

# Strategy for Cigarettes

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## Portfolio and geography





# Investor days cigarette B.U.

## 1. Key figures

## 2. Our business approach

## 3. Update situation

## 4. Our success story

- Western Europe → Gauloises Blondes
- Italy → Gauloises Blondes and Fortuna
- France → global Portfolio
- Middle East → Separate conference

## 5. Our challenges

## 6. Conclusion

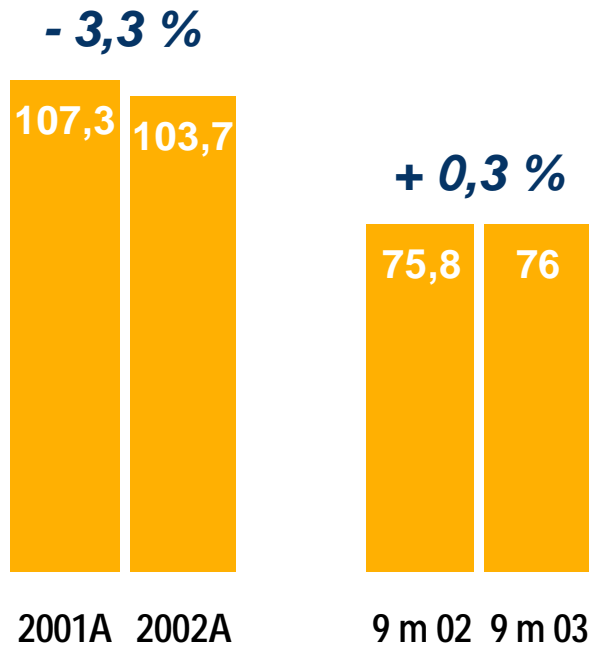
## 7. QUESTIONS AND ANSWERS

# 1. Key figures

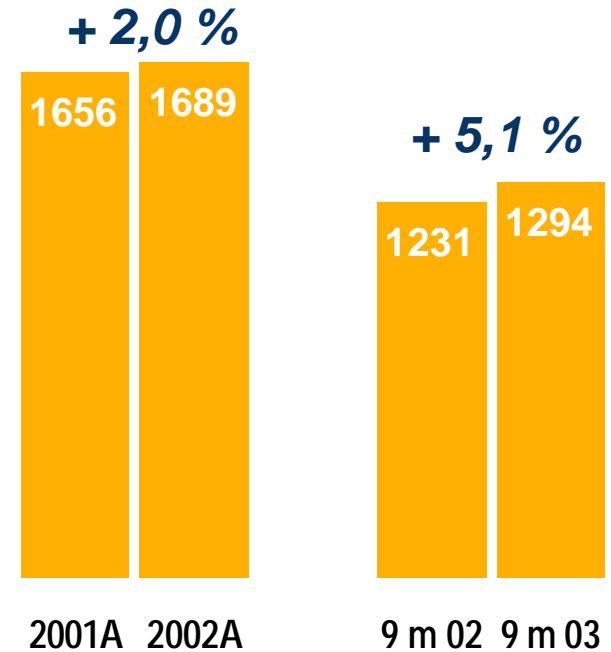


# Key Figures

Volumes (Gu)



Economic sales (M€)



**Both volumes and Economic Sales are growing between 3Q02 and 3Q03**

## 2. Our business approach



# Portfolio Approach



Altadis' portfolio covers all major price segments

# Strategical Approach

## SHORT TERM

- Continue pushing GOB as an international brand  
Drive Fortuna multi-locally
- Defend blond business in Spain and France while driving up profitability
- Milk dark business to finance blond growth



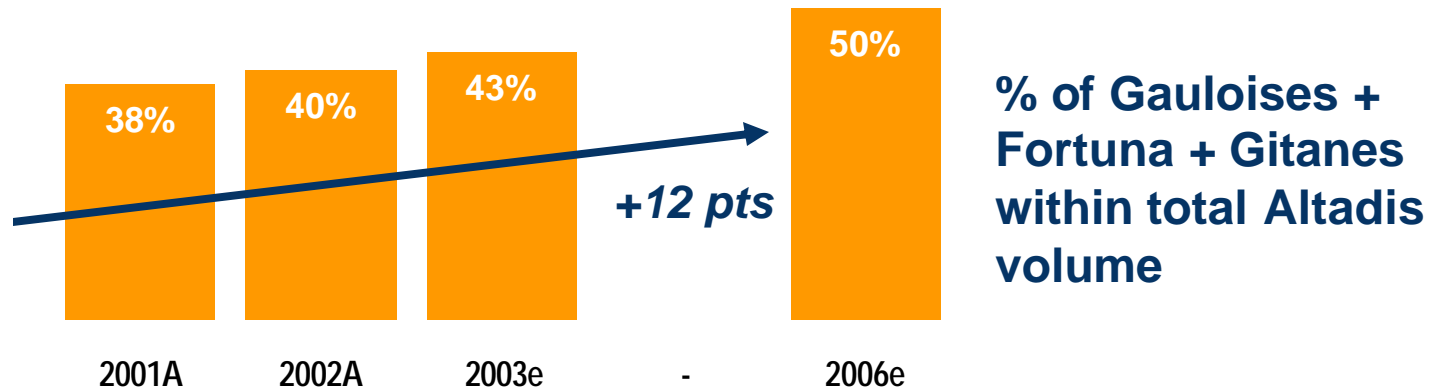
## MID / LONG TERM

- Drive GOB globally while optimizing the portfolio approach
- Consider driving further growth via entering Grow Tomorrow countries (North Africa, Middle East, Eastern Europe, Asia)

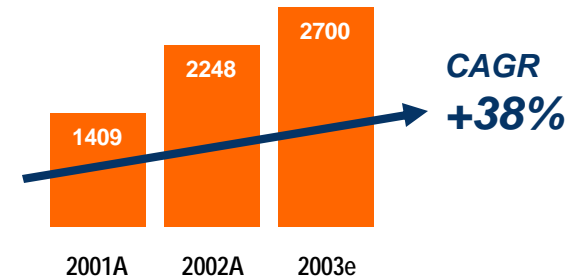
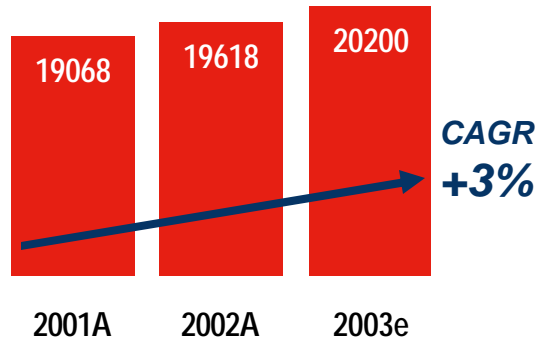
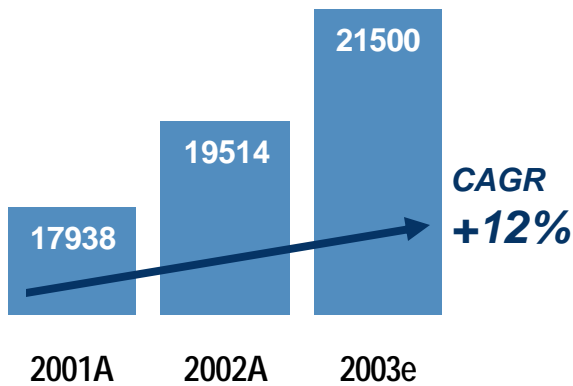
# 3. Update situation



