1997
 - Strategy and timing
 - Altadis position today
- Consolidation in 2003:
 - Key Brands
 - Main goals
 - Sales performance
 - Portfolio upgrade
- Future growth

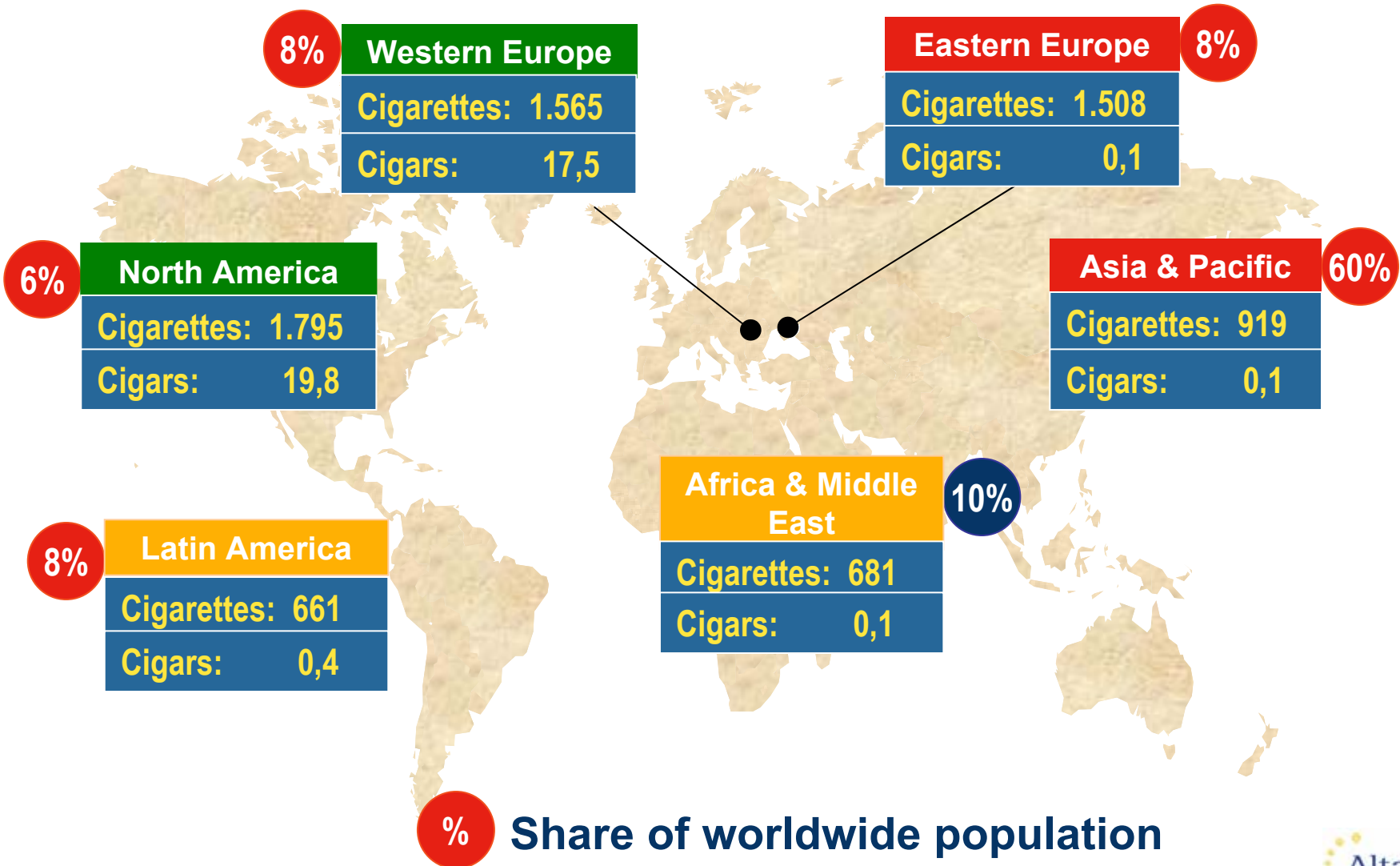
The World Cigar

Market

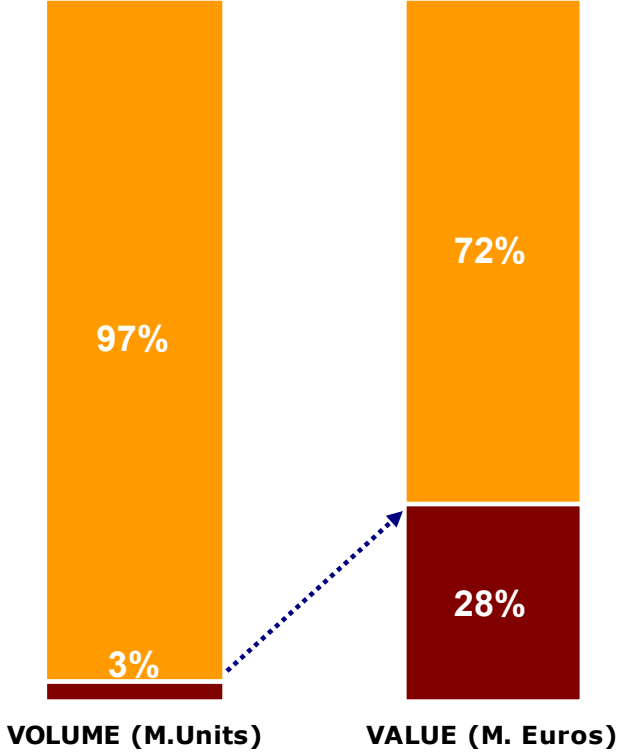
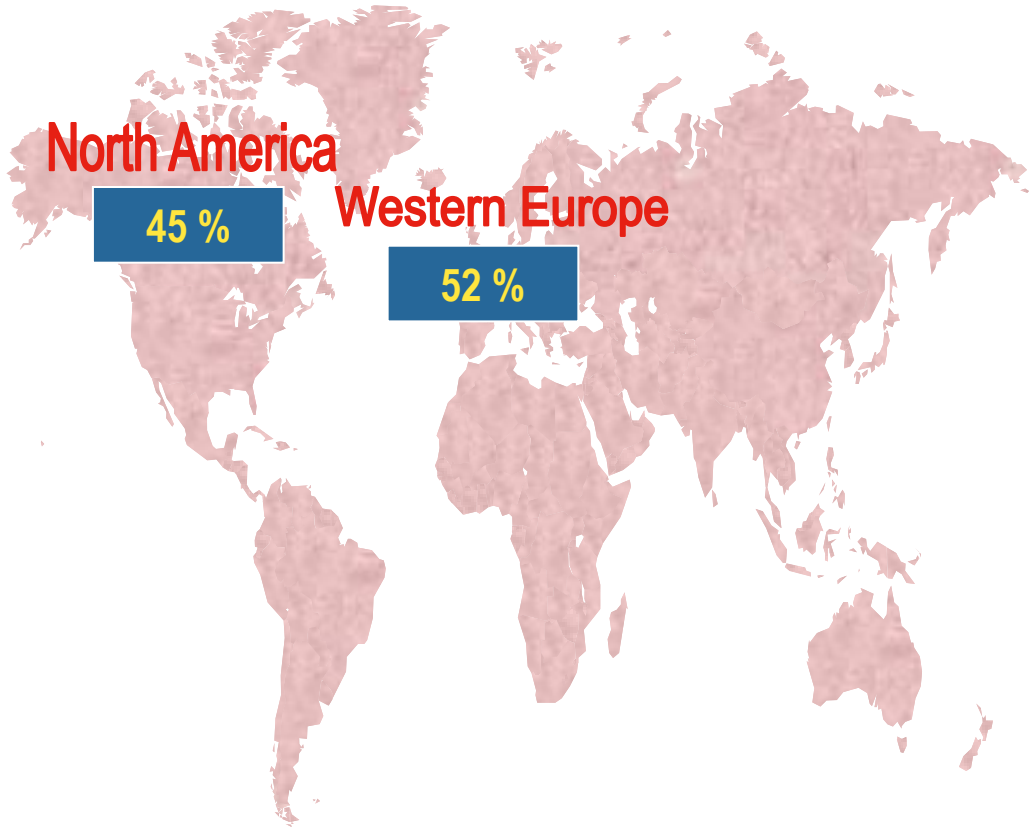


