



# Altadis



## in Central Europe

### Germany, Poland, Russia



Presentation at a conference

in London

Thursday, September 23rd, 2004



# Presentation content

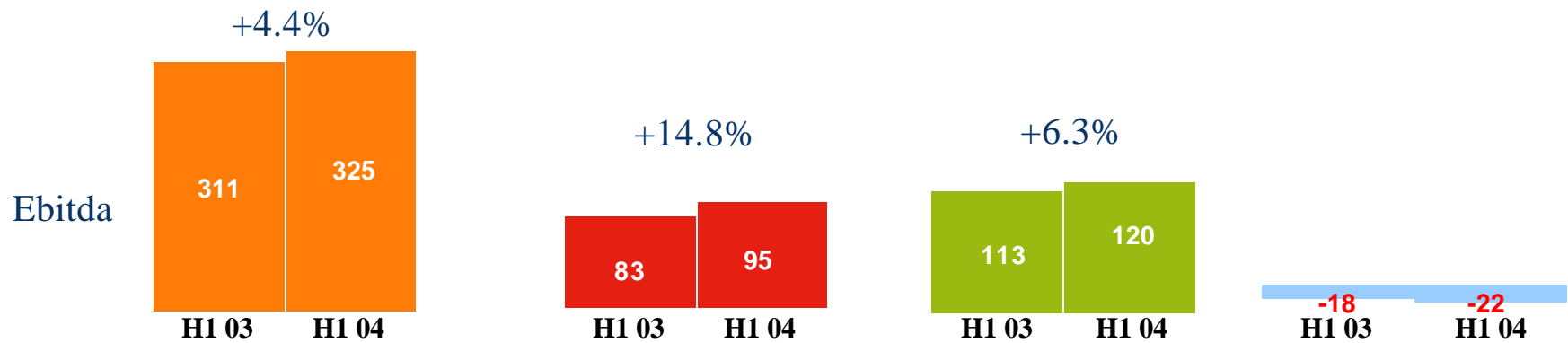
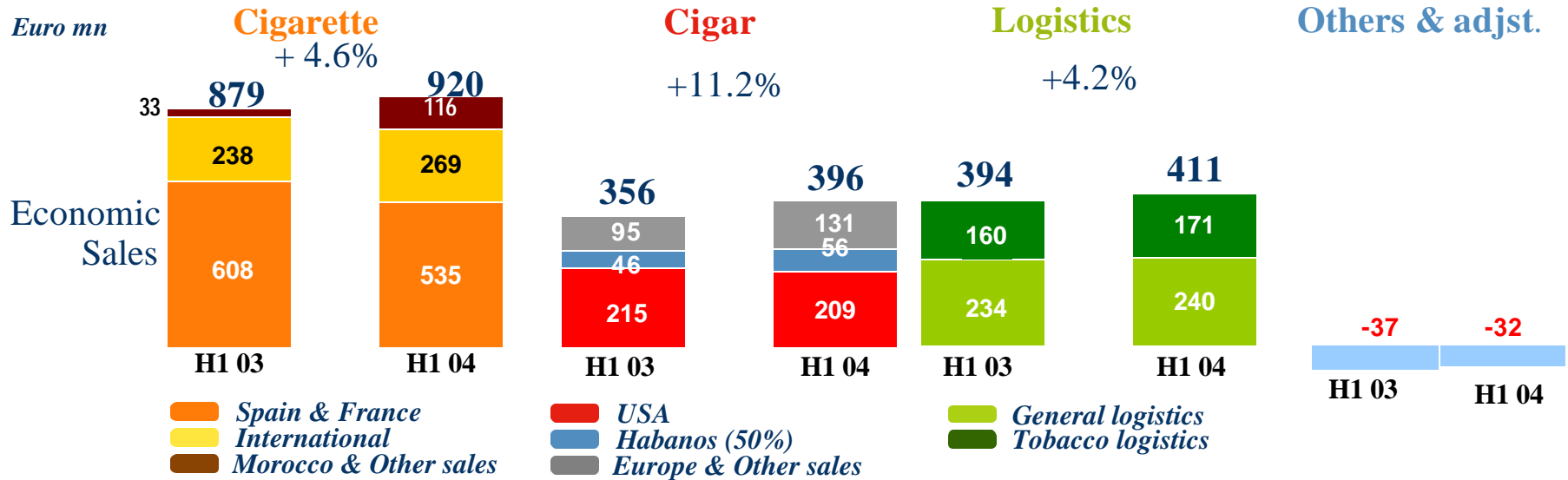
- Part I : Company major H1 04 data
- Part II : Altadis cigarette operations in Central Europe (Germany, Poland, Russia)

