



# **Credit Investors lunch meeting presentation**



**London, January 17th, 2007**

[www.altadis.com](http://www.altadis.com)

# Content

■ Key facts & figures	page	3
■ Cigarettes	page	10
■ Cigar	page	21
■ Logistics	page	29
■ Financials	page	34
■ Financing	page	39
■ Conclusion	page	44
■ Our Vision, Strategy & Goals	page	46
■ Appendices	page	49

*Note : Since January 1st, 2005, Altadis reporting (both internal and external) applies IFRS standards. 2004 proforma IFRS report for comparison purposes is available on Altadis website.*

---

## Share and bonds particulars

Share : Isin code - ES0177040013 Reuters - ALT.MC (Madrid) ALDS.PA (Paris) Bloomberg - ALT.SM (Madrid) ALD.SM (Paris)

Bonds : Maturity 02/10/08 - ES017683730 (Reuters) ED147823 / Isin XS0176837309 (Bloomberg)  
Maturity 02/10/13 - ES017683837 (Reuters) ED147819 / Isin XS0176838372 (Bloomberg)



# Leading positions in three core businesses

**Cigarette**  
A key player in Western Europe

**Cigar**  
#1 worldwide

**Logistics**  
A unique business model

#4 in W. Europe  
#2 in Spain  
#2 in France  
#4 in Germany  
#1 in Morocco

#1 in the US  
#1 for premium cigars  
#1 in Spain  
#1 in France

Servicing around  
300,000 POS in  
Western Europe  
and Morocco

**85.7** billion cigarettes<sup>(1)</sup>  
(-13.0%)

**2,459** million cigars  
(-5.6%)

Revenues of **€7,901** mn  
(-2.7%)

**Economic  
Sales** <sup>(2)</sup>

**€1,251** mn (-15.1%)

**€ 660** mn (+2.1%)

**€ 877** mn (+3.5%)

(1) Including 4.7 bn cigarettes licensed to third parties

(2) Balancing items are :

Others : €160 mn (€109 mn in 2005) and Eliminations : € -7 mn (€ -38 mn in 2005).

## 9 Months 2006 key figures

<i>€ mn</i>	9M'05	9M'06	Var. 06-05
Economic Sales	3,040	2,941	-3.3%
EBITDA	909	865	-4.8%
Net Income	423	339	-19.9%
Headcount			28,226

## 9 Months 2006 highlights: Increases in tobacco excise taxes in Spain impact the performance

- Altadis performance for Economic sales (-3.3%) and Ebitda (-4.8%) was in line with management's expectations
- Operations of the Cigarette Division were negatively affected by the increased excise taxes in Spain and by reductions in inventories
- Operations of the Cigar Division performed outstandingly, sales were up +2.1% and Ebitda +15.9%, though Q3 was uneasy
- Operations of the Logistics Division showed strong results in Italy (tobacco) and in General logistics
- Important cost savings achieved during the first 9 months of 2006 partially offset the drop of the profitability in the Spanish market
- Net income was €339 million (-19.9%), EPS €130 cent (-15.9%) and cash EPS<sup>(1)</sup> €184 cent (-6.8%), all being influenced by significant one off restructuring charges (€99 million)

*(1) Cash earnings: Net income + Depreciation and amortisation (net of taxes) + impairment charge (net of taxes) + Balance sheet tax benefits from goodwill amortisation deductibility net of minorities.*

# Ambitious €215mn cost saving programs for 2006-2008 in fast progress

- Restructuring I (launched prior to 2006) : €64 mn savings
  - Out of a €92 mn total savings plan, €64 mn are still to be captured (€49 mn in 2006, €3 mn in 2007, €12 mn in 2008)
  - Implementation completed in Morocco (since December 2004) as well as in France (since September 2005), and in course in Spain
  - Implies approximately 1,500 leaves in Europe (1,167 as of end 2005)
  - Total cost of approximately €277 mn (Morocco not included), already charged for up to in precedent years
- €91mn cost cutting plan for 2006 is being implemented
- Restructuring II (launched in February 2006) : €60 mn savings
- The sequence of expected savings is:

€ mn	2006	2007	2008
Total	145	46	24
Restructuring I	49	3	12
Special savings program	91	0	0
Restructuring II	5	43	12

# 2006 €91 million savings program

- In reaction to
  - The sharp downward change of the profitability pattern in Spain
  - And to new regulations applying to tobacco advertising and promotion
- And in order to limit the negative impact on Altadis performance
- A savings program has been launched on February 1<sup>st</sup>, 2006
- It will provide savings in excess of €91 million, with no cost attached, and most of them being recurrent
- It is mostly cutting:
  - Commercial and promotion expenses (more than €55 mn)
  - External services (€10 mn)
  - Projects ( IT, processes, ...) by postponing them (close to €10 mn)
  - Miscellaneous (more than €10 mn)

# Restructuring II (February 14<sup>th</sup>, 2006 program)

- Altadis needed to adjust its corporate and division management, its research centers and the logistic infrastructure in France
- This restructuring program is implementing in both countries, Spain and France
- The project comprises:
  - Bringing together all corporate functions in one location (Madrid)
  - Bringing together the management of each Division in one location
  - Closing the research center of Tres Cantos (Madrid)
  - Closing of the distribution center of Paris North
- It will provide savings of €56 mn within Altadis and €4 mn within Logista. Latest estimated cost attached is €78 mn already charge for in 2006

