

# ALTADIS INVESTOR SEMINAR

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Bilbao October 5th and 6th, 2006

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# GROUP Strategy

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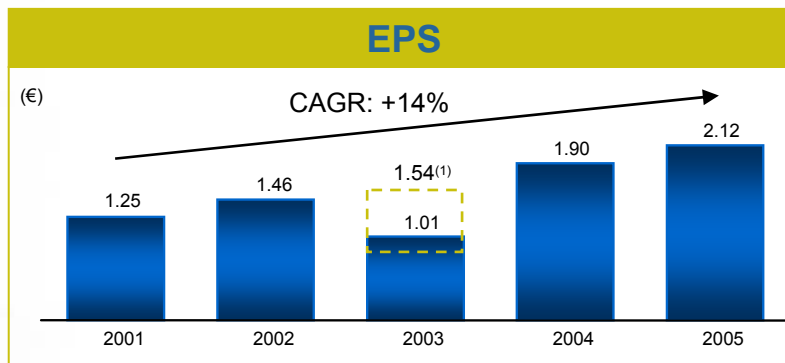
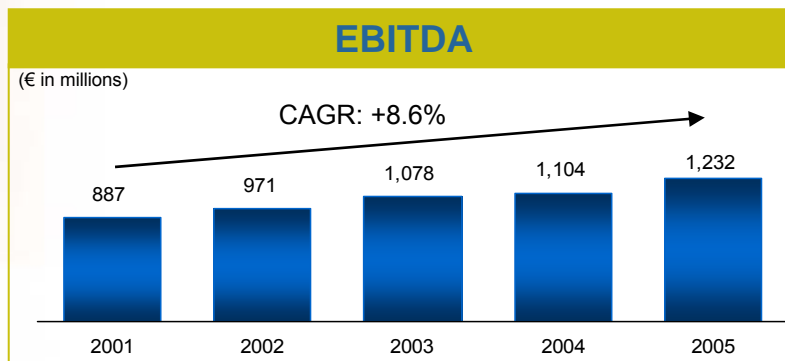
Antonio Vázquez Romero

Chairman of the Executive Committee and CEO

Bilbao October 5th, 2006

# Altadis – A Continued Success Story

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(1) Adj. EPS was €1.54 in 2003 (excl. one-off restructuring charge, net of taxes)

## Continued strategic focus ...

- Robust growth despite difficult external environment
  - Strategic brand initiatives (Gauloises Blondes, Fortuna)
  - Product innovation in cigars
  - Extended service offering in logistics
  - Restructuring programme has yielded substantial operational improvements
- Significant M&A in all divisions

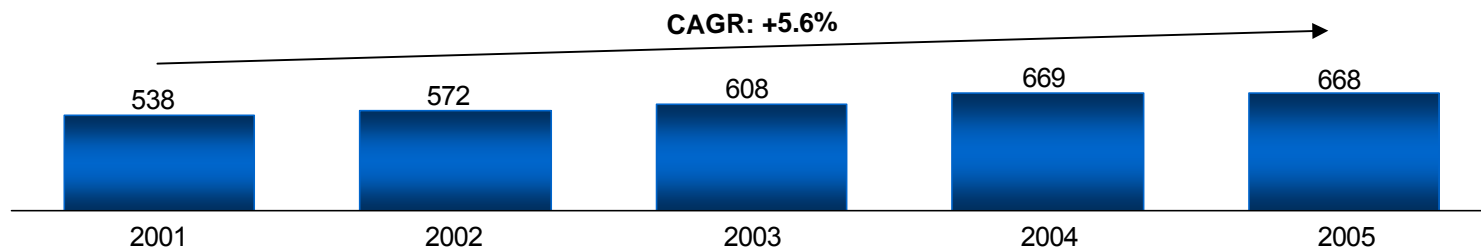
## ... has created substantial shareholder value

- Share price improvement of 170% since beginning 2000 till end 2005
- Including dividends and buy-back programme, average annual return was c. 25% since beginning 2000
  - €1.8bn of cash returned to shareholders since 2004

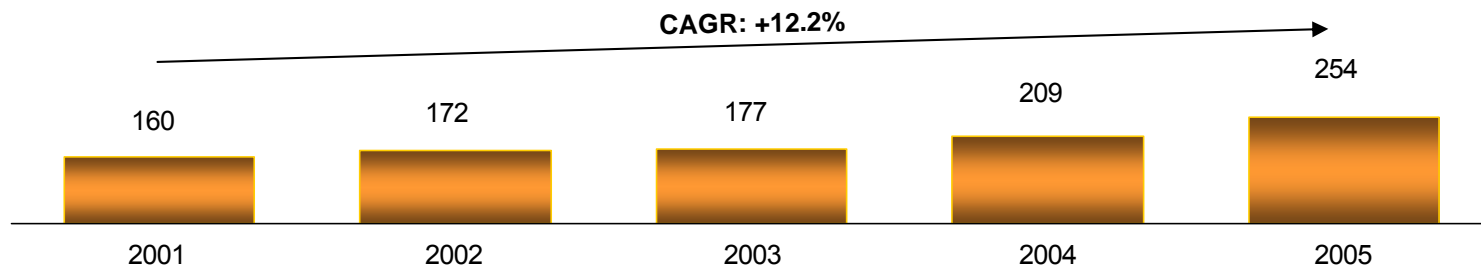
# Growth Driven by Existing Business as Well as Acquisitions

## Evolution of Divisional EBITDA

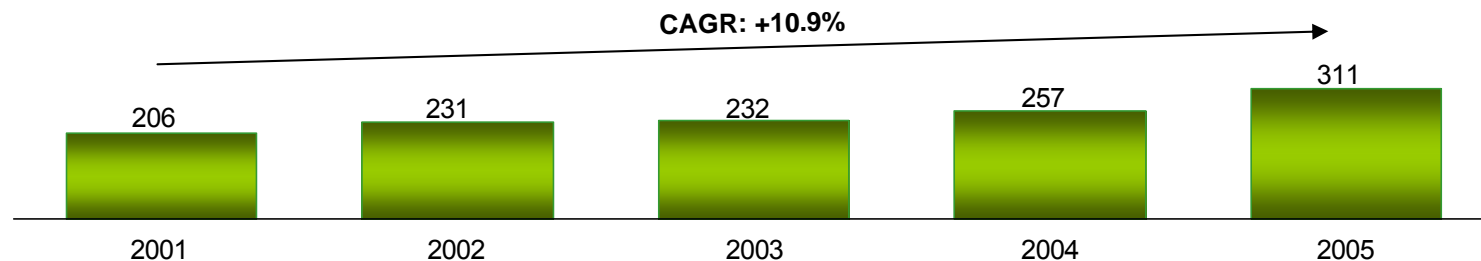
### CIGARETTES



### CIGARS



### LOGISTICS



# Our Current Business Platform by Geography

	Cigarettes	Cigars	Logistics	GROUP
France	> 15%	< 5%	> 5%	> 25%
Spain	> 5%	< 5%	> 5%	> 15%
Rest of West Europe	> 15%	< 5%	< 5%	> 20%
USA		> 15%		> 15%
Emerging markets	> 10%	< 5%	< 5%	> 15%

Note: Not adjusted for non-allocated items.

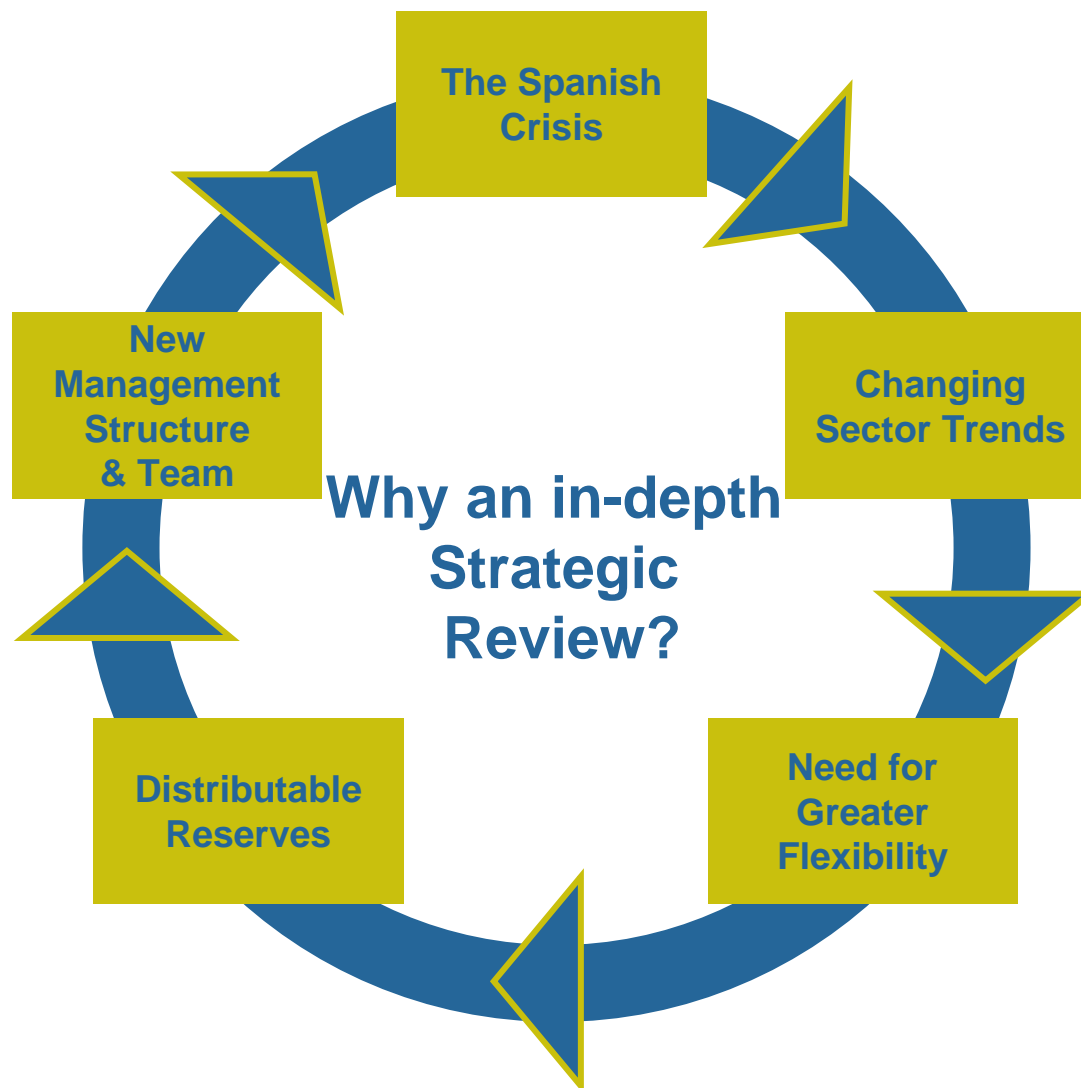
Our profitability is evenly distributed across activities and geographies

# The Strategic Review

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# Several Key Drivers Triggered Review



## Industry Risk

- Some Industry risk factors are declining
  - Total global litigation risk is reducing
  - Industry has proven to be more able to cope with regulatory pressures – impact of public smoking bans is manageable
- Tax increases all over Europe, reducing margins

## Competitive Pressures

- Fight for market share intensifying in mature markets
  - Pricing power is under pressure in the sector's key markets of Western Europe as certain players seek market share increases

## Consumer Behaviour

- Consumer downtrading in mature cigarette markets – expectation for up-trading in emerging markets
  - Regulatory restrictions and tax/price increases alter consumer behaviour
- High expectations for organic growth opportunities in all key categories in emerging markets – driven by strong pricing power and up-trading to strong international brands