# Main brands get stronger and stronger

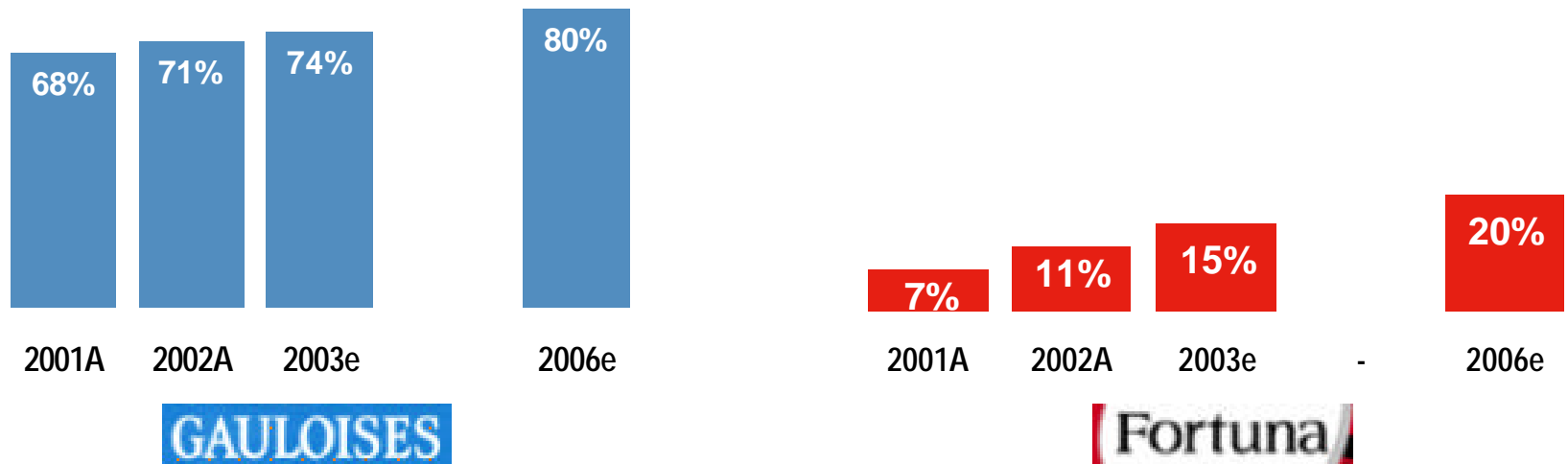


## Volumes (Mu)



# Main brands get more and more international

% of volumes sold outside of the brands' domestic market

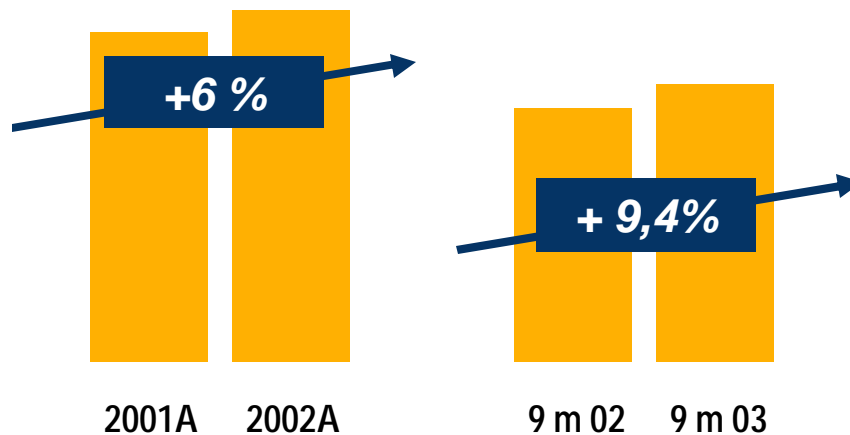


Gauloises Blondes has a well established international presence.  
Fortuna began successfully

# Domestic markets despite volumes declined, operating income continue to increase significantly

## Operating Income (M€)

SPAIN + FRANCE



# 4. Our success story



# Our success story

Germany

2001 – 2003  
→ Driven by Gauloises Blondes

Italy

→ Driven by Fortuna  
and Gauloises Blondes

France

→ Driven by a global portfolio

Middle East

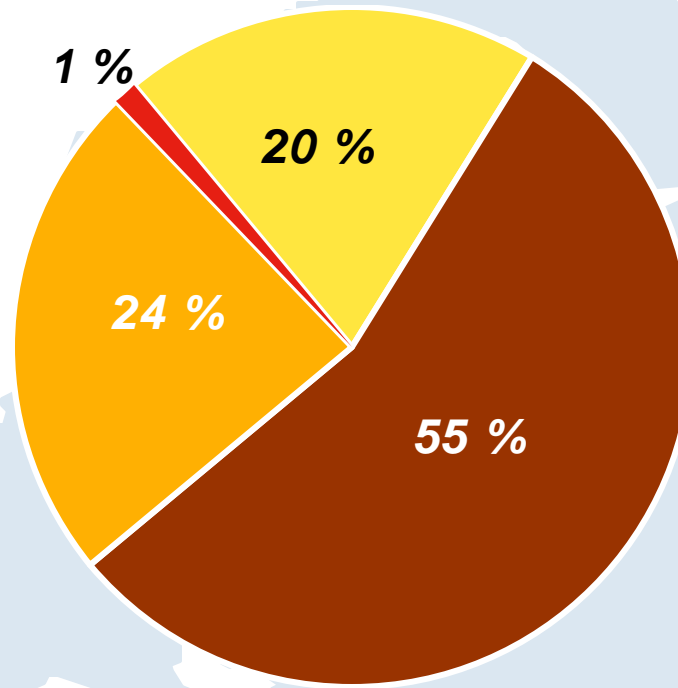
→ Separate conference

# WESTERN EUROPE

*A Success Story*  
*Gauloises Blondes*

# Altadis Gauloises Blondes Sales

Volume 2003 : 20,6 billions cig.



 *Rest of World*

 *Rest of Europe*

 *France*

 *Spain*

# Europe

## Gauloises Blondes Sales

Top 5 markets - 2003

Mn. Cig.