Consumption by Region

Units (Cigarettes/Cigars) per Capita per Year



Cigar Worldwide Market



97% in W.Europe & North America

Premium Mass



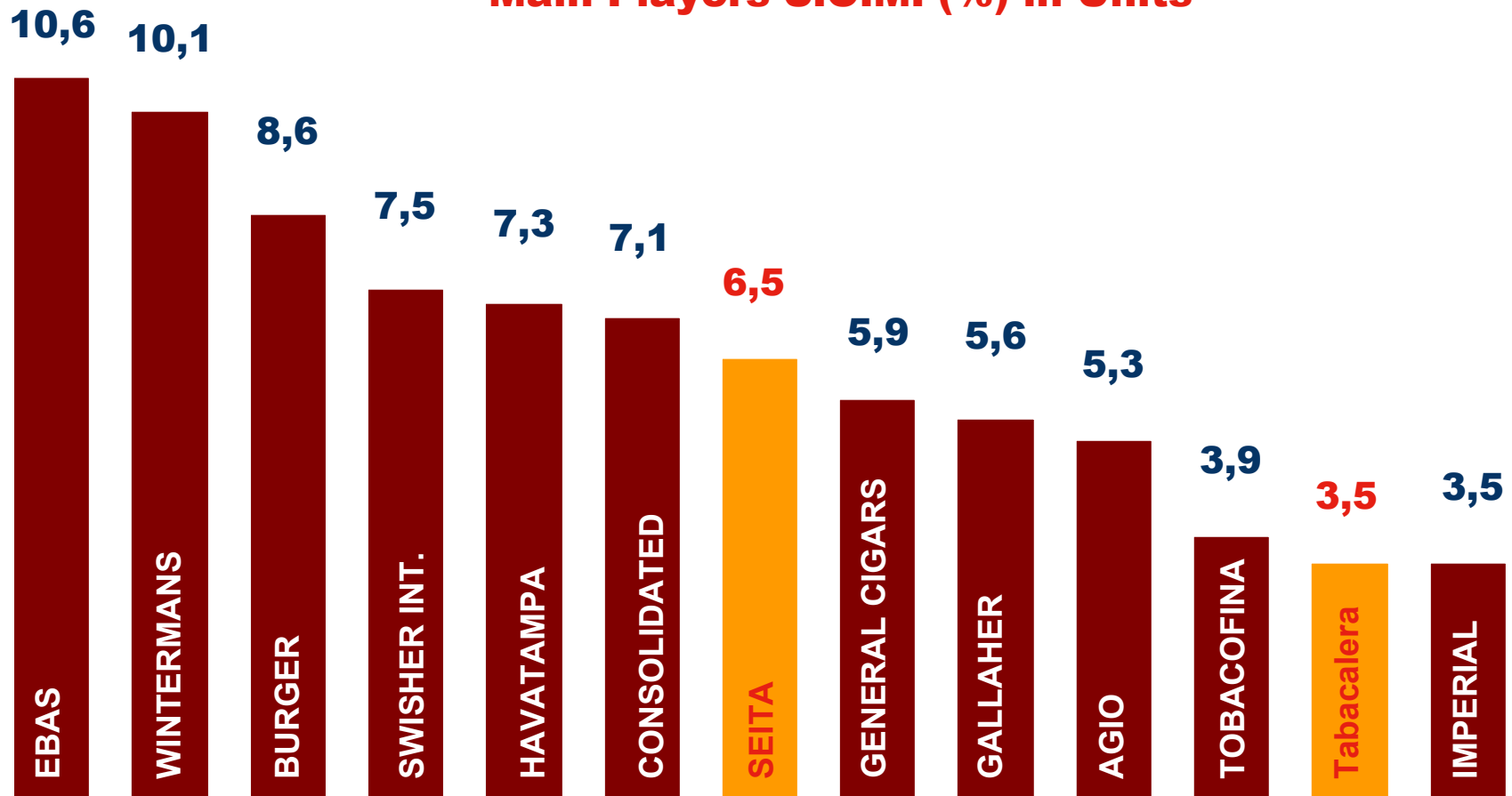
Altadis Strategy:

from local player to world leader 1998-2002



Altadis position in 1997

Main Players S.O.M. (%) in Units



(*) Excluding China, India and Little Cigars

Source: Altadis estimates

Strategy and timing

A. PRE ACQUISITIONS

B. POST ACQUISITIONS

C. INTERNATIONAL DEVELOPMENT 2003

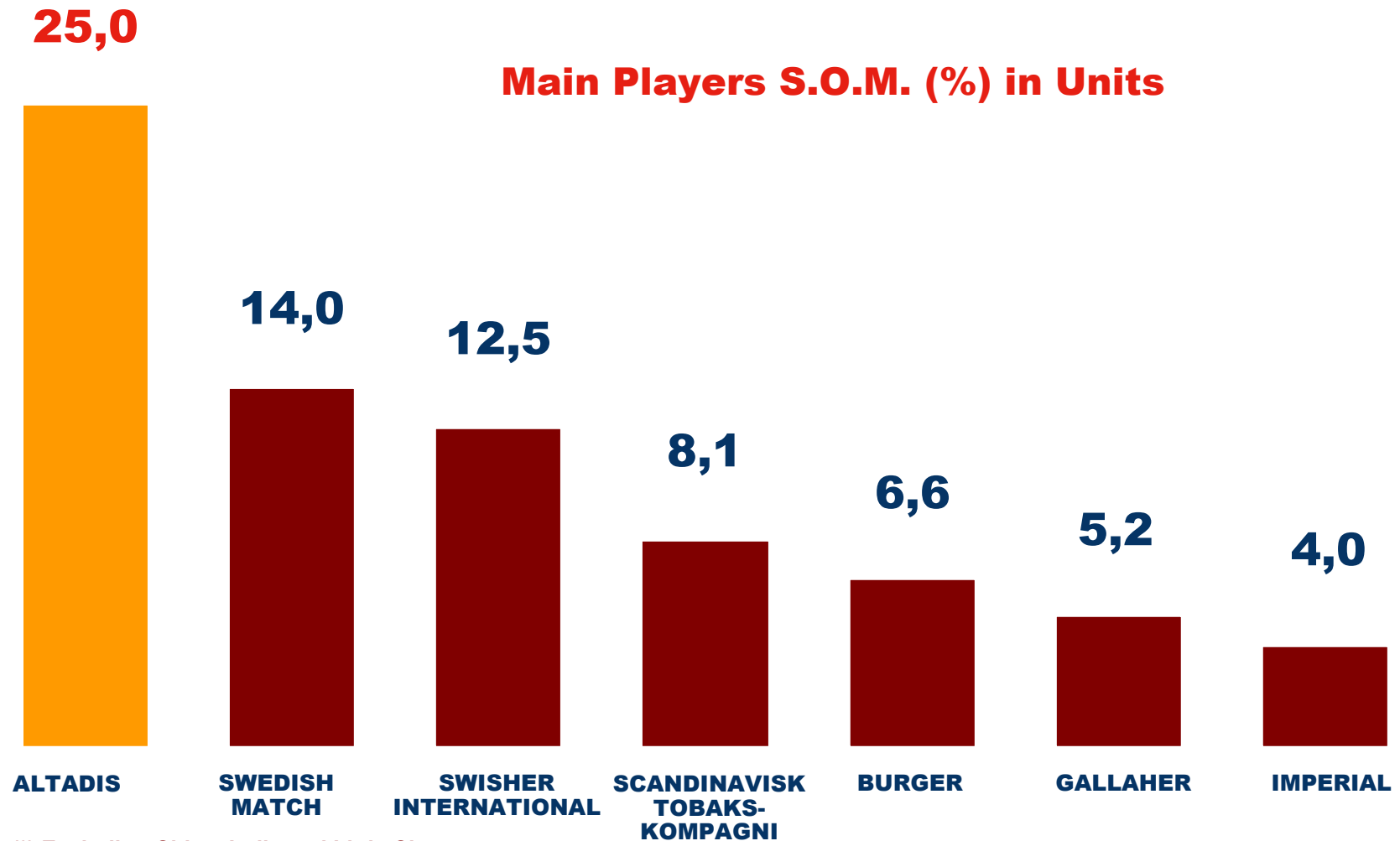
D. FUTURE DEVELOPMENT 2004 ONWARDS

MARKET DESCRIPTION	USA	SPAIN	FRANCE	REST OF EUROPE	REST OF WORLD	WORLD VOLUME
WEIGHT OF REGION IN GLOBAL CIGAR MARKET (UNITS)	35%	10%	15%	35%	5%	11,5 billion

STRATEGY AND TIMING	USA	SPAIN	FRANCE	REST OF EUROPE	REST OF WORLD
PREMIUM CUBAN LARGE		B	B	B	B
PREMIUM CUBAN SMALL		A	A	C	D
PREMIUM NON CUBAN	B	B	B	B	B
NATURAL WRAPPER	B	A	A	D	D
SHEET WRAPPER	B				B

OUR POSITION TODAY	USA	SPAIN	FRANCE	REST OF EUROPE	REST OF WORLD	WORLD VOLUME