## M&A

- Opportunities remain, despite reduced privatisation pipeline

## Return to Shareholders

- Continuation of policy of returning excess cash to shareholders expected in absence of acquisitions
  - Remaining consolidation options rather limited
  - Increasingly ambitious buy-back programmes

## Cigarettes

### Increasing regulatory pressures

- Taxation
- Smoking bans

### Changing consumer behaviour

- Public perception
- Sensitivity to prices
- Importance of brands

### Growth opportunities in emerging markets

### Scope for synergistic M&A

## Cigars

### Value growth in all segments

- Strength of premium
- Mass segment benefiting from consumer preferences

### Importance of brands

- Premium cigars close to luxury goods

### Habanos potential when embargo is lifted

### Low consumption levels outside of US and Western Europe

## Logistics

### Tobacco volumes under pressure

### Opportunities in tobacco distribution in new markets

### High growth and significant opportunity in non-tobacco logistics

## Strengths

- ❑ Leading position in core markets
- ❑ Core of valuable assets
  - Strong, international non-American brands
  - Unrivalled portfolio of global and local cigar brand
  - Unique, stable European logistics platform
- ❑ Cohesive business portfolio with common vision
- ❑ Significant financial capacity and cash generation

## Issues

- ❑ Small relative size in cigarettes
- ❑ Lack of flexibility in corporate structure
- ❑ Rigid legal framework for some of our operations

## Opportunities

- ❑ Scope for further cost efficiencies
- ❑ Pricing power in some key markets
- ❑ Unique potential for Cuban cigars
- ❑ Possibility to make acquisitions in all our businesses
- ❑ New markets

## Risks

- ❑ Consumer perception of tobacco products
- ❑ Competitive environment
- ❑ Regulation and excise tax environment
- ❑ Emerging market risks

**We have a strong business portfolio with significant further upside – potential risks mainly regulatory**

- ❑ Allocation of investment across the whole tobacco sector
- ❑ Balancing and diversifying risk (geographical, business)
- ❑ Pooling of financial resources (cash generation, cost of funds, M&A)
- ❑ Multi-business, country-based approach (e.g. Morocco)
- ❑ Cost synergies and economies of scales (e.g. shared services, purchasing, insurance)
- ❑ Brand extension (e.g. Montecristo)
- ❑ Broader, higher quality human resource base

**Altadis is best positioned to face the changing trends of the tobacco industry as an integrated group**

- ❑ Unwind current restrictions on distributable reserves
- ❑ Take full advantage of the changing tax environment
- ❑ Provide our business units with:
  - More efficient legal / organisational framework to create stronger business focus
  - Greater agility to capture opportunities that arise from fast-changing industry

Altadis is an integrated tobacco company, with a relentless focus on sustainable, profitable growth and continued shareholder value creation

## In order to achieve our vision, we will:

- ❑ Develop our current business portfolio
- ❑ Further exploit operational synergies relating to our current business platform
- ❑ Optimise our corporate structure
- ❑ Seek opportunities for acquisitions and strategic alliances in each business area
- ❑ Continue to return excess cash to shareholders, provided there are no compelling investment opportunities



# CIGARETTE Strategy

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Bruno Germain-Thomas

COO Cigarette Business Unit

Bilbao October 5th, 2006



- ❑ Key Figures
- ❑ Strategic Vision- Business Unit
- ❑ Strategic Vision- Countries
- ❑ Strategic Vision- Brands
- ❑ Strategic Vision- Industry
- ❑ Conclusion

**2005**

Worldwide penetration

&gt; 100 markets

Volume

135 bn units

Economic Sales

€ 1,979 mn (48 % of Group's)

EBITDA

€ 668 mn (54 % of Group's)

EBITDA Margin

33.7%  
(-2.0 points vs 2004) \*

Headcount

8,097 (28 % of Group's)

\* As a result of the acquisition of Balkan Star in Russia

# 2006 H1 Key Figures

	H1' 05	H1' 06	Var. 06-05
Volume (Bn units)	65.8 <sup>(1)</sup>	54.2 <sup>(1)</sup>	-17.5%
Economic sales	998	819	-17.9%
EBITDA	342	249	-27.1%
Ebitda margin	34.3%	30.5%	-3.8 points

(1) Including 3.3 bn cigarettes and 3.2 bn cigarettes for 2005 and 2006, respectively, licensed to third parties.

# Our current position: Cigarette Business is Recovering Strongly, with Increasing Regulatory Exposure

## Strengths

- ❑ 4 profit pillars (Spain, France, Morocco, Germany) vs. traditionally 2
- ❑ Strong positions in core markets
- ❑ Gauloises Blondes: an international rising star
- ❑ Unrivalled leadership in dark tobacco category

## Opportunities

- ❑ Potential for further reduction of cost base
- ❑ Enhance profitability in the Middle East
- ❑ Brand globalisation through alliances
- ❑ Post consolidation opportunities to step change critical mass

## Issues

- ❑ Limited geographic footprint
- ❑ Relative lower commercial investment than competitors
- ❑ Lack of critical mass outside our core markets
- ❑ Manufacturing set up is sub optimal

## Risks

- ❑ Tax structure and price wars in core markets
- ❑ Regulation putting further pressure on consumption
- ❑ Social pressure against consumers
- ❑ Political instability in Middle East

# Strategic Matrix

**Overall balanced mix. Need to increase “Grow Now” volumes.  
Profit focus on “Grow Tomorrow”**

High

## Strategic maintain

(Volume regression / Profit progression)  
Sustain position and maximise contribution

Spain Dark  
France Dark+RYO  
France Blond  
Africa

% of Volume	23%
% of EBITDA	46%

## Grow now

(Volume / Profit progression)  
Focus on growth while ensuring high profitability

Spain Blond  
Germany  
Western Europe  
Morocco

% of Volume	37%
% of EBITDA	51%

## Financial maintain

No market or segment concerned

## Grow tomorrow

(Volume today / Profit tomorrow)  
Build volume by capturing sustainable market share

Russia  
Near & Middle East  
Poland  
ROW

% of Volume	40%
% of EBITDA	3%

PROFITABILITY

Low

VOLUME POTENTIAL

High

## □ Vision

- Growth strategy behind strengthening core business and alliances
- Cut costs to deliver growth on top of industry average
- Capture post-consolidation opportunities to step change critical mass

### Countries

#### Re-focus and growth opportunities

- ▶ Focus on strength areas (Europe, North Africa, Middle East)
- ▶ Multi-alliance strategy in countries with low presence
- ▶ External growth through acquisitions
- ▶ Profitably consolidate Middle East as a key area

### Brands

#### Build international equity

- ▶ Growth behind Gauloises Blondes through geographical expansion
- ▶ Fortuna to become our international value brand
- ▶ Enter the super-premium category (Montecristo)
- ▶ Category Management

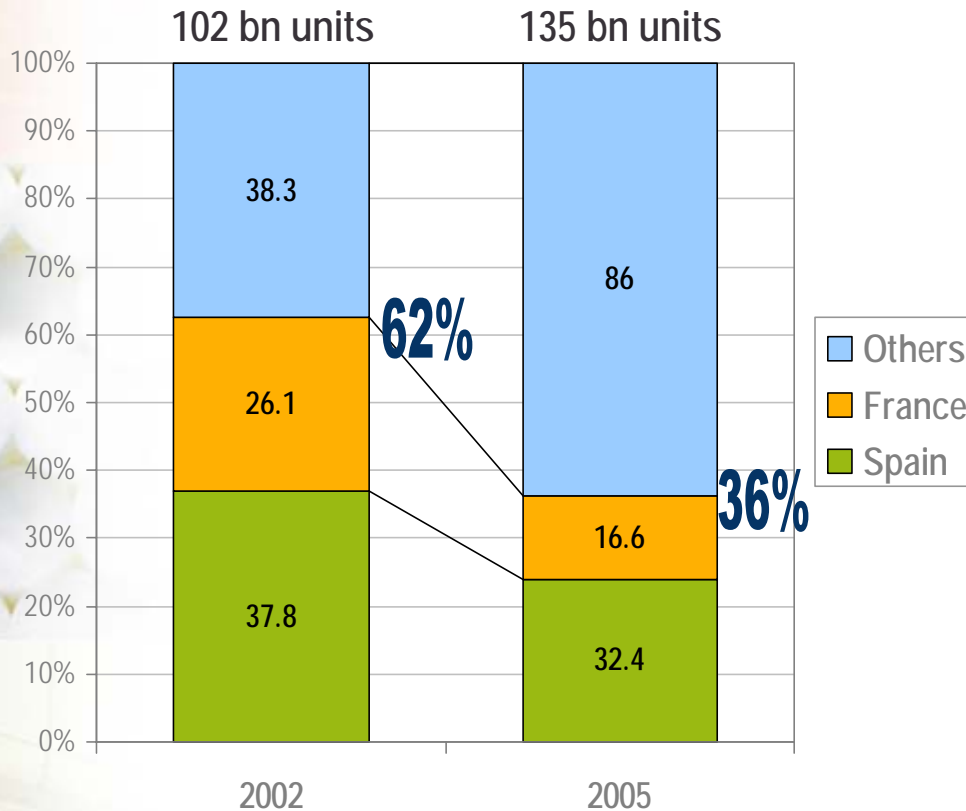
### Costs

#### Improve efficiency : adding to our growth

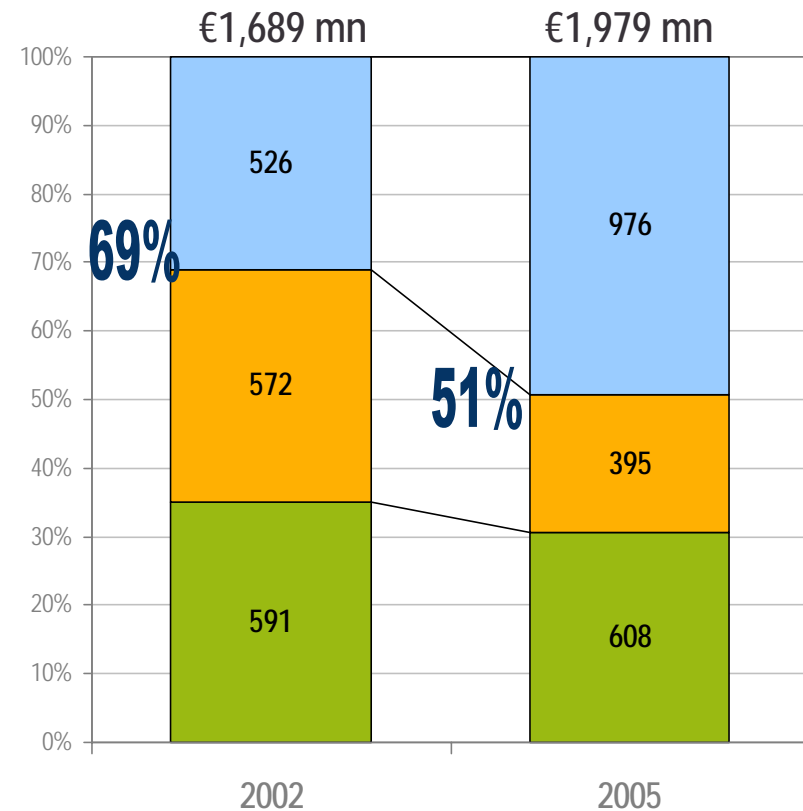
- ▶ Adapt industrial tool to demand
- ▶ Simplification and product cost rationalisation
- ▶ Central cost rationalisation