# Altadis coped with difficult markets and environment: H1 04 Economic sales +6.4%, Ebitda + 5.8%

- Altadis had to face **marked consumer reactions to steep price increases** in France, a major market for the Group, and weakness of other Western European cigarette markets (total volume decreases).
- Despite these events and adverse dollar change, **Economic sales are up 6.4% to Euro 1,695 million**, organic sales being Euro 1,598 million.
- **Ebitda grows by 5.8% to Euro 518 million**. Organic Ebitda amounts to Euro 462 million.
- **Net income is Euro 190 million** compared to Euro 220 million in H1 2003. **EPS are Eurocent 66**. Pre-goodwill net income and EPS amount to respectively Euro 271 million (+1.7%) and Eurocent 95 (+4.0 %).
- Strong generation of Operating **Free Cash Flow at Euro 749 million**.

# Strong reaction to prices in France, excellent cigar semester, positive perimeter changes

**Total economic sales: Euro 1,695 mn + 6.4 % + 0.3% organic**



**Total Ebitda: Euro 518 mn + 5.8 % - 5.5% organic**

Notes: Organic figures are at constant perimeter and currency.

4 Others & adjustments record, principally, the elimination of inter-division operations.

# EBITDA: + 5.8% to Euro 518 million

<i>(Euro mn)</i>	H1 03	H1 04	Growth***
<i>Economic Sales</i>	1,593.2	1,694.6	+6.4%
<b>EBITDA*</b>	<b>489.3</b>	<b>517.6</b>	<b>+5.8%</b>
<i>EBITA</i>	434.3	448.7	+3.3%
<b>Operating Income (EBIT)</b>	<b>417.0</b>	<b>426.1</b>	<b>+2.2%</b>
<i>Financial Results</i>	(22.6)	(41.3)	-82.3%
<i>Goodwill Amortisation</i>	(46.3)	(80.8)	-74.7%
<i>Associates</i>	0.3	13.3	n.s.
<i>Extraordinary Results</i>	(4.5)	(5.1)	-14.6%
<b>Earnings Before Tax</b>	<b>343.9</b>	<b>312.2</b>	<b>-9.2%</b>
<i>Corporate Income Tax</i>	(105.5)	(99.7)	+5.5%
<i>Minority Interests</i>	(18.3)	(22.5)	-22.6%
<b>Net Income Group Share</b>	<b>220.1</b>	<b>190.0</b>	<b>-13.7%</b>
<b>EPS (eurocent)</b>	<b>75</b>	<b>66</b>	<b>-11.7%</b>
<i>Average number of shares (million)**</i>	292.4	285.9	2.2% decrease
<b>Pre-goodwill Net Income ****</b>	<b>266.4</b>	<b>270.8</b>	<b>+1.7%</b>
<b>Pre-goodwill EPS (eurocent)</b>	<b>91</b>	<b>95</b>	<b>+4.0%</b>

\* Ebitda: Ebit + Depreciation & brand, and other intangible assets amortisation

\*\* Average number of shares = average of (total number of shares - treasury stock )

\*\*\* + symbols are used for beneficial evolution, and reversely, - symbols for detrimental evolution