ALTADIS SHARE OF MARKET BY REGION (UNITS)	36%	35%	30%	1%	14%	25%

Altadis position today



(*) Excluding China, India and Little Cigars

Source: Altadis estimates

Altadis position today

- N° 1 Worldwide
 - N° 1 in the US
 - N° 1 in Spain
 - N° 1 in France
-
- ➔ Focus on margins
 - ➔ Broad portfolio of brands
 - ➔ Solid distribution network
 - ➔ Trend toward innovation
 - ➔ Pattern for future growth

Consolidation

in 2003



Key Brands

- GLOBAL:**
- Montecristo
 - Cohiba
 - Romeo y Julieta
 - Partagas
 - Hoyo de Monterrey
-

- MULTILOCAL:**
- Backwoods
 - Fleur de Savane
 - VegaFina
-

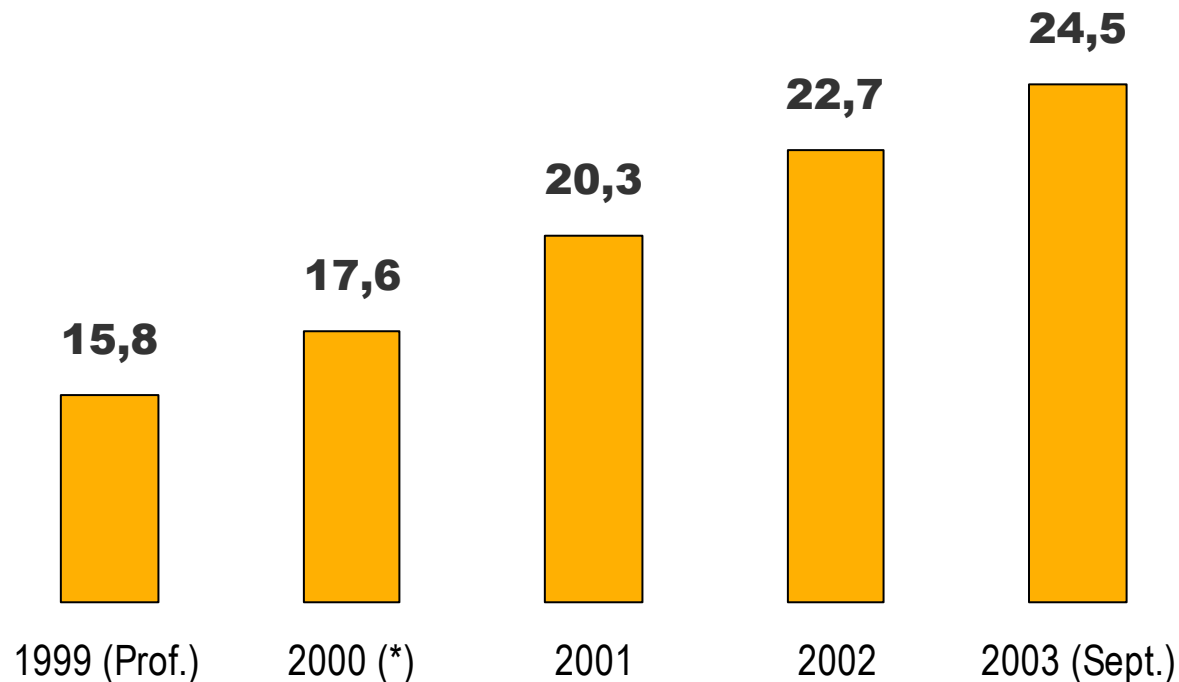
- LOCAL:**
- Phillies / Dutch Masters
 - Farias / Entrefinos / Dux
 - Havanitos / Ninas