# PREVIOUS SITUATION - Altadis Cigarette Business Was Based on 2 Key Markets

## VOLUMES



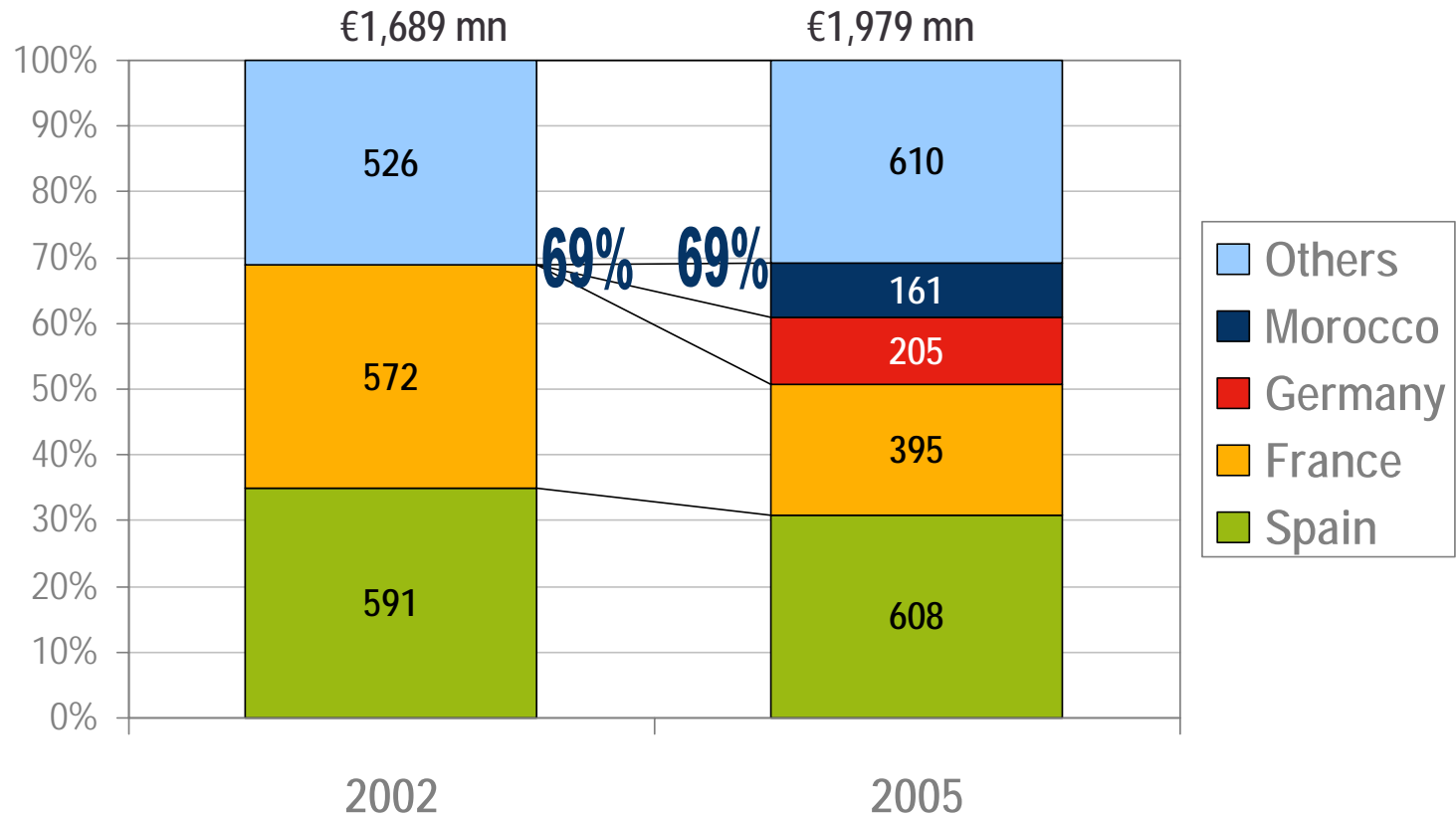
## ECONOMIC SALES



**Altadis is less vulnerable as business has grown outside of its traditional domestic markets**

# CURRENT SITUATION - Altadis Cigarette Business Now Relies Very Strongly on 4 Key Markets

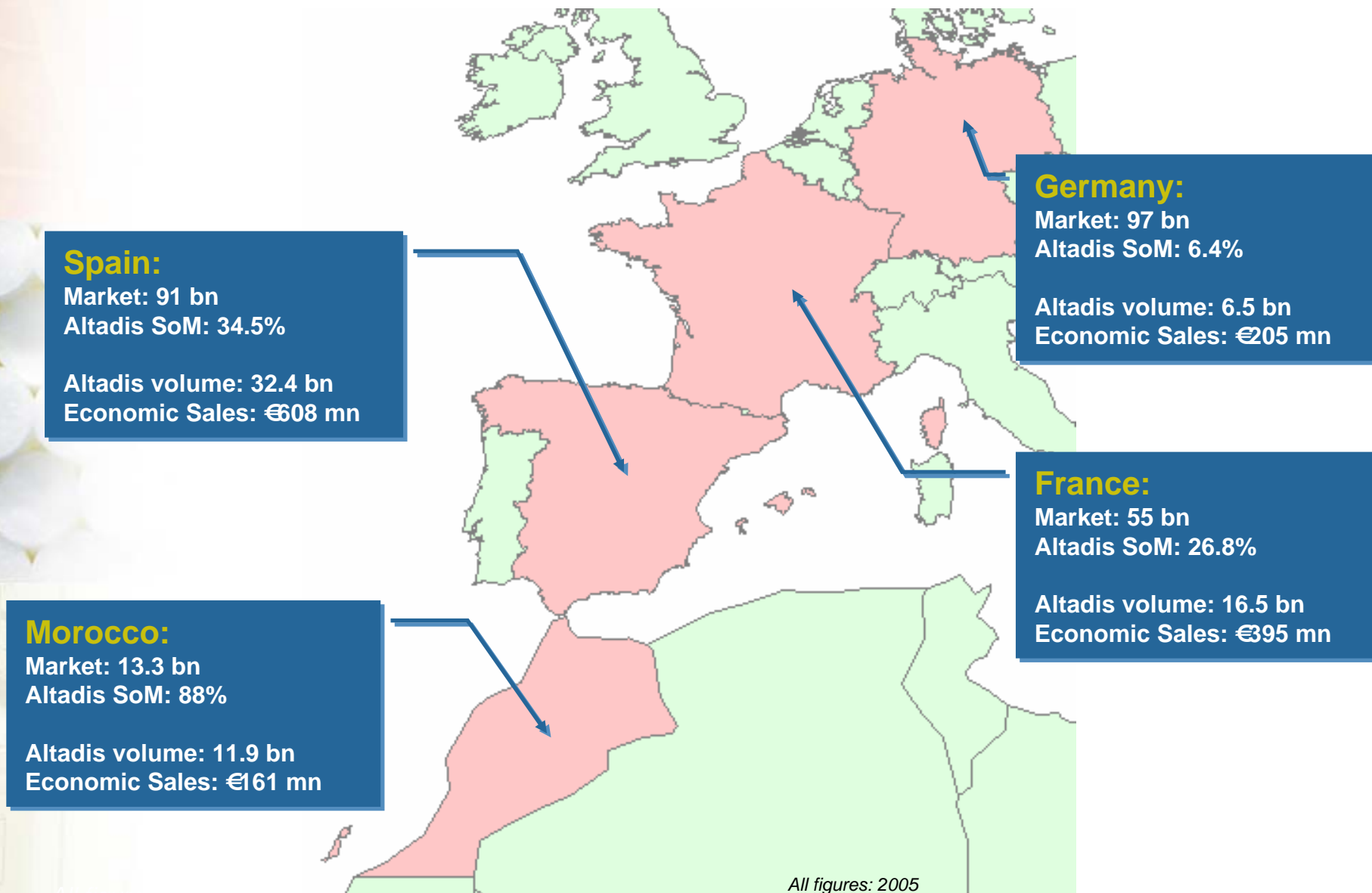
## ECONOMIC SALES



Lower vulnerability achieved through  
organic and external growth



# Focus on the 4 Profit Pillars in 2005

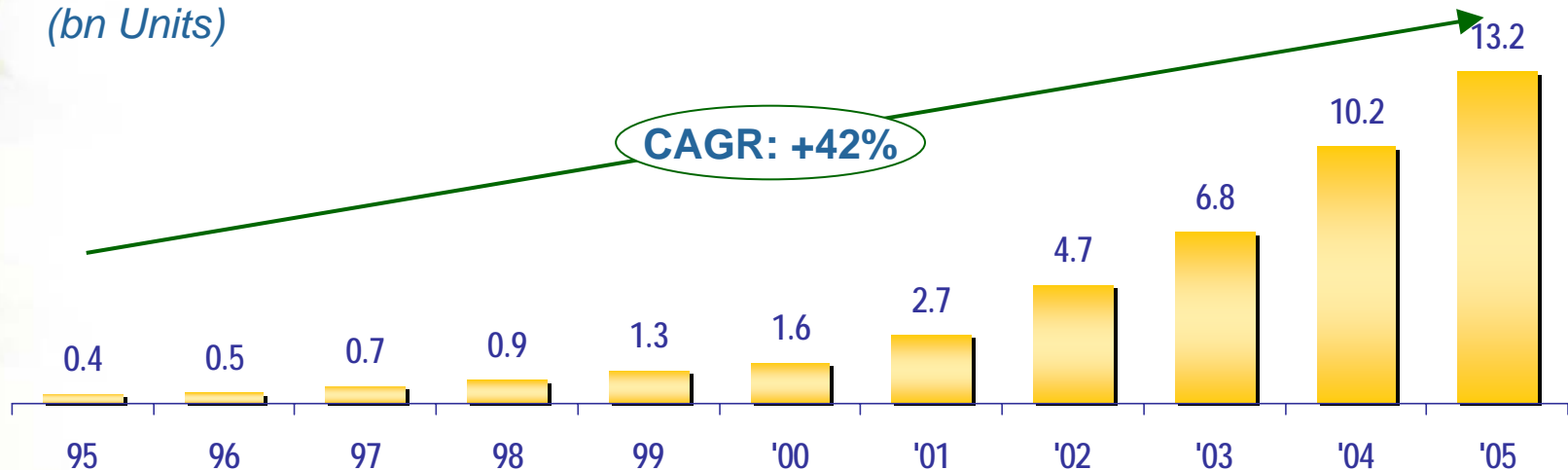


## □ Near & Middle East:

- Market: 133 bn
- Altadis volume: 13.2 bn
- Altadis SoM : 10%

□ **Objective:** to continue driving profitably Middle East volume

Evolution of Altadis Volumes in Near and Middle East  
(bn Units)



## Strategic Rationale

### ALTADIS

- ▶ Additional volumes in areas where Altadis is marginally present
- ▶ Volume relay to our drive brands (Gauloises and Fortuna)
- ▶ Complete Altadis geographic footprint
- ▶ Access to trade through the partner (distribution, visibility)

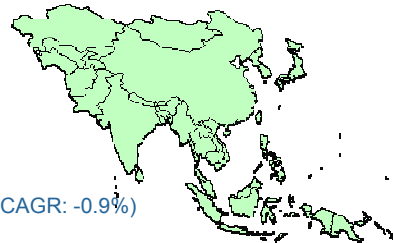
### PARTNER

- ▶ Strong financial partner with a developed infrastructure in targeted regions
- ▶ Attractiveness of Altadis' brands, complementary portfolios
- ▶ Trade synergies (trade terms, shelf availability, critical mass)
- ▶ Strategic relationship

## ASIA

### MARKET SIZE

- ▶ 3,048 bn units
- ▶ CAGR 00-05: +2.0%
- ▶ 1,101 bn units w/o China (CAGR: -0.9%)



### ALTADIS VOLUMES

- ▶ 1.0 bn units (2005)

### MAIN MARKETS

Source: ERC - 2005

	Market Size (Bn Units)	CAGR 00-05
China	1 947,0	+3,8%
Japan	286,8	-3,0%
Indonesia**	211,0	-2,6%
India	97,9	+0,0%
Korea - South	82,3	-5,9%
Vietnam	82,3	+9,7%
Philippines	77,4	+1,7%
Pakistan	58,0	+3,0%
Taiwan	42,3	+1,0%
Thailand	42,2	+3,6%

\*\* Includes kreteks.