\*\*\*\* Pre-goodwill Net Income: Net Income + Goodwill Amortisation

# Two major acquisitions

## Etinera

### Transaction Details

Price: Euro 566.4 mn for 96%  
 Debt: Net cash at 30/09/03: Euro 373 mn  
 Financing: With existing financ. facilities  
 Closing: Expected in Q4'04

### Strategic Fit

- ✓ Perfect match with current logistics:  
Spain, France, Morocco, Portugal
- ✓ Current focus on tobacco logistic
- ✓ Potential for General logistics

### Financially Sound

<i>(Euro mn)</i>	<u>2003</u>
Economic sales:	194
Ebitda:	60
Ebitda margin :	31%
Recurrent Capex:	4

### Profit Enhancement

IRR > 17%  
 Profit enhancement post-goodwill expected  
 from year 1  
 Payback < 5 years

## Balkan Star

Price: Euro 147 mn for 80.75%  
 Debt: Debt free/ Cash free  
 Financing: With existing financ. facilities  
 Closing: Expected in Q4'04

- ✓ No.1 Russian independent player
- ✓ No.2 filtered cigarette brand in  
Russia
- ✓ Significant distribution network
- ✓ Production capacity 40bn units

	<u>2003</u>
	107
	18
	17%
	5

IRR = 13.7%  
 Earnings impact neutral in year 1  
 Target to double Ebitda by 2008

# The importance of Central Europe for Altadis cigarette operations is growing fast

## ■ Strategic importance

→ Base for revenues and / or growth for all companies

## ■ Quantitative importance of markets

→ Germany + Austria + Switzerland : > **180 bn units Euro 35 bn retail price value**

→ Poland + Czech R. + Hungary : **110 bn units Euro 5 bn retail price value**

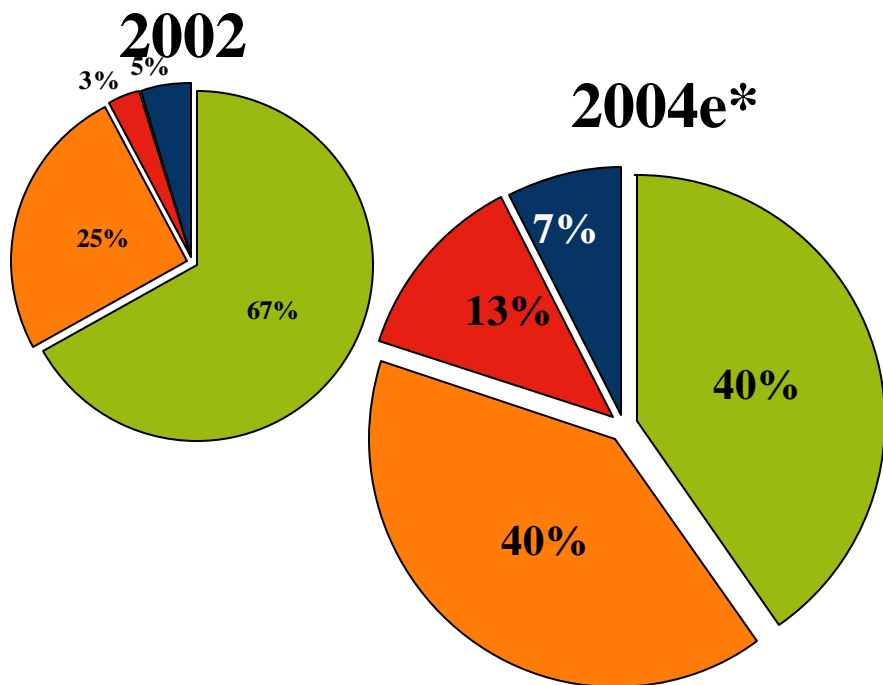
→ Russia, not to mention former CIS : > **300 bn units Euro 5 bn retail price value**

## ■ Variety of markets (situation, trends) and of Altadis positions, Germany, Poland, and now Russia being the three major markets for the Group in the region