USA
SPAIN
FRANCE

Main goals

Improving profitability through portfolio upgrading and cost efficiency

EBITDA margin evolution (percentage over Economic sales)



(*) Acquisition of 50% HSA and merger of USA entities

Main goals

USA: leading innovation
... in mass market



Altadis popular segment growth is based on new flavoured products



PHILLIES BRAND
in 9 months '03

- 24% volume growth
- 64% of Altadis popular segment sales



Main goals

USA: leading innovation ... in distribution

- Altadis acquired on October 10th, a controlling interest in 800 JR Cigar
- 800 JR Cigar is the US largest wholesaler and retailer of premium cigars
- Main businesses:
 - ➔ Cigars distribution through its catalogs
 - ➔ Three outlets based in North Carolina
 - ➔ Eight retail stores in Northern US
- Put / Call option to purchase the remaining shares from 2008

Main goals

HABANOS: improving margins through upgraded portfolio

■ Limited Editions:

- Careful selection of a two-year aged wrapper
- Sizes which are not part of the usual range of the brand

■ Specialties:

- Filler, binder and wrapper with high quality
- Novelty sizes of global brands
- Hand-made packaging: humidors with a specific design for each specialty

■ Reserves:

- Careful selection of a three-year aged filler and a six-month aged wrapper
- Only in the most prestigious brands: Cohiba and Montecristo

Main goals

SPAIN: increasing margins through price-cost optimisation in large mass and gaining share through minis and puritos

New launches

Sept.

DUX: New launch in March: **25,6 M. Units**
3,4 % S.O.M.

VegaFina: Very successful year... **+18 % increase**
This growth has been boosted since the re-launching in October

 **Recovering share of market**

Main goals

SPAIN: increasing margins through price-cost optimisation in large mass and gaining share through minis and puritos



Main goals



Las Autoridades Sanitarias advierten que el tabaco perjudica gravemente su salud y la de los que están a su alrededor.

Main goals

FRANCE: upgrading portfolio

- Focus on Fleur de Savane
- Launches: Guantanamera, Backwoods
- Re-launch of machine-made Cubans