## Project Descriptions

### Asia (Except Cambodia and Vietnam)

- ▶ **Brands:** Gauloises & Gitanes
- ▶ **Rationale:** Gauloises not present in largest premium markets
- ▶ **Details of implementation :** Licensed agreement with PMI for manufacturing, marketing, distribution and sales

# Altadis Portfolio for the Mid Term Intends to Cover All Price Segments

## 2000

Premium

- Fine 120 (premium)
- Gitanes (sub-premium)
- Gauloises (sub-premium)

Medium

- Fine
- Royale Club

Low

- Fortuna
- Brooklyn
- News
- Nobel

Discount

- Flash

## CURRENT

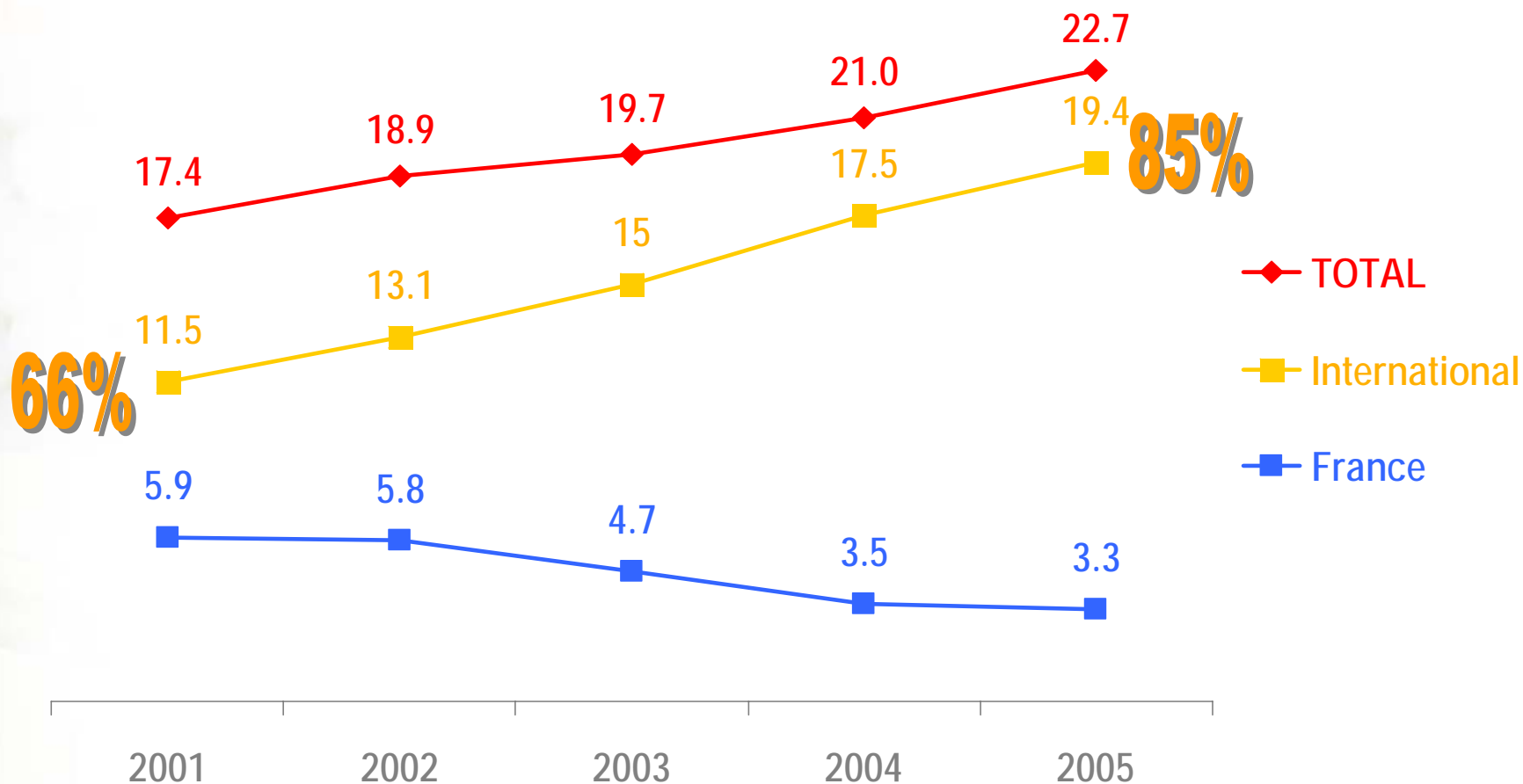
- **Montecristo** (super premium)
- Fine 120 (super premium)
- Gitanes (premium)
- Gauloises (sub-premium)

- Fine
- Fortuna
- News
- Royale Club
- Brooklyn
- **Marquise**
- **Brilliant**
- **Ducados Rubio**
- Nobel

- **Balkan Star**
- Fox; Spike
- Smart

# Gauloises Blondes: an International Brand

- The growth of Gauloises is driven by Europe and the Near and Middle East
- Volume decline in France is in line with the market



# Gauloises Blondes: International Campaign

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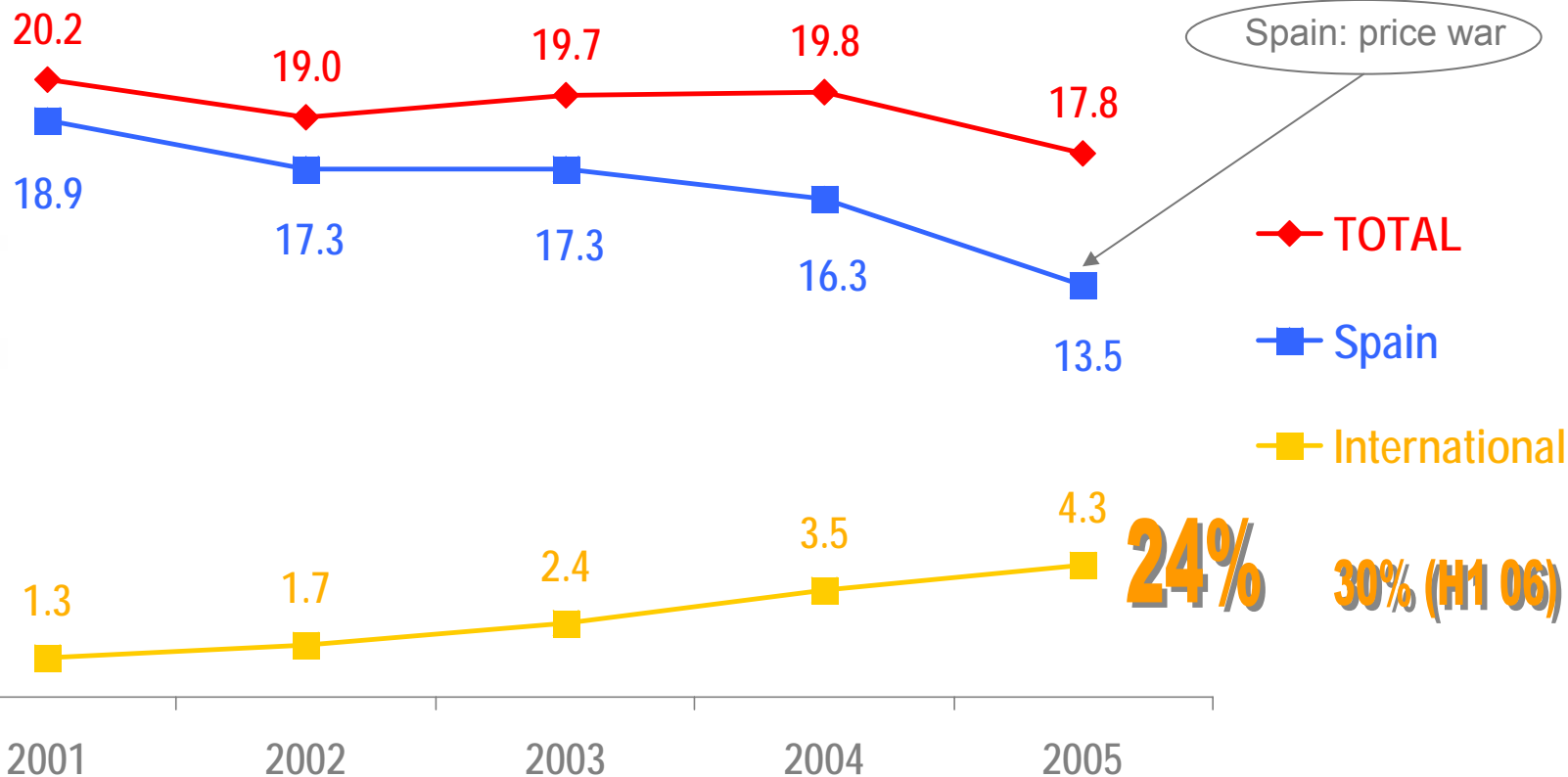


2006  
**investor**  
seminar



# Fortuna: International Potential

- The Spanish origin of the brand is a strong asset of differentiation compared to competitors
- Ambitious program of launches over the past 3 years on markets where Altadis is present: Morocco, Russia, Italy, Austria, Belgium, Luxemburg, Lebanon





# Fortuna: International Campaign

Altadis

2006  
Investor  
seminar



# Montecristo Super Premium Blond Cigarettes: Recap of Main Objectives

## STRATEGIC OBJECTIVES

Complement the Altadis brand portfolio in the growing Luxury segment

## MARKETING OBJECTIVES

Compete with major Super Premium benchmarks by leveraging the awareness and symbolic image of Montecristo brand name

## MONTECRISTO Flip-Top Box 94 RANGE



**Full FTB 94  
(Red)**



**Lights FTB 94  
(Champagne)**



**One FTB 94  
(White)**

PURE MYSTERY



LUXURY CIGARETTES



ALL WE KNOW IS THAT HE SMOKES MONTECRISTO CIGARETTES.