6967

Germany

4801

France

1180

Austria

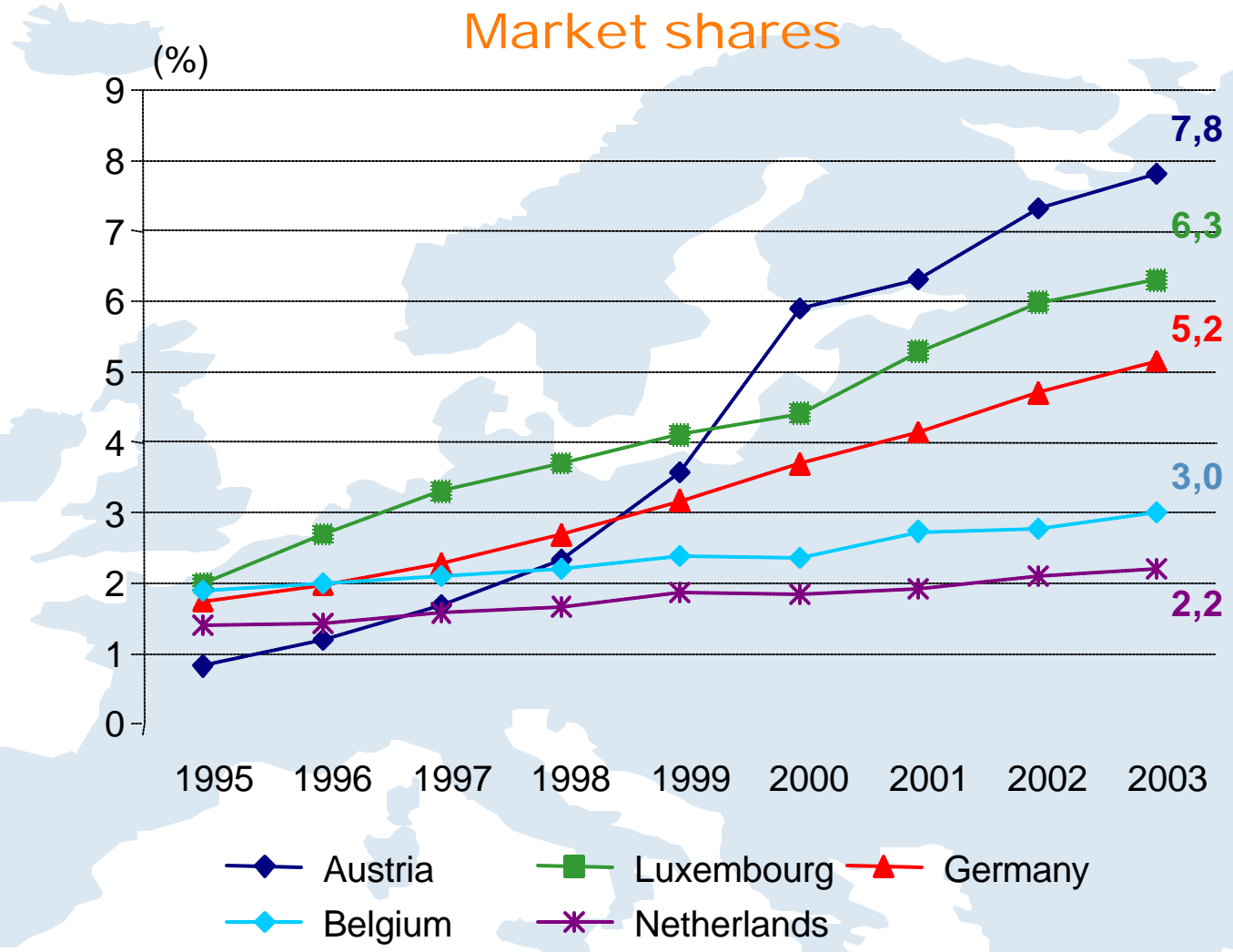
1047

Benelux

478

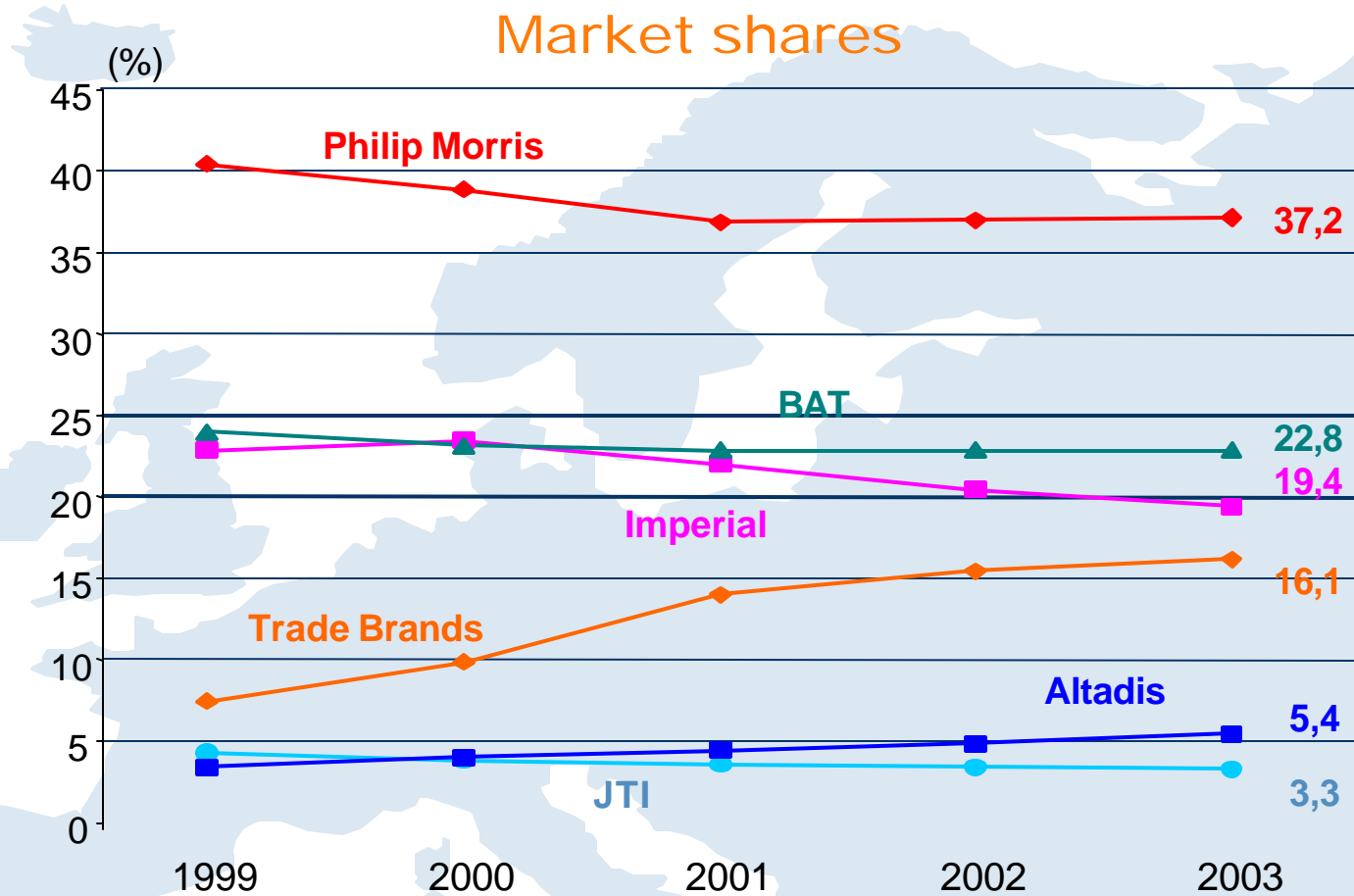
Italy

# Western Europe Gauloises Blondes Sales



# Germany

## Total Sales per Company



# Germany

## Top 10 Brand Families

2001		2002		2003	
1 Marlboro	30,0	1 Marlboro	30,1	1 Marlboro	30,1
2 West	10,3	2 West	9,6	2 West	9,3
3 HB	5,1	3 HB	5,0	<b>3 Gauloise Bl.</b>	<b>5,2</b>
4 Lucky Strike	4,7	4 Lucky Strike	4,7	4 Lucky Strike	5,1
5 F6	4,4	<b>5 Gauloise Bl.</b>	<b>4,7</b>	5 F6	4,7
<b>6 Gauloise Bl.</b>	<b>4,1</b>	6 F6	4,5	6 HB	4,4
7 Camel	2,7	7 Camel	2,5	7 Camel	2,4
8 Peter St	2,6	8 Peter St	2,3	8 Peter St	2,2
9 Lord	2,2	9 Lord	2,0	9 Lord	2,1
10 R1	2,1	10 R1	1,9	10 R1	1,8

# Germany

## Excise and Pricing 2004-2005

### Cigarettes

#### ■ Taxation:

- Excise increase 3 x 1,2 cents per stick.
- Minimum excise 96% of total tax

#### ■ Timing:

- 01/03/04 and 01/12/04 and 01/09/05

#### ■ Pricing scenario:

- +40 cents per regular pack of cigarettes (OP) on march 04

# Germany

## Price Development



	Euro per Pack / Cont.	01/01/2003	01/03/2004
<b>Premium</b>	OP	3,20	3,60
<b>Medium</b>	OP	3,10	3,50
<b>Low West</b>	OP	3,00	3,40
<b>Low East</b>	OP	2,85	3,30
<b>Trade Brands</b>	Boston OP	2,50	3,00
	Magnum OP	2,75	3,20

ITALY  
*A Success Story*  
*FORTUNA + GAULOISES BLONDES*

# ITALY

## A tremendous success

- Altadis has achieved 2% market share in the Italian market, the second biggest in Europe
- Both strategic brands have an important presence in the market: Fortuna at 1.5% and Gauloises at 0.5% market share, both steadily growing

# Evolution Current Price Tree in Italy

	RSP - €
Marlboro	3.30
Camel	2.80
Gauloises	2.70
MS, Diana	2.60
Pall Mall	2.50
Fortuna, Sax , Benson	2.40

# ITALY – A success story

**Italy is the demonstration of the success of the portfolio strategy: Gauloises and Fortuna, with two different brand positionings, are complementary to cover the needs of the consumer.**

- Gauloises has demonstrated very high potential in the big cities (Milan, Turin, Bologna), where its market share is above 1%.
- Fortuna sales are very well balanced all across the territory, and did not suffer after two price increases and the reduction of the gap vs. the other brands.

# ITALY – Key Success Factors

## FORTUNA

- Aggressive price positioning
- Fast distribution
- High awareness and excellent brand image