 **Keeping Market Share (value)
despite market conditions**

Main goals

FRANCE: upgrading portfolio



Main goals

**INTERNATIONAL:
significant growth of exports from:**

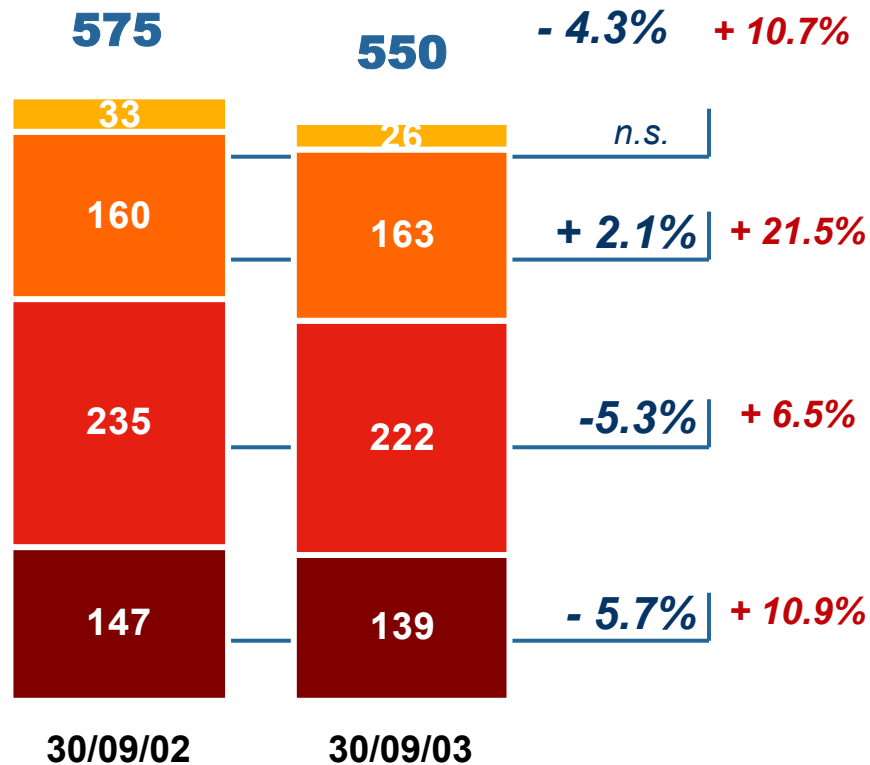
- USA: +12% (Sept.) through mass market products
- Europe: +39% (Sep) through mini Cubans

 **Well established basis
for future growth**

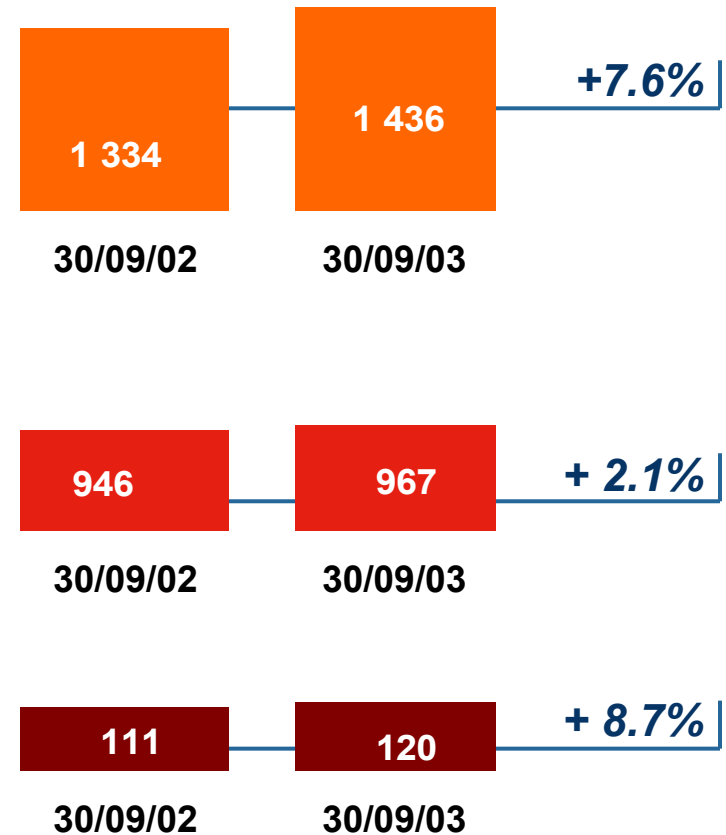
Sales performance (Sep. 30th, 2003)