PURE MYSTERY

- *BU Cigarettes Industry, since the merger, has implemented the following restructuring plans:*

	COUNTRY	FACILITY	HEADCOUNT	COMMENTS
2000	SPAIN	3	494	Valencia, San Sebastián, Coruña
1999/2001	POLAND	0	296	
2004	SPAIN	2	595	Sevilla, Tarragona
2004	FRANCE	3	483	Lille, DTB Tonneins, UT Dijon
2004	MOROCCO	1	493	Casablanca
2006	OVERHEAD	1	66	Tres Cantos
		10	2,427	

# Cigarettes Industrial Organisation

Spanish  
Industrial  
Tool

French  
Industrial  
Tool

Polish  
Factory

Russian  
Factory

Moroccan  
Industrial  
Tool

## ALICANTE

-Production : 11GU  
-Manpower: 356 p

## NANTES

-Production : 15GU  
-Manpower: 403p

## RADOM

-Production : 17 GU  
-Manpower: 504 p

## YAROSLAVL

-Production : 27 GU  
-Manpower: 1,060 p

## AIN HARROUDA

-Production : 8GU  
-Manpower: 330 p

## LOGROÑO

-Production : 22 GU  
-Manpower: 589p

## RIOM

-Production : 10GU  
-Manpower: 396 p

## TETOUAN

-Production : 2 GU  
-Manpower: 120 p

## METZ

-Production : 3500T  
-Manpower: 150 p

## KENITRA

-Production : 1 GU  
-Manpower: 90 p

## CADIZ

-Manpower: 330p

## LE HAVRE

-Manpower: 112p

## EL MOUDZINE

-Manpower: 80 p

## PALAZUELO

-Manpower: 44p

— : Cigarette plant ; — : RYO plant ; — : Tobacco processing plant

## ❑ Rationalizations achieved since the merger:

- Number of blends
  - Dark + RYO (Spain + France): from 47 to 18 blends
  - Morocco (local: blond & dark): from 18 to 4 blends
- Primaries process alignment (cigarettes):
  - Done in Spain, France, Poland and Russia
  - Will be achieved in Morocco in Q1 2007
- Filter formats:
  - Harmonised (FF: 21mm, light: 27mm)

## ❑ Main axis for the future:

- Packs harmonisation (FTB 20)
- Number of blends reduction (blond) : - 20%
- NTM harmonisation : - 33%



## □ ALTADIS Cigarette Business Unit :

- On the basis of a much less vulnerable (4 pillars instead of 2)
- Will enhance its international profile (Europe + Maghreb)
- With an increasingly international portfolio driven by :
  - Gauloises : International expansion reinforced by alliance in Asia
  - Fortuna : real success story in Morocco
  - Ducados Rubio : new key brand in Altadis portfolio in Spain

## □ ALTADIS Cigarette Business Unit : a proven and ongoing adaptation capacity

- Permanent productivity improvement via :
  - Restructuring
  - Harmonisation
- Strong capacity of reaction as exemplified by the Spanish crisis
  - G & A reduction
  - Marketing focuses on field



ALTADIS Cigarette Business Unit to keep playing a major competitive role in the internationalisation of the industry.

# CIGAR Strategy

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Fernando Domínguez

COO Cigar Business Unit

Bilbao October 5th, 2006

## 2005

**Worldwide penetration**

**>120 markets  
(rank n°1)**

**Volume**

**3.4 bn units**

**Economic Sales**

**€885 mn  
(22% of Group's)**

**EBITDA**

**€254 mn  
(21% of Group's)**

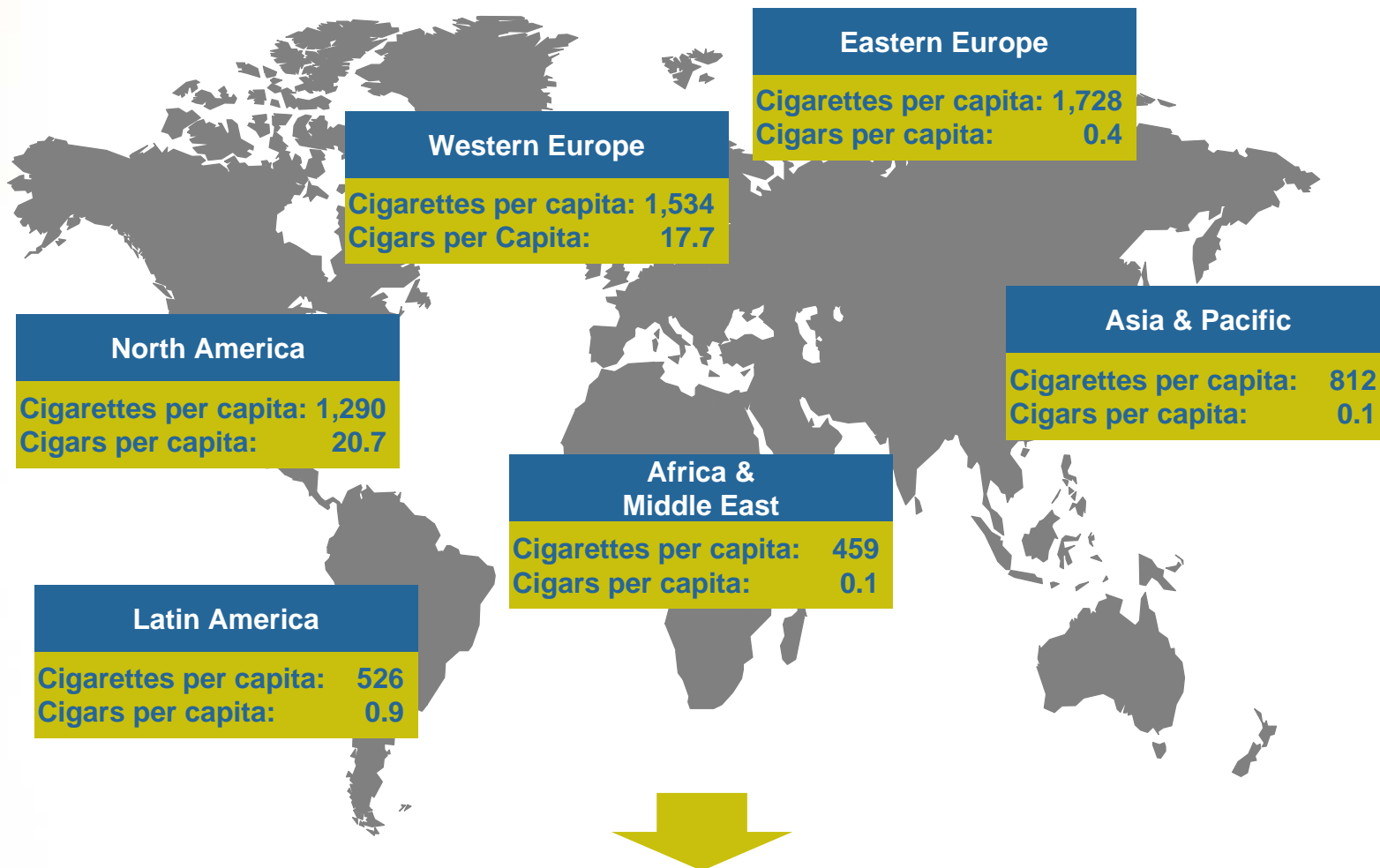
**EBITDA Margin**

**28.7%  
(+3.1 points vs. 2004)**

**Headcount**

**10,760  
(37% of Group's)**

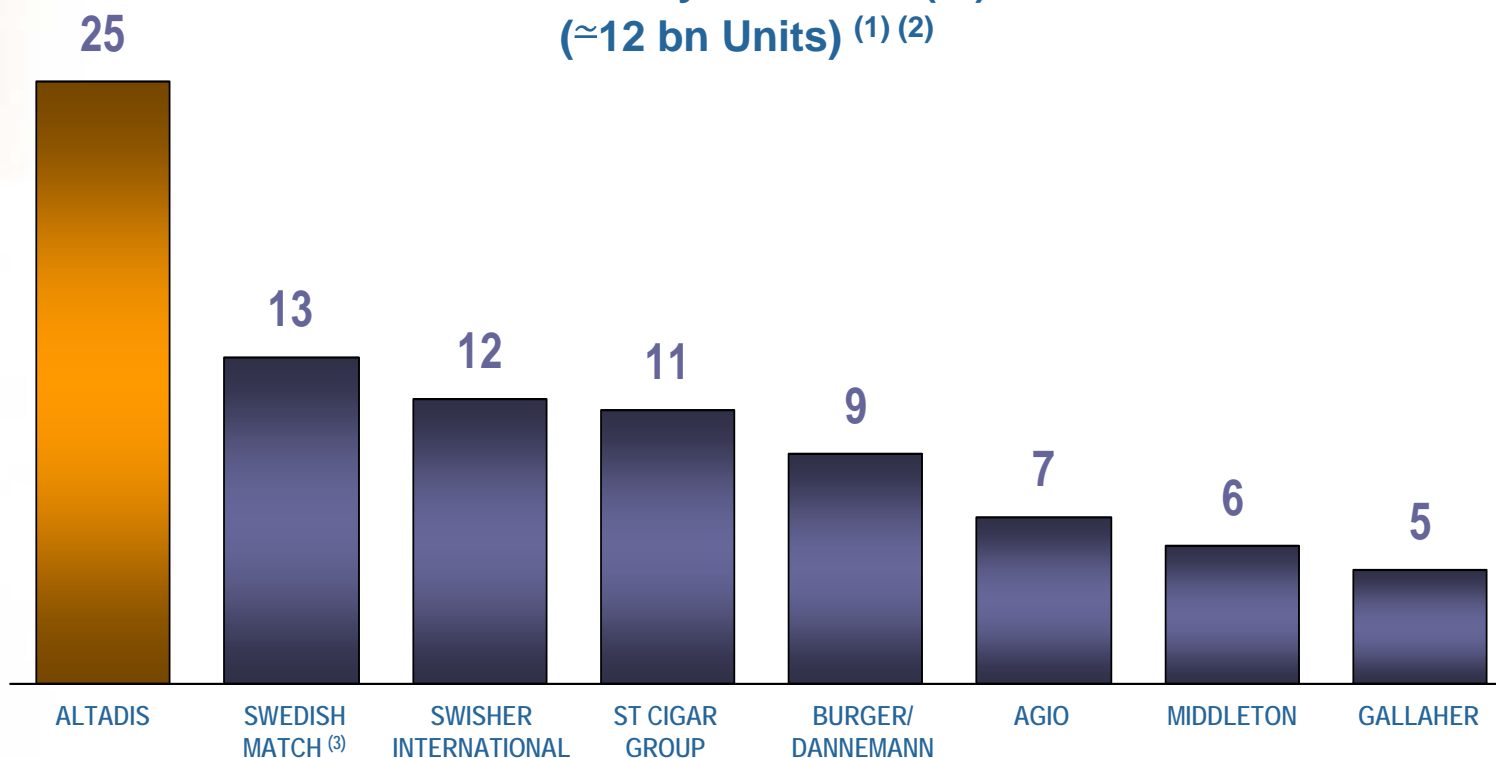
# Consumption by Region



**Western Europe (54%) and North America (41%)  
= 95% of worldwide cigar market**

# Worldwide Leadership Position

Main Players S.O.M. (%)  
(≈12 bn Units) <sup>(1)</sup> <sup>(2)</sup>



(1) Source: ERC and Altadis estimation (Excluding China & India)

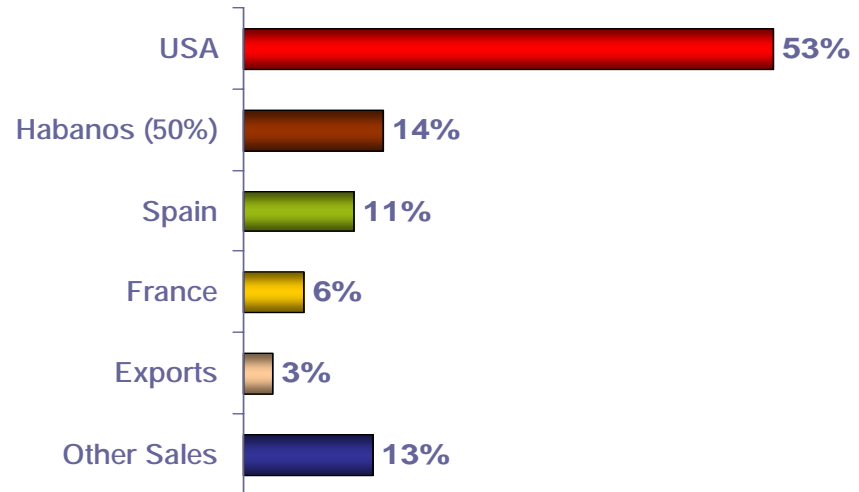
(2) Excluding Eco-Cigarillos and Little Cigars

(3) Including Arnold André

# A Position that Provides a Strong Platform for Growth

- N° 1 in the US
- N° 1 in Spain
- N° 1 in France
- N° 1 in the Premium Segment worldwide