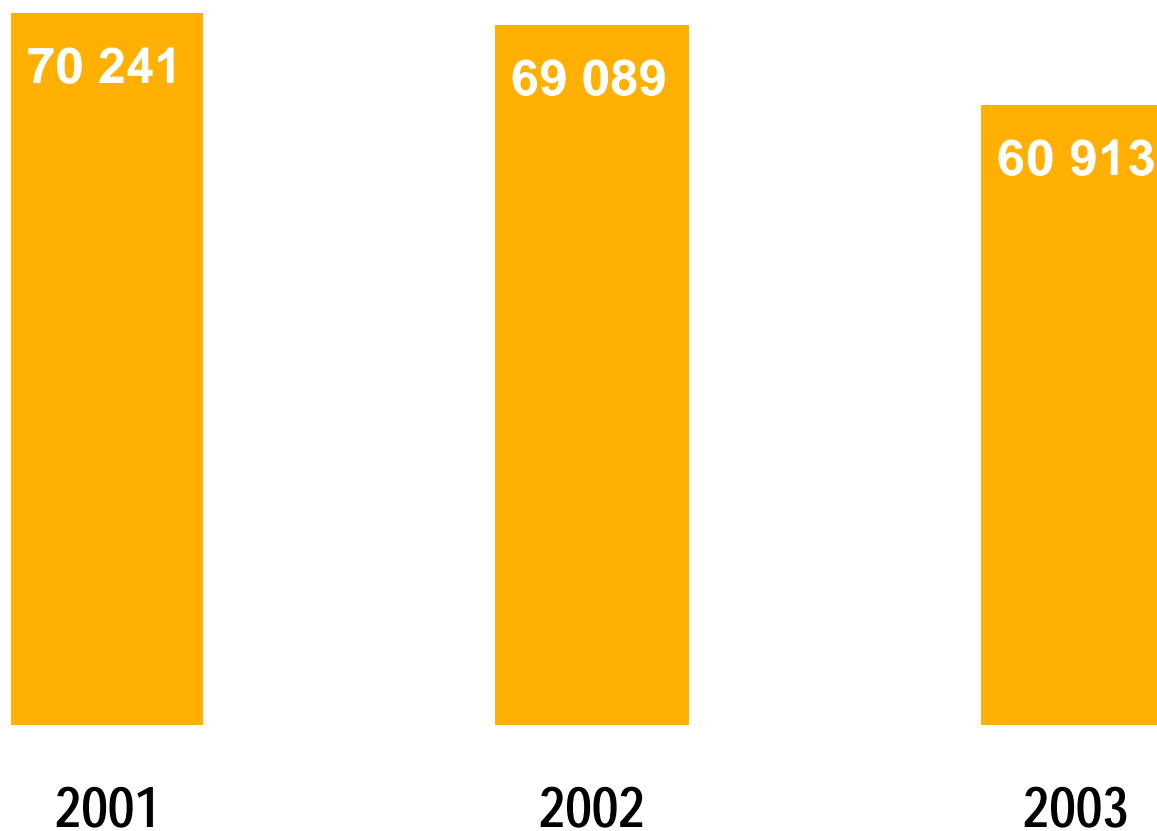
## GAULOISES

- International quality brand
- Alternative to American brands
- High awareness

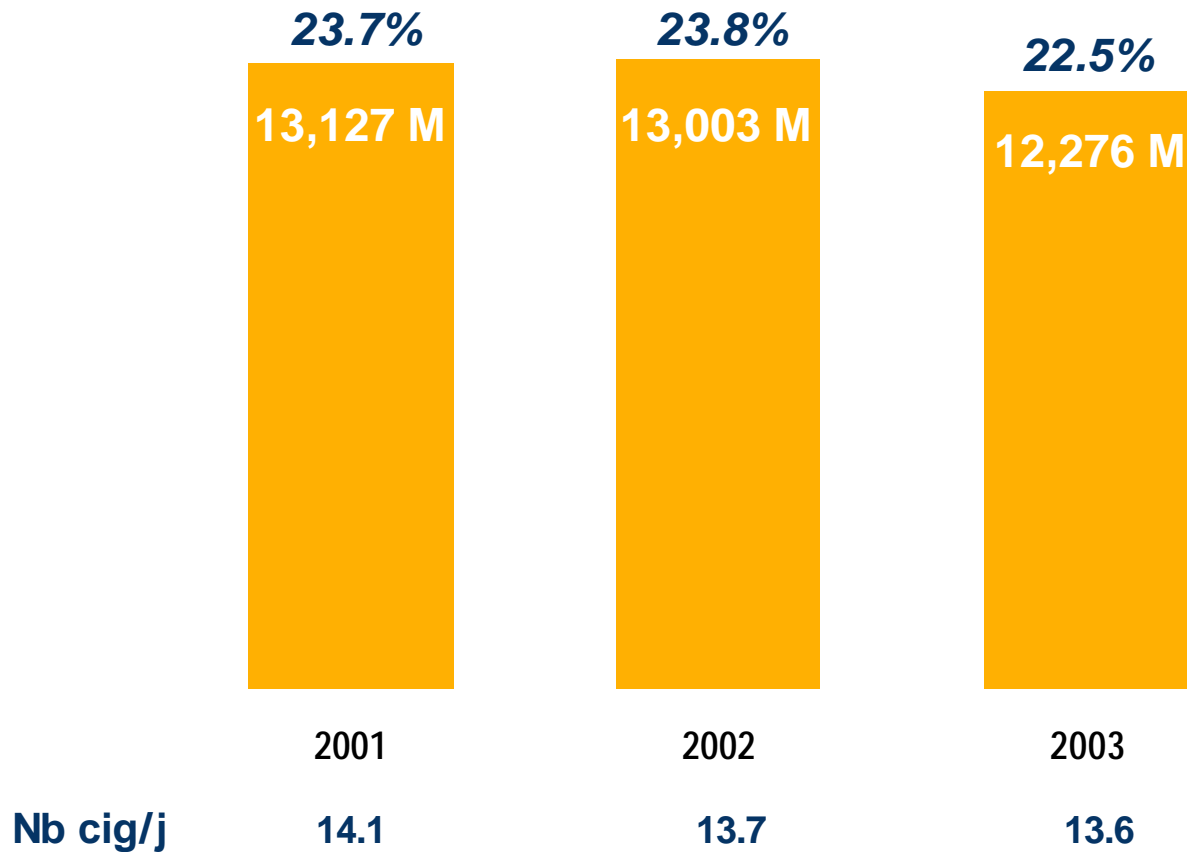
# FRANCE

*A Success Story*  