**Value (Euro mn)
& Growth 2002-2003**

% ex USD impact



**Volumes
(million units)**

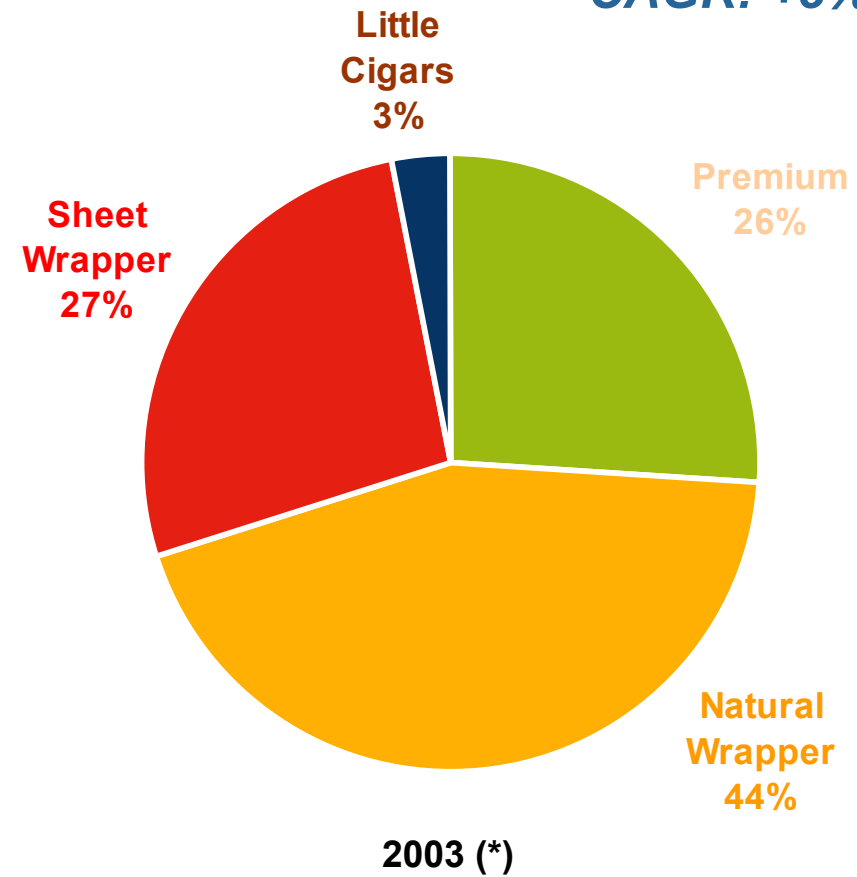
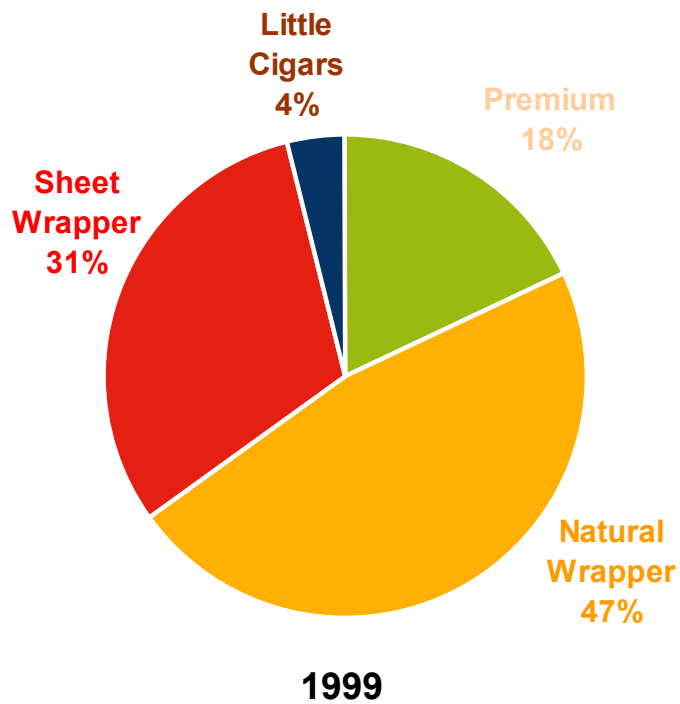


Premium & Habanos (50%)
 Natural
 Mass (Popular + Little)
 Other sales

Portfolio upgrade

Cigar Net Sales (Euros) by SEGMENT

CAGR: +8%



(*) Altadis 2003: Including HSA (50%).

Future growth



The future growth

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