% Economic Sales (€)



- Unique portfolio of brands and products
- Portfolio upgrading and cost efficiency
- Innovation and maximum quality
- Solid distribution network

# Unrivaled Brand Portfolio

## GLOBAL (Cuban)

Cohiba  
Montecristo  
Romeo y Julieta  
Partagás  
Hoyo de Monterrey  
H. Upmann

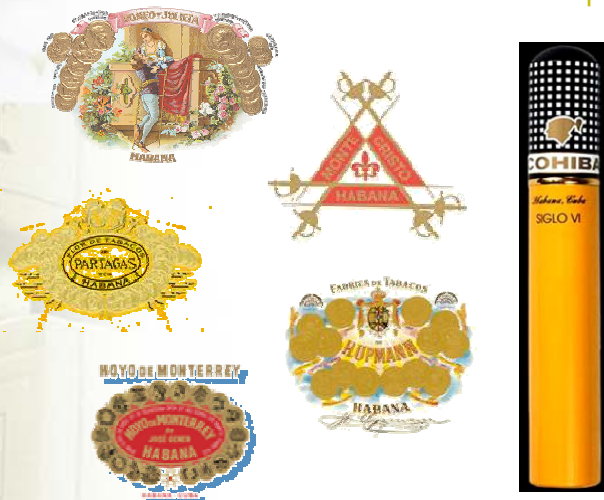
## MULTILOCAL

Backwoods  
Fleur de Savane  
VegaFina



## LOCAL

Phillies  
Dutch Masters  
Farias  
Dux  
Havanitos  
Ninas



Fleur  
de  
Savane



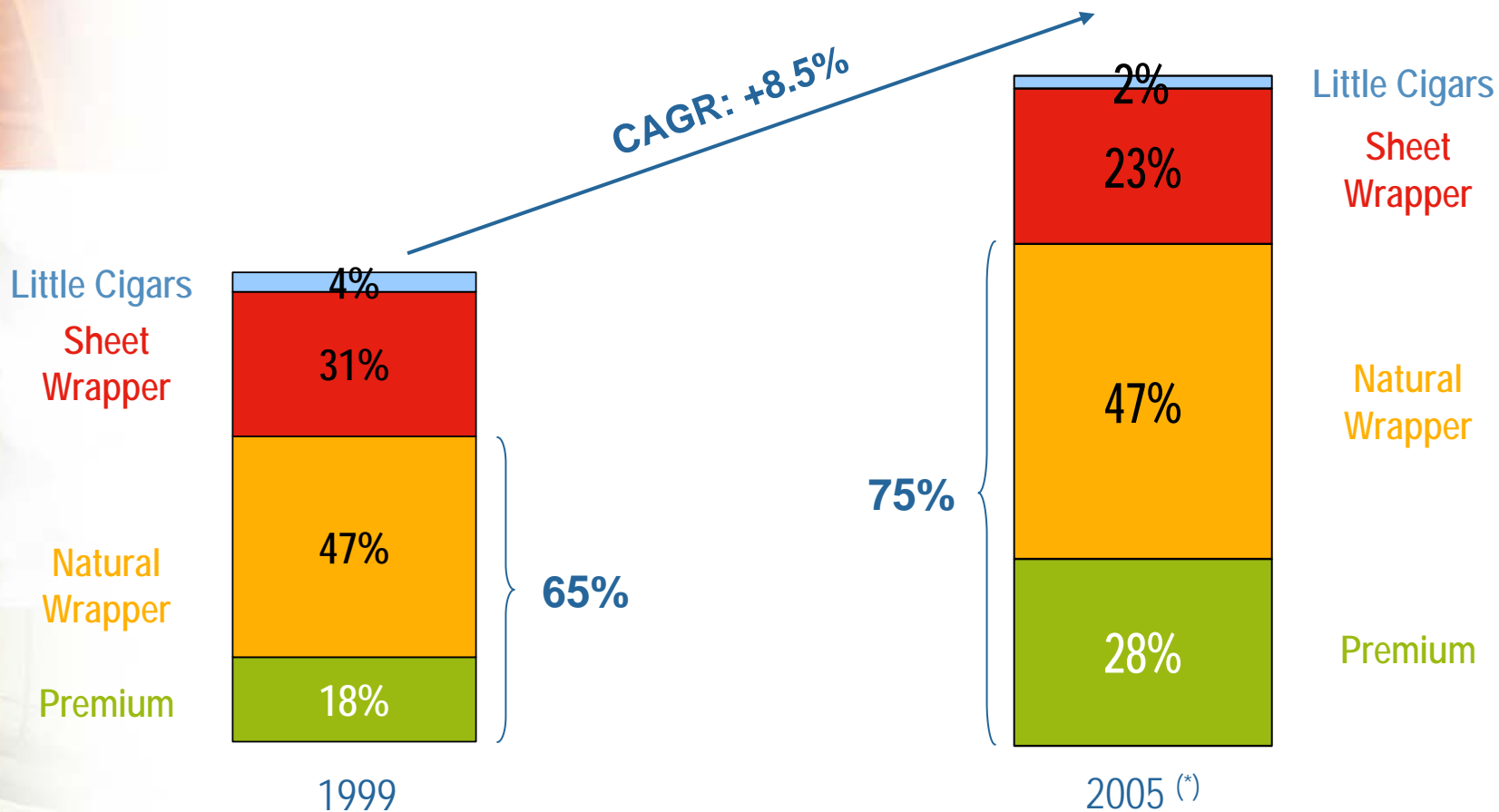
*Farias*





# Portfolio Upgrade (I)

## Cigar Sales (€) by SEGMENT



(\*) Altadis 2005: including Habanos (50%).

## □ Reserves



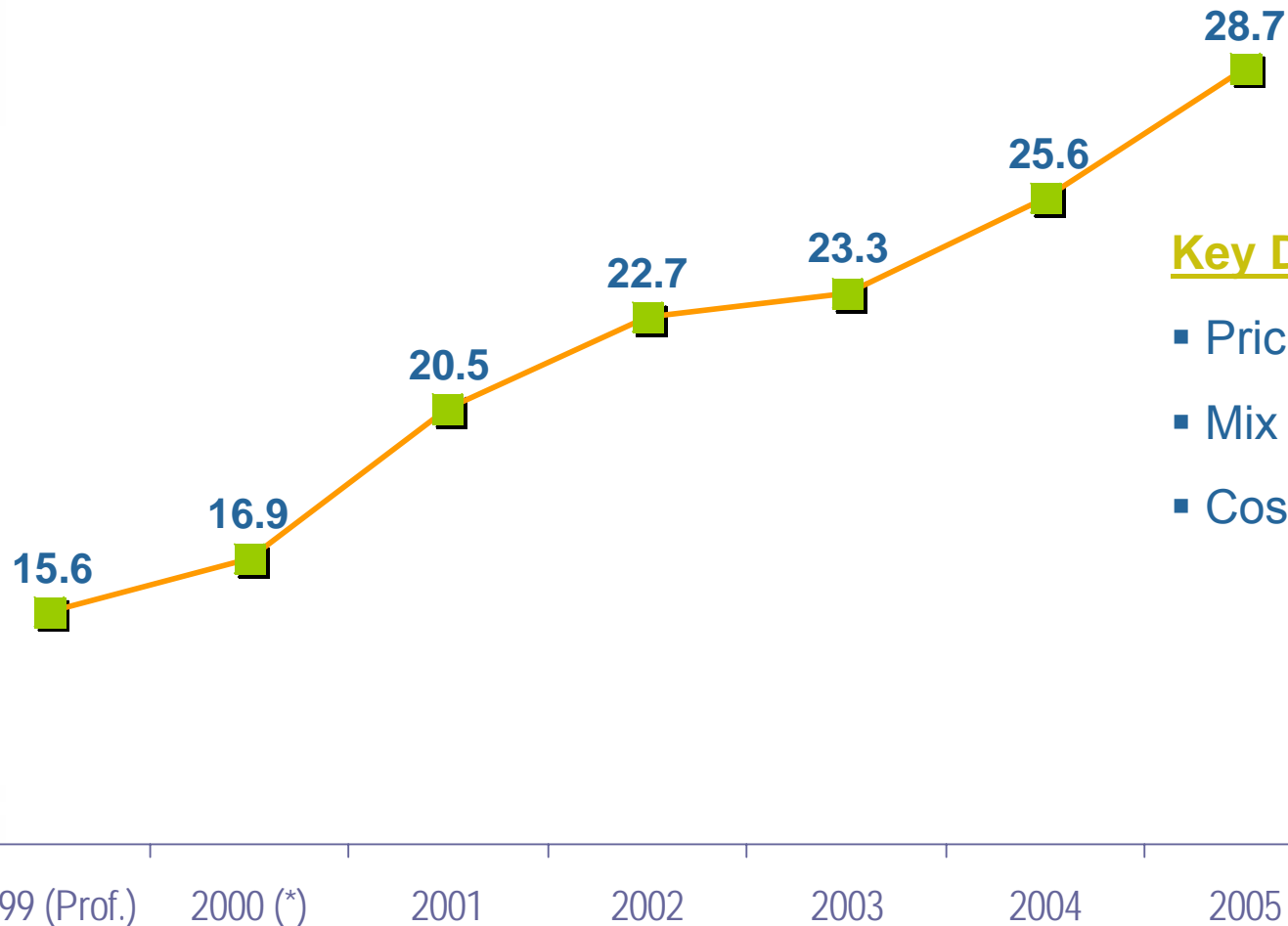
## □ Specialties



## □ Limited Editions



## EBITDA margin evolution (percentage over Economic Sales)



### Key Drivers

- Pricing
- Mix improving
- Cost efficiency

(\*) Acquisition of 50% Habanos and merger of USA entities.

# Sustained Growth in 2006

€ mn

	H1' 05	H1' 06	Var. 06-05
Volume (mn cigars)	1,713	1,688	-1.5%
Economic Sales	414	450	+8.7%
EBITDA	108	142	+32.4%
Ebitda margin	25.9%	31.6%	+5.7 points

# Our Current Position: Significant Further Upside Potential

## Strengths

- ❑ Leadership in core markets
- ❑ Broadest portfolio with presence in all segments
- ❑ Unique premium business with Cuban brands
- ❑ Strong, innovative US mass business
- ❑ High margin provider

## Issues

- ❑ Low presence in Western Europe outside of domestic markets
- ❑ European markets stagnant, with marginal profit contribution

## Opportunities

- ❑ Habanos potential when embargo is lifted
- ❑ Strengthen European platform through acquisitions
- ❑ Expansion in emerging and non-mature markets
- ❑ Consumption shift towards cigars

## Risks

- ❑ Regulatory changes
- ❑ Tax increases
- ❑ Consumption oriented towards smaller sizes

## Domestic Markets (USA, Spain, France)

### □ Context

- Mature markets where Altadis share is already high

### □ Approach

- High value strategy focusing on segments with higher added value and maintaining market share in volume

### □ Key Drivers

- USA:
  - Pricing
  - Mix upgrade (Premium and Natural wrapper)
  - Innovation and cost efficiency
- Spain and France:
  - Pricing in large cigars
  - Innovation in small cigars
  - Mix upgrade of Cuban portfolio
  - Cost optimization

## Rest of Western Europe

### □ Context

- Mature markets, highly fragmented with local brand oriented consumption, where Altadis brands have no significant presence

### □ Approach

- High value strategy focusing on continue development of Cuban portfolio (premium and machine made) and optimize profitability of other Altadis brands
- Acquisitions where possible

### □ Key Drivers

- Mix upgrading of Cuban portfolio
- Cost optimization

## Rest of the World

### □ Context

- Markets where the cigar consumption is very low and the cigar culture is very little extended, although being heavy cigarette smokers

### □ Approach

- Skimming the market through the Cuban premium brands while creating the mass market through innovative Altadis USA cigars

### □ Key Drivers

- Volume
- Mix upgrade of Cuban portfolio
- Continue reinforcing the international franchise network “La Casa del Habano”



100 “Casas del Habano” in 46 countries



# Strategic Matrix

High

PROFITABILITY

## Strategic maintain

Natural wrapper Europe  
Sheet wrapper USA  
Non-Cuban Premium Europe

	<u>Units</u>	<u>Euros</u>
% of Total	50%	36%
% of EBITDA (1)		27%

## Grow now

Natural wrapper USA  
Cuban Premium  
Premium USA

	<u>Units</u>	<u>Euros</u>
% of Total	29%	58%
% of EBITDA (1)		67%

## Financial maintain

Little Cigars USA  
Sheet wrapper Europe

	<u>Units</u>	<u>Euros</u>
% of Total	19%	3%
% of EBITDA (1)		3%

## Grow tomorrow

Cuban Mechanized

	<u>Units</u>	<u>Euros</u>
% of Total	2%	3%
% of EBITDA (1)		3%

Low

SALES POTENTIAL

High

(1) EBITDA CIGARS (non including Other Products) before G&A expenses.