*Global Portfolio*

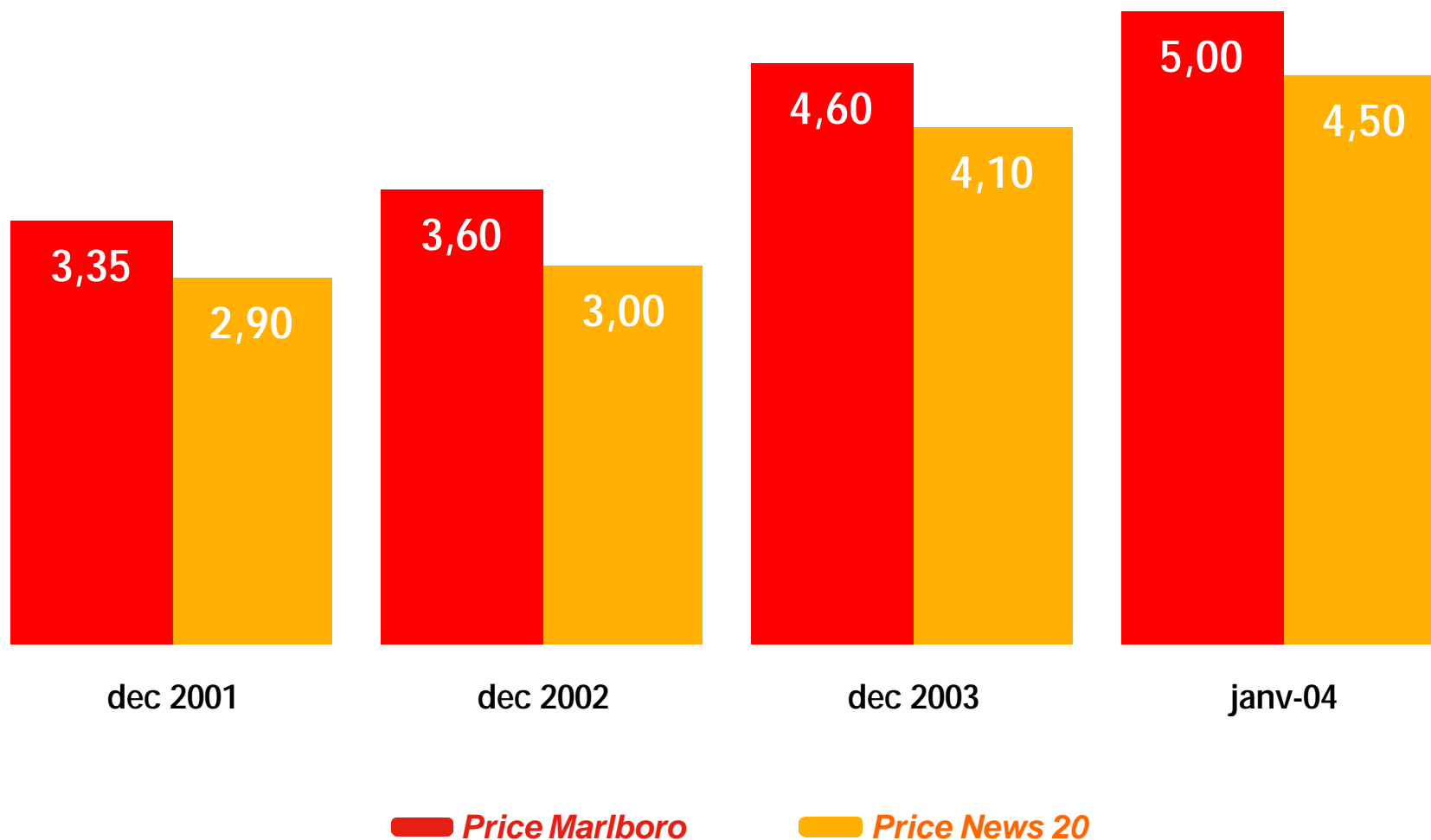
# Blond shipments decrease strongly



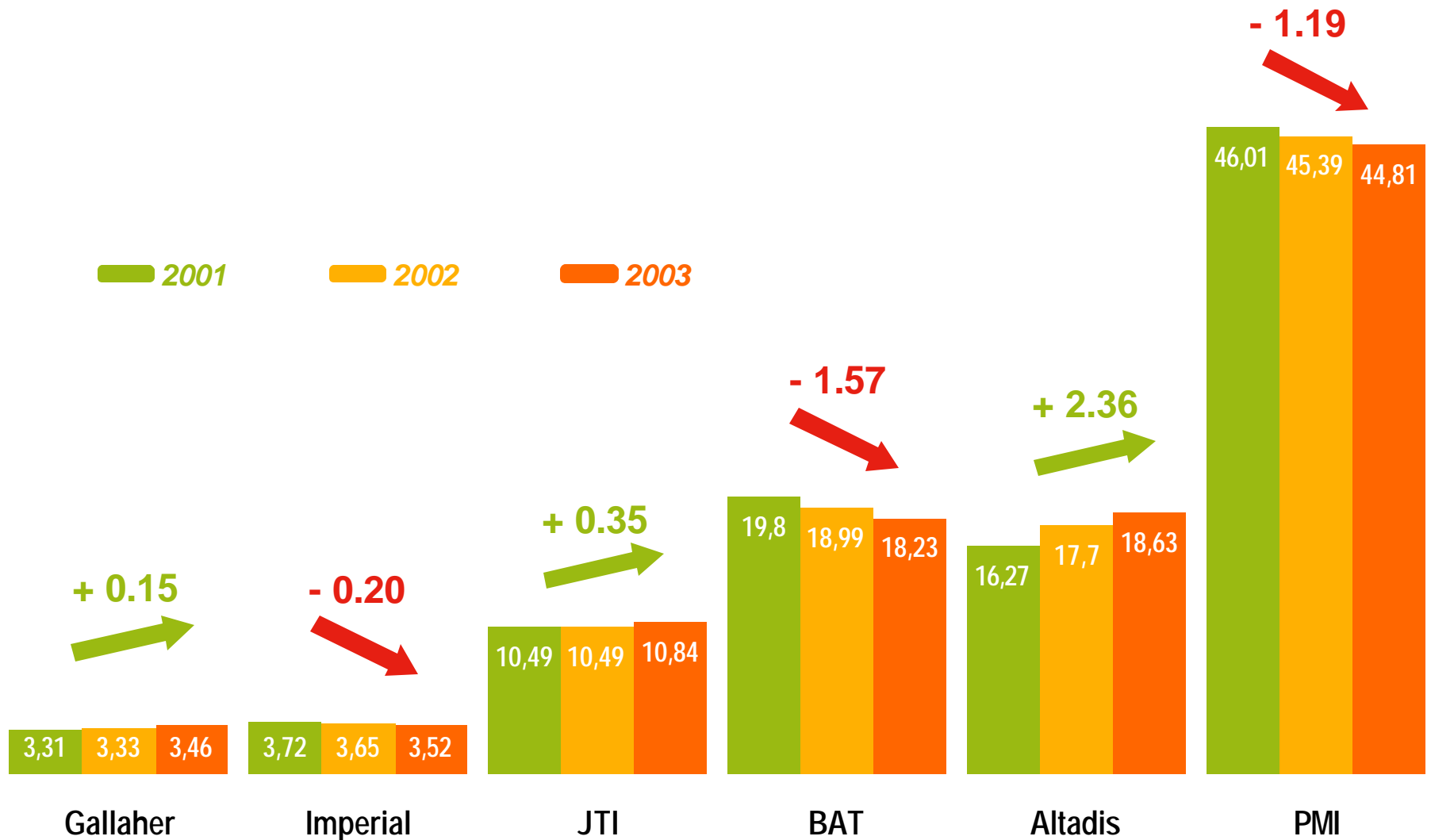
# Even if penetration and consumption are not decreasing as much