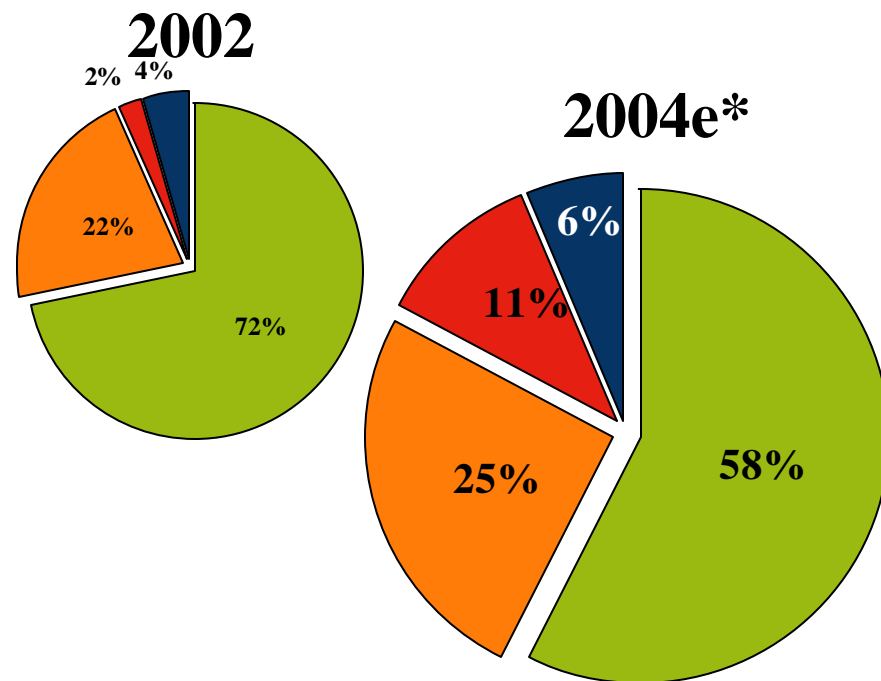
**Altadis to focus on market-specific approaches in terms of brand portfolio (premium, mid-price, super-value, RYO), distribution, commercial organisation, and category management**

# Improved balance of regions

## Cigarette volume



## Value



 Domestic markets (Spain & France)

 Rest of Europe

 Africa

 Asia & Rest of the World

\* Proforma i.e. including Balkan Star

# GERMANY

## The major market in the EU

- **The major market in the EU : 134 bn cigarettes Euro 22 bn retail price value**
  - 158 bn units all-inclusive (18 RYO, 6 MYO)
  
- **2004 changes**
  - Tax increase on March, 1st, 2004, eurocent 40 per pack increase of retail prices
  - Decreased volume by more than 10 %, more stable value, but decreasing
  - Downtrading to super-value prices, private labels, make-your-own (both branded and generic)
  - Non-duty paid market increase (up to 30 % in some parts of Eastern Germany)
  - Tax revenue decrease
  - **Gauloises Blondes** over-performing, close to 6% spot market share
  
- **Real price-war not very likely due to the importance of the market**

### ■ Schedule for December 04 and September 05

- Two more tax increases (eurocent 1.2 per cigarette each)
- Two price increases that would pass tax increases through to consumers

### ■ Question marks

- Actual implementation of the schedule
- Taxes for make-your-own
- According to the scenario : evolution of cigarette market, private labels, make-your-own, grey market

## Altadis position in Germany is unique

- **Unmatched achievement**
  - in volume and sales growth, market share growth and ranking progress
- **Market share continues to grow**
  - Base momentum
  - Launch of roll-you-own, support of dark
  - A&P investment (increased share-of-voice preferred to price-cuts)
  - Volume decline in 2004 should be limited
- **Earnings are up**
- **Gauloises Blondes the only winning brand on the German cigarette market in 2004**

## The success of Gauloises Blondes. Why?

### ■ Strong brand equity

- An alternative
- A credible alternative
- The only true alternative
- Support (investment in share-of-voice)

### ■ Success in urban areas

- Appeal to urban consumer
- Appropriate distribution (including vending machines with 68 % numeric distribution)