- ❑ Solid platform to keep growing in sales and profitability
- ❑ Reinforce leadership position in Altadis domestic markets through a value oriented strategy and a constant product innovation
- ❑ Increase international development of Cuban premium business. Focus on main brands and permanent portfolio upgrade
- ❑ Strengthen Altadis position in Western European countries via acquisitions
- ❑ Strong opportunity for future growth in markets where cigar consumption is low through Cuban portfolio and innovative Altadis USA cigars

# LOGISTICS Strategy

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Luis Egido

COO Logistic Business Unit

Bilbao October 5th, 2006

## a. Snapshot of Division

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## 2005

**# Deliveries**

**~ 40 million**

**IFRS Revenues**

**€10,797 mn**

**Economic Sales**

**€1,147 mn  
(28% of Group's)**

**EBITDA**

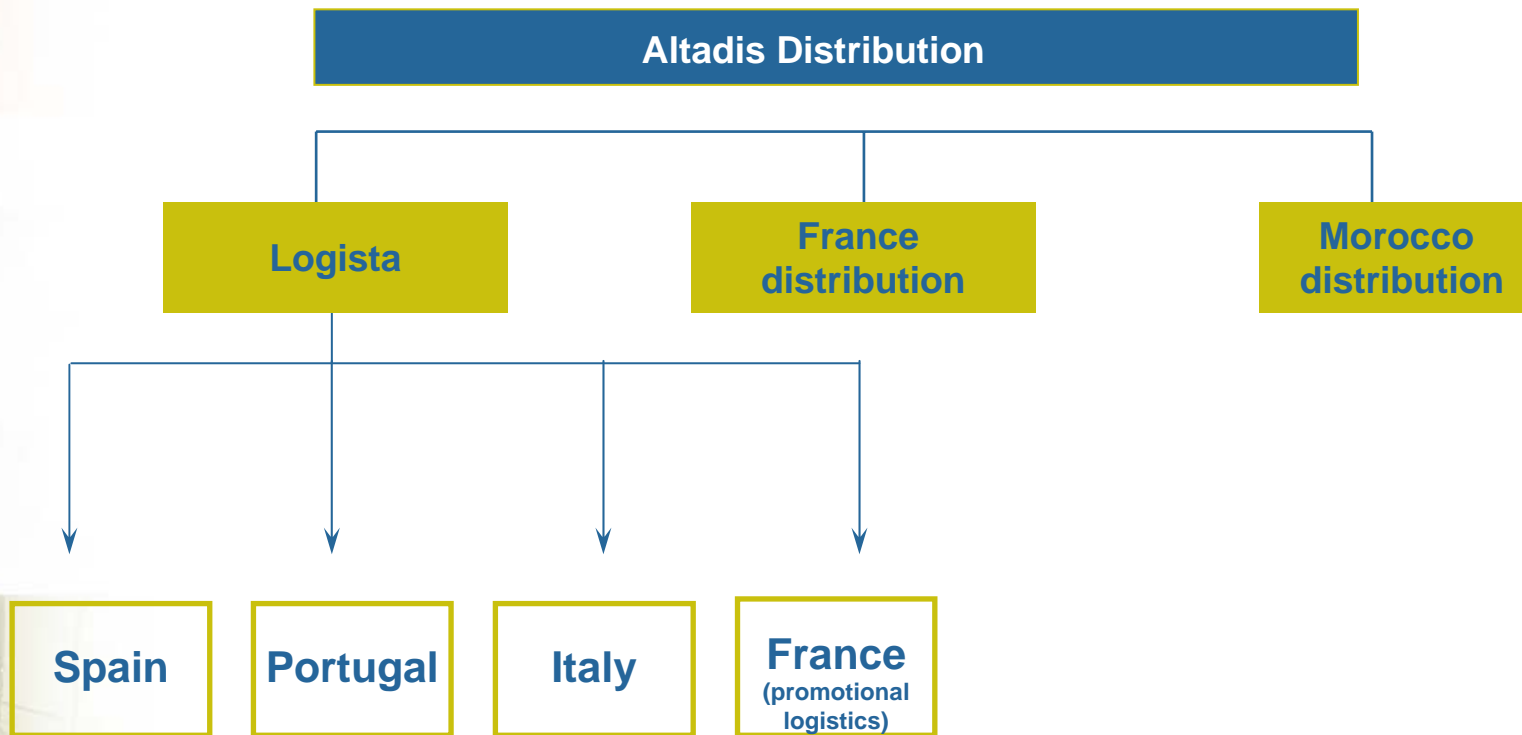
**€311 mn  
(25% of Group's)**

**EBITDA Margin**

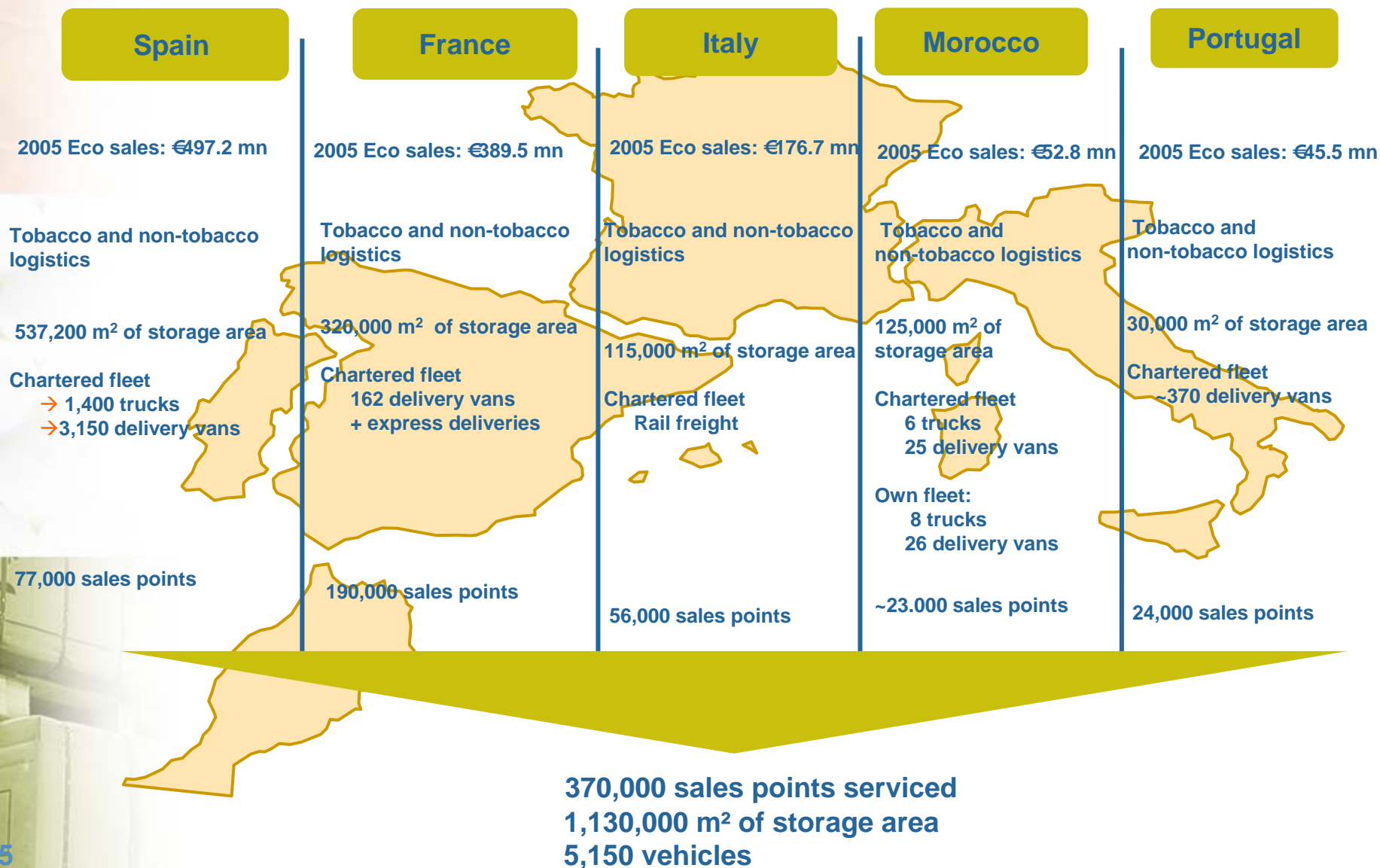
**27.1%  
(- 2.8 points vs. 2004)**

**Headcount**

**7,441  
(26% of Group's)**



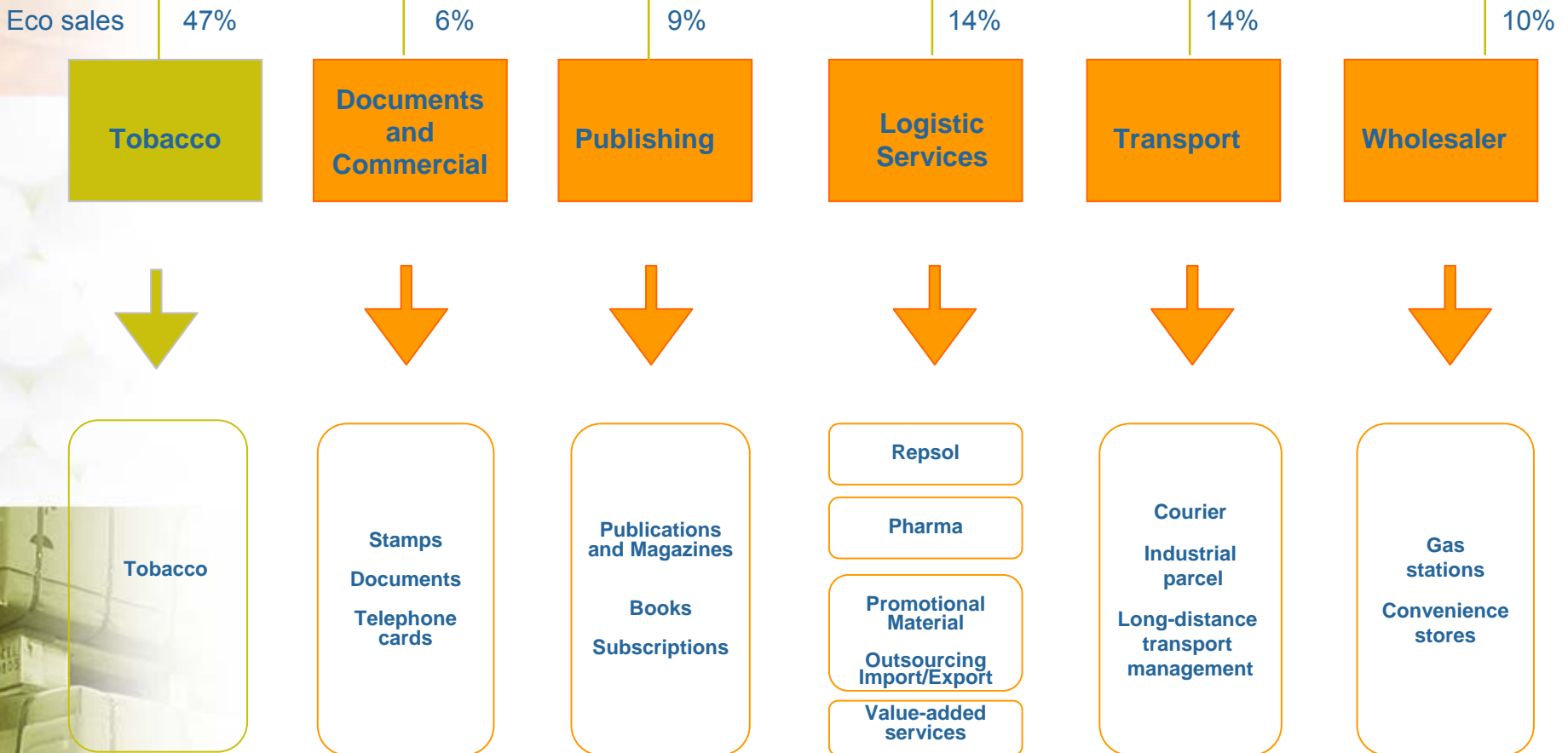
# A Unique Position in Local Logistics (2005 Figures)