# Price increase of Marlboro and News 20



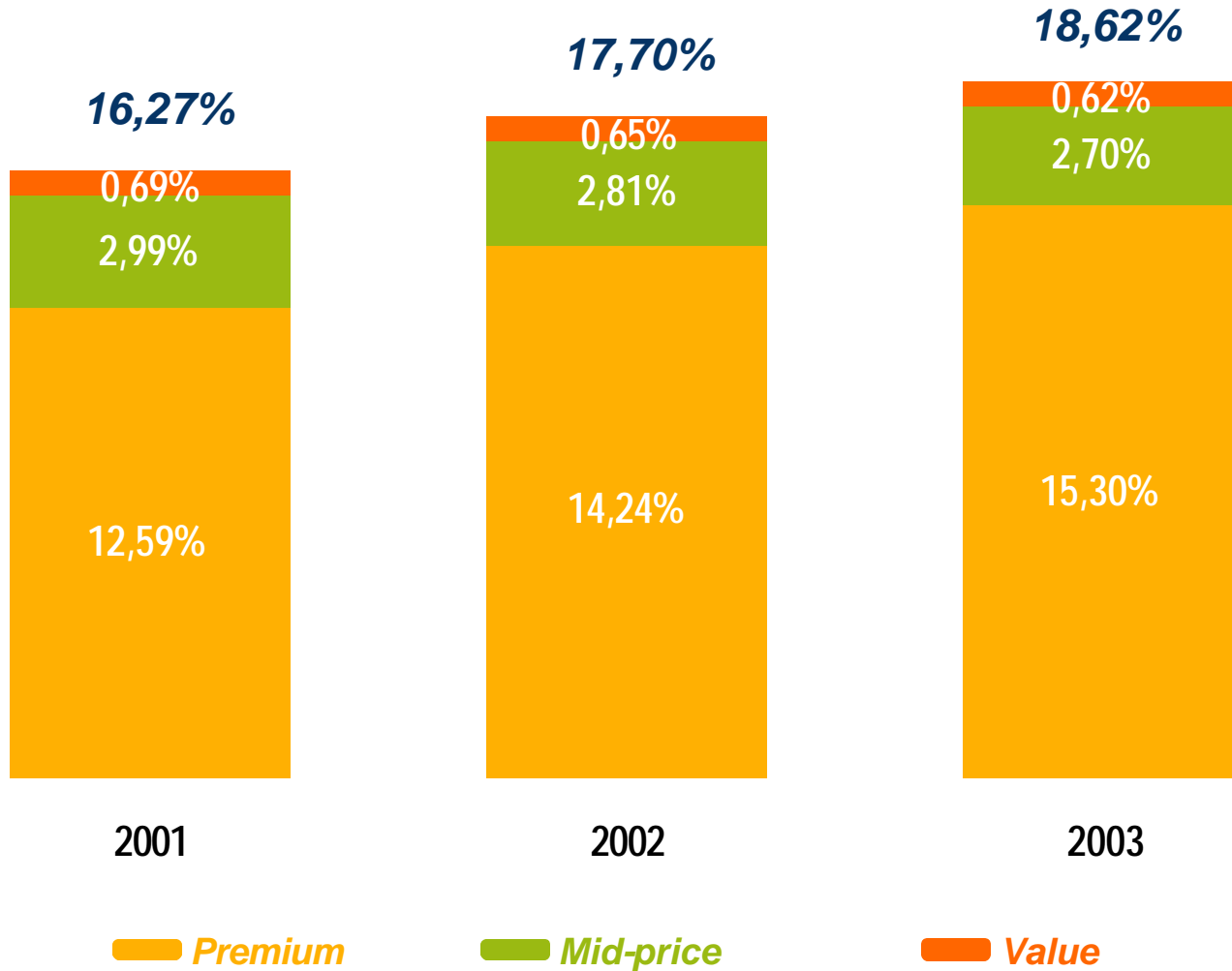
# In that environment Altadis gains 2.36 points of market share in 2 years



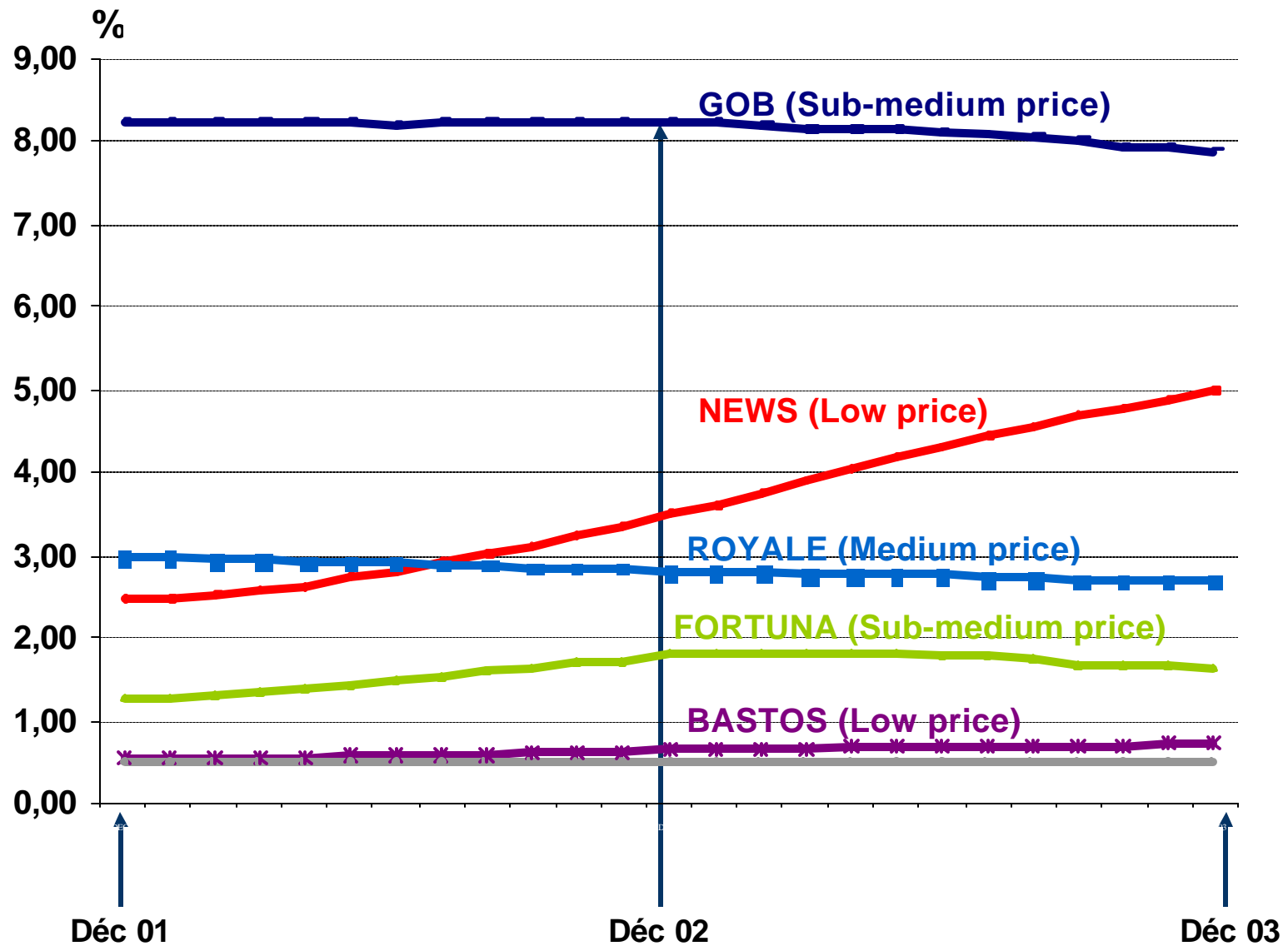
# This success is ensured by our global portfolio

	Janvier- septembre 2003	Octobre- décembre 2003
Premium	<i>Fine Gitanes</i>	<i>Fine Gitanes</i>
intermédiaire	<i>Royale</i>	<i>Royale</i>
Bas prix SUP	<i>Gauloises Blondes Fortuna</i>	<i>Gauloises Blondes</i>
Bas prix (1 <sup>er</sup> prix)	<i>News Bastos</i>	<i>Fortuna News Bastos</i>