### ■ Success with young adults

- Over performing in ASU30 (adult smokers under 30)

→ → → → → **Momentum for future growth is secured**

# AUSTRIA, NETHERLANDS, BELGIUM, ...

- **Austria (market : 15 bn units) : pattern similar to Germany, amplified**
  - Market down around 8%, **Gauloises Blondes** market share up by 50 bp to 8.4% (#3 brand)
  - Launch of **Fortuna** in September 04
- **The Netherlands (market : 17 bn units) : 2.5 % market share**
  - Market down by around 15%
  - **Gauloises Blondes** market share close to 2.5 %
- **Belgium & Luxembourg (market : 20 bn units) : boost by border sales**
  - Launch of **News** and **Fortuna**
  - Gain in volume, Company ranking moved up to # 3, market share above 5 %
  - Border sales of **Gauloises Blondes** to France & Germany (especially from Luxembourg)
- **Switzerland (market : 14 bn units) : acceleration for Gauloises Blondes**
  - Stable market, **Altadis** up by 10%, **Gauloises Blondes** up by 30%
  - **Gauloises Blondes**, with a market share close to 1 %, targeting to join Top 10 brands in 2005

**Altadis / Gauloises Blondes winning in most markets**

# POLAND

## A market still out of balance

- **Slightly decreasing volume (CAGR 00-04 : -1%) to 72 bn**
  - Threatened by Eastern Europe non-duty paid flows
  
- **Price war situation since 2001**
  - Producers attack for or defend volume and market share at the expense of margin
  - Profitability spoiled
  
- **A very competitive market**
  - Altria clearly the leader (36% market share) and four major players between 10-17%
  - Altadis in a defending position, but with a sound business base
  
- **More tax changes to come**
  - Important increases expected in the coming years to reach EU levels by 2009
  - High likelihood of a minimum tax in the near future to dismiss price wars

# POLAND Altadis safeguards sound business base in expectation of turn-around

## ■ Coping with price-wars

- It is made easier for a smaller player
- Altadis market share at 10 %, sales at approximately Euro 50 mn

## ■ Altadis Polska plant in Radom manufactures for export

- To Central-Europe and the EU. Larger scale reduces COGS, including for Poland

## ■ Strategy : focus switches to new King Size brands

- Until 2004: Focused on main existing brands (Fox, Spike, Iris)
- 2004: focus shift to new King Size brands
  - Brilliant
  - Spike 24
  - Sublime

## ■ Altadis King Size cigarettes market share reaches 4% vs. 2.5% in 2004

# CZECH REPUBLIC, HUNGARY, SLOVENIA

- **Czech Republic (market : 20 bn units) : border sales pattern**
  - Market growth of 5% (+1bn units)
  - Increased border sales to consumers from Germany
  - Increase of **Gauloises Blondes** sales to 2.5 % of premium-sub-premium market
- **Hungary (market : 19 bn units): stabilised volume of Gauloises Blondes**
  - Market decline of 5 % (non duty paid from Ukraine)
  - **Gauloises Blondes** volume nevertheless stabilised at 1 % market share of premium-sub-premium market
- **Slovenia (market : 4 bn units) : small but profitable**
  - Small but quite profitable market by standards of the region
  - **Gauloises Blondes** market share stable at 10 % of the premium-sub-premium market (2.5 % of total market)

# **RUSSIA** Renewed prospects after the acquisition of Balkan Star

- **A market of more than 300 bn units**
  - Stable volume
  - Increased value (price increase, switch to international brands)
  
- **After the acquisition, a new strategy for Russia**
  - Enlarged distribution (synergies between local and international brands)
  - Enlarged portfolio combining Altadis and Balkan Star brands : premium, mid-price, low-price, local low-price
  
- **Exploration of export possibilities from Russia**
  - to Ukraine (95 bn units Euro 1.4 bn value) and “Stans” (Kazakhstan, Kirghizstan, ...)
  - Saving custom duties
  - New market opportunities at lower cost