# Multiple Sectors of Activity

## Altadis Distribution



# Customers by Businesses

Altadis

2006  
Investor  
seminar

Tobacco

# 1

Spain, Portugal, Italy, France, Morocco



Wholesaler

# 1

France



Publishing

# 1

Spain, Portugal



Pharma

# 1 (Log. Op)

Spain



Docum.

# 1 / # 2

Spain, France,  
Morocco



Promotional

# 1

France



Courier  
Parcel

# 3

Spain



Petrol  
Stations

# 1 Spain

# 2 Portugal



# Tobacco Distribution: Leader of Southern Europe

	<u>Spain</u>	<u>France</u>	<u>Italy</u>	<u>Morocco</u>	<u>Portugal</u>	<u>Total</u>
# Points of sale	15,000	33,000	56,000	23,000	12,500	139,500
Market size (units)	90.8 bn	54.8 bn	92.8 bn	13.4 bn	15.7 bn	267.5 bn

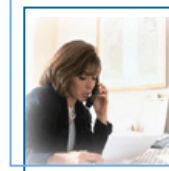
Reception of  
orders



Supply



Invoicing and  
collection



Customer service



Storage and  
Management of  
stocks



Order preparation  
picking

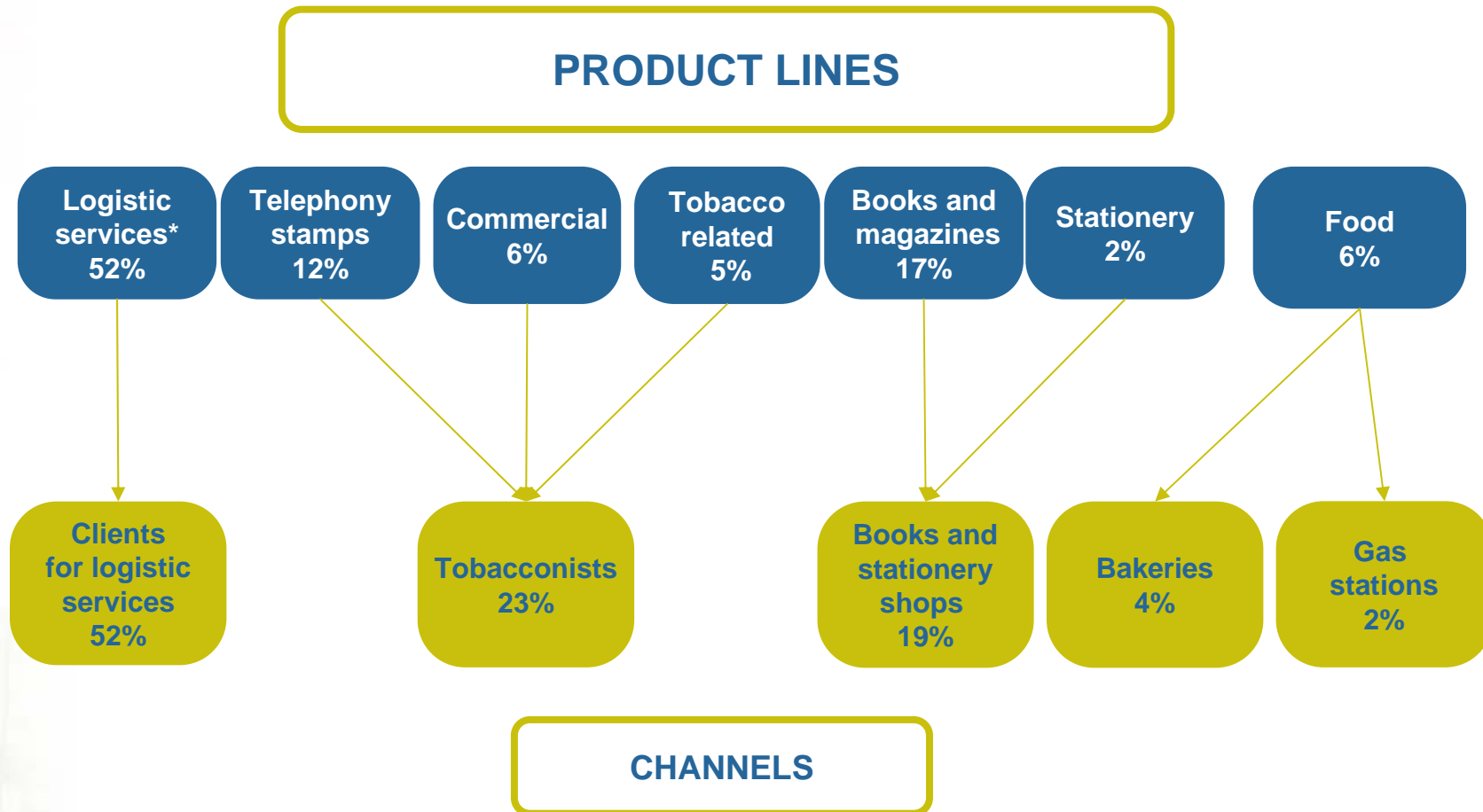


Transport



**Total integration with the manufacturers**

*As a percentage of total general logistics (non-tobacco) 2005 economic sales*



\* Includes transport services, express courier, promotional material, pharma services,...

# 2006 H1 Key Figures

€ mn

	H1 '05	H1 '06	Var. 06-05
IFRS Revenue	5,267	5,177	-1.7%
Economic sales	562	581	+3.3%
EBITDA	149	148	-1.0%
Ebitda margin	26.5%	25.4%	-1.1 point

## b. Current situation

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# Our Current Position: Solid Platform to Consolidate the Sector

## Strengths

- ❑ Leading tobacco logistics platform in Europe
- ❑ Long-standing relationship with key manufacturers and perceived neutrality
- ❑ General Logistics creates earnings diversification, improving channels loyalty
- ❑ Logistics businesses managed on an integrated basis (despite different ownership structure)
- ❑ Financial strength

## Issues

- ❑ Tobacco logistics affected by volume declines and recent excise tax changes
- ❑ Non-tobacco logistics has lower margins
- ❑ Strong dependency on core markets
- ❑ Relatively capital intensive

## Opportunities

- ❑ Best positioned to enlarge the current platform through acquisitions in key markets
- ❑ Continue to build scale in non-tobacco activities, exporting current successful model into new geographies

## Risks

- ❑ Changes in regulatory environment
- ❑ Increased competition in non-tobacco logistics could affect margins
- ❑ Further concentration of clients

# Strategic Matrix

High

PROFITABILITY

**Strategic maintain**

**Tobacco**  
**Telephone Cards & Documents**  
**Wholesale (tobacconist)**

**Eco Sales: €704.8 mn**

**Grow now**

**Transport**  
**Books**  
**Logistic Services & convenience**

**Eco Sales: €251.1 mn**

**Financial maintain**

**Publications**  
**Wholesale (other channels)**

**Eco Sales: €98.3 mn**

**Grow tomorrow**

**Pharma**  
**Other Logistics & promotional**

**Eco Sales: €92.8 mn**

Low

**SALES GROWTH**

High



- ❑ 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

- Searching for expand business to other countries in Europe, taking advantage of existing infrastructure and relationship with tobacco manufacturers. Two ways to effect this:
  - Organic implementation
  - Transforming acquisition

	Southern Europe & Morocco	Northern Europe	Russia / CEE
Market Structure	Logistics Model	Logistics & Wholesale	Wholesale
Key Markets	France Spain Italy Morocco	UK Germany Benelux Nordic Baltics	Russia Poland Romania
Trends	<ul style="list-style-type: none"> <li>•Retail monopolies (generally more regulated)</li> <li>•Possibility to apply similar model to other sectors (pharma, books, convenience)</li> <li>•Opportunities based on diversification</li> </ul>	<ul style="list-style-type: none"> <li>•Distribution systems (retail) hyper matures</li> <li>•Many different structured distributions systems</li> <li>•Opportunities are based on large market share players</li> </ul>	<ul style="list-style-type: none"> <li>•Strong evolution of distributions systems, both retail and wholesale</li> <li>•Growth opportunities based on consolidation processes</li> </ul>

**No market participant currently present with significance in more than one region of Greater Europe**

- ❑ Replicate the same business model in our current countries, taking the local environment into consideration (high potential in Italy and Morocco)
- ❑ Provide global solutions to new sectors, based on the Group's complete range of services and capabilities (i.e. electronics, chilled food, hospitals, etc.)
- ❑ Keep the leadership in tobacco, developing greater integration with tobacco manufacturers

Applying integrated solutions and know-how to other countries and products

- ❑ Altadis' Logistics stands as one of the leading logistics provider in Southern Europe, showing a strong competitive advantage in its unmatched local distribution capabilities
- ❑ Recent acquisitions showed ability to grow profitably on Tobacco Logistics (i.e. Etinera) and General Logistics (i.e. transport), improving the leadership of a strong business diversified portfolio
- ❑ Organic growth and diversification will bring additional expansion in core markets, while tobacco opportunities could add on geographical presence

# Our Financial Objectives

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Pierre-André Terisse

Group CFO

Bilbao October 5th, 2006

# Expected Future Performance

Indicative Annual Performance over Business Plan Period (2007-2009)

	SALES GROWTH	EBITDA MARGIN
Cigarettes	+2% to +4%	> +100bps
Cigars	+4% to +6%	+100bps
Logistics	+3% to +5%	Stable

We remain committed to sustain our attractive and highly profitable growth trajectory into the future

## Strong focus on shareholder value creation

- Part of management remuneration is linked to value created for shareholders (TSR)
- Board is committed to value creation

## Shareholder remuneration expected to remain at attractive levels

- Expected cash-flow allows for significant total capital return every year (assuming no acquisitions)
- Double-digit dividend growth is consistent with expected EPS growth
- Accounting restrictions expected to only affect 2007
  - Buy-back at 3-4%
- For subsequent years, high level of confidence in ability to unwind reserves constraint