# Altadis market share by segment



# News is the success of the year



# Penetration among young adult smokers

Year 2001			Year 2003		
Ranking	Brand	penetration	Ranking	Brand	penetration
1	MARLBORO	48,9%	1	MARLBORO	43,8%
2	CAMEL	10,3%	2	CAMEL	11,7%
3	PH MORRIS	8,6%	3	PH MORRIS	8,7%
4	WINFIELD	5,6%	4	NEWS	7,7%
5	GAULOISES BL	4,5%	5	WINFIELD	5,5%
6	LUCKY STRIKE	4,5%	6	LUCKY STRIKE	4,9%
7	NEWS	3,0%	7	GAULOISES BL	4,0%
8	CHESTER.	2,7%	8	FORTUNA	3,0%
9	WINSTON	1,9%	9	CHESTER.	2,1%
10	L & M	1,8%	10	L & M	1,9%
11	FORTUNA	1,4%	11	WINSTON	1,3%
12	J.P.S.	1,2%	12	BENSON & HED	1,0%



Base : blond smokers

# 5. Our challenges



# Spain volume

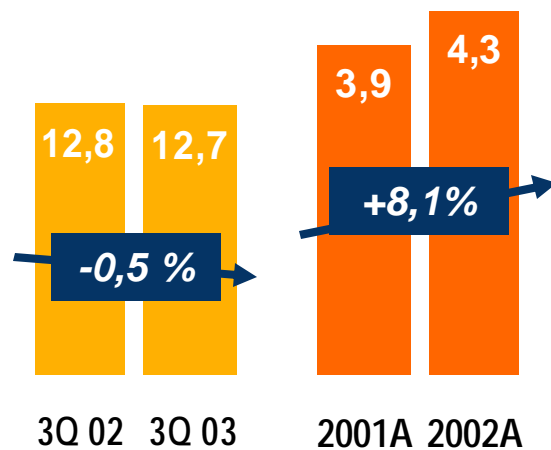
## Nobel success enables slight increase volume

### Spain : volumes (gu)

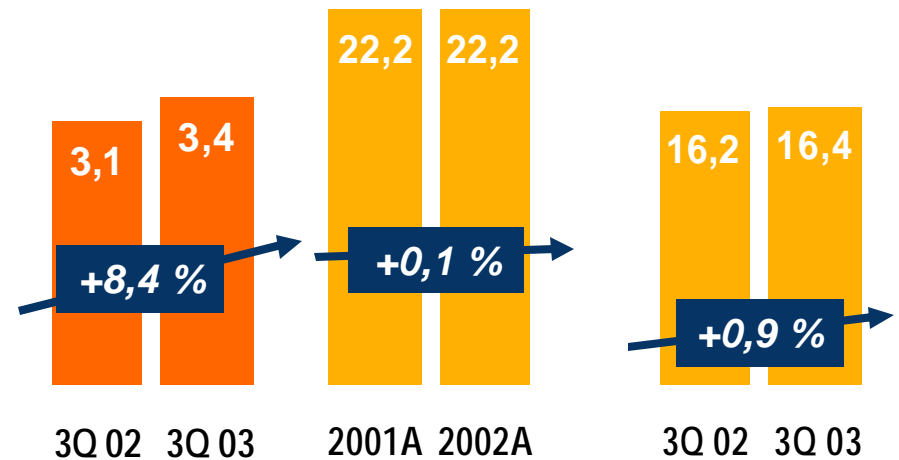
#### FORTUNA



#### NOBEL



#### TOTAL ALTADIS BLOND



# Our challenges

- To find upward growth go-between in Western European Markets
  - 1. Morocco and North Africa
  - 2. Middle-East
  - 3. Acceleration Central Europe
  
- To go on with our profitability and efficiency improvement
  - industrial reorganization
  - Purchasing Policy
  - Global ERP implementation (SAP)
  
- To speed up the international influence of our main brands

# New territories in 2004

- Gauloises Blondes : Spain, Japan (test market), Cambodia, Morocco
- Fortuna: Poland, Latin America, Morocco
  - To maintain a high profitability on our domestic markets France, Spain
    - driven by price changes dark and blond
    - driven by better efficiency sales force (targetting customer and consumer)

# 6. Conclusion



# 6. Conclusion

- Altadis Cigarettes, a more powerful challenger thanks to:
  - Increase of its profitability
  - Influence of its main brands
  - Internationalisation of its activities
- Altadis Cigarettes believe in key values on the tobacco market
  - Some brands are a long term build up, going on with same strategy (Gauloises Blondes)
  - New challengers well positioned can succeed even rapidly in major markets (see Nobel and News)
  - The Tobacco market break into segments between low and premium prices. It is advisable to be present and strong on these 2 segments.
  - Credibility and strong link with the Trade (France-Spain)
  - There are credible options vs the «American model» (Gauloises Blondes, Fortuna, Gitanes)

# Gauloises Blondes Brand Equity

## BRAND ROLE

- As the premium brand of Altadis, Gauloises is the only “non-American” international brand of cigarettes. The strategy is therefore to position Gauloises at the price of international leading brands (SOB), offering their consumers both a competitive quality proposition and a differentiating positioning.

## BRAND POSITONING

- In a world of stereotypes Gauloises is the international brand of premium cigarettes that offers ASU30 a pleasurable opportunity of asserting one’s personality and individuality.

## KEY BENEFIT

- The pleasant sensation of a daily free behaviour.
- End benefit: acting freely to make life richer and socially more interesting.



**GAULOISES**  
LIBERTÉ TOUJOURS

# Fortuna Brand Equity

## Brand role

- 2nd strategic brand of Altadis portfolio
- Key contributor of Altadis volume profitability
- Complementary to GOB

## Brand positioning

- **Spain:** leading brand with the best value for money, who shares your best moments.
- **International:** international medium/low price offer with a distinctive consumer proposition leveraged on latin aspirational values inherited by its Spanish origin.

## Brand benefit

- **Spain:** Fortuna is your accomplice and trusted friend.
- **International:** Fortuna invites you to live a passionate, exciting, intense, creative life in line with Spanish lifestyle and aspirations.

# Go South.



Goûtez  
à la vie espagnole.



# Gitanes Blondes Communication

## BRAND VISION

GITANES will establish itself on ASU 35 target as a Premium alternative to dominating international Premium blond cigarettes brands.

## BRAND ROLE

GITANES is the second Premium International brand of Altadis after GOB. The identified SOB is the leading international Premium brands on dominating T/N segments (Davidoff, Dunhill ...)

GITANES is therefore positioned in Premium price (same as Marlboro).

The Brand naturally complements the Gauloises offer with a more mature and status-driven approach to a core target of smokers above 25.

It has an objective of adding to Altadis market share and value on the international cigarette business via exclusive Premium consumer offers.

## BRAND POSITIONING

Famous among those who know, GITANES is the Premium International brand of French cigarettes that endows ASU30-35 with the irresistible charm linked to their bright talents, experience in life, and arty enviable lifestyle. Communication stages fascinating sensual men with inspiration (the dancer Gitanes icon is their muse), charming by Nature, elegantly drawing attention and sparkling precious moments to remember.

*GITANES*

LE CHARME  
IRRÉSISTIBLE



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Germain-Thomas



## Portfolio and geography