# Litigation risk: limited and reducing

## ALTADIS SITUATION:

- Ongoing cases: Two individuals + Andalusian Local Government in Spain + Third party payer action (CPAM Saint Nazaire)
- Twenty-one favourable rulings, and no final adverse decision
- A claim by the Andalusian Regional Government is in course of a lengthy jurisdictional process involving civil and administrative courts (in relation with the possible involvement of the State)
- Favourable decisions are generally very clear-cut decision

## KEY FACTORS AND PARTICULARLY THE ABSENCE OF:

- class actions (there is a project in France to introduce “class actions”)
- punitive damages
- contingency fees
- popular juries

**are fundamentally distinguishing Europe and the US, thus conducting to a totally different type and level of risk**

# CIGARETTE

## Internationalisation



## Cigarette: key figures for 9M 2006

€ mn	9M'05	9M'06	Var. 06-05
Volume (bn units)	99 <sup>(1)</sup>	86 <sup>(1)</sup>	-13.0%
Economic sales	1,474	1,251	-15.1%
Costs	970	858	-11.5%
EBITDA	504	393	-22.1%
Ebitda margin	34.2%	31.4%	-2.8 points

(1) Including 4.9 bn cigarettes and 4.7 bn cigarettes for 2005 and 2006, respectively, licensed to third parties.

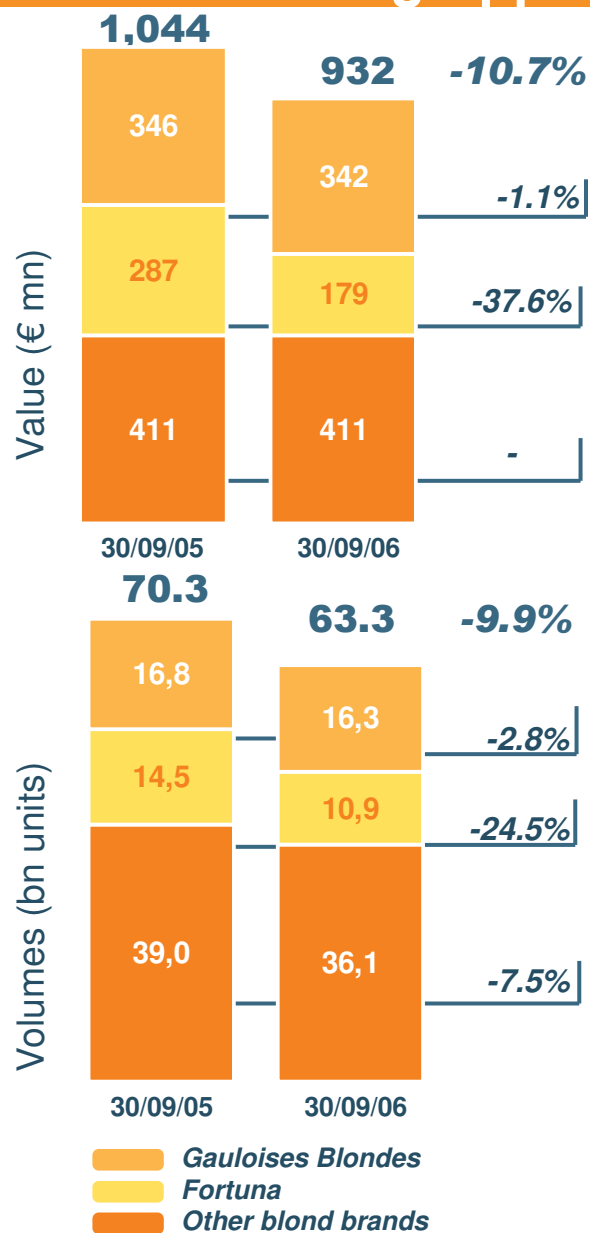
## Cigarette: key events of 9M 2006

- 2 Excise tax increases in Spain hurting manufacturers profitability
- New restrictions for consumption, advertising and sale of tobacco goods in Spain
- Decrease of total market volumes in some key European markets like Spain and Germany
- Slight recovery of the French and Moroccan markets
- Strong performance in Morocco and Rest of Europe
- Commercial investment reduction in line with cost cutting plan

# Cigarette strategy: amplify internationalisation

- Capitalise on the Group's flagship brands, Gauloises, Fortuna and Gitanes
  - Globalisation of Gauloises in the sub-premium segment
  - Regional development of Fortuna (medium-to-value segment) and of Gitanes
- Complement with a portfolio of strong tactical brands, aiming a market or a segment (Balkan Star, Marquise, Ducados Blond, News, Nobel, ...)
- Strengthen recently entered markets – Morocco, Russia – and enlarge reach with alliances
- Enter the key super-premium segment: Montecristo
- Strengthen focus on cost cutting and continue cash-cow strategy for dark cigarettes

# Blond cigarette sales: Gauloises shows a temporary slow down whereas Fortuna grapples with a difficult Spanish market



## ■ Gauloises Blondes:

Q3 performance shows a slight recovery after a difficult Q2.

## ■ Fortuna:

- ➔ Market share and profitability drop in Spain, with a slight recovery since February
- ➔ Blond market share at 2.7% in France, and 8.1% in Morocco

## ■ Gitanes, a fully international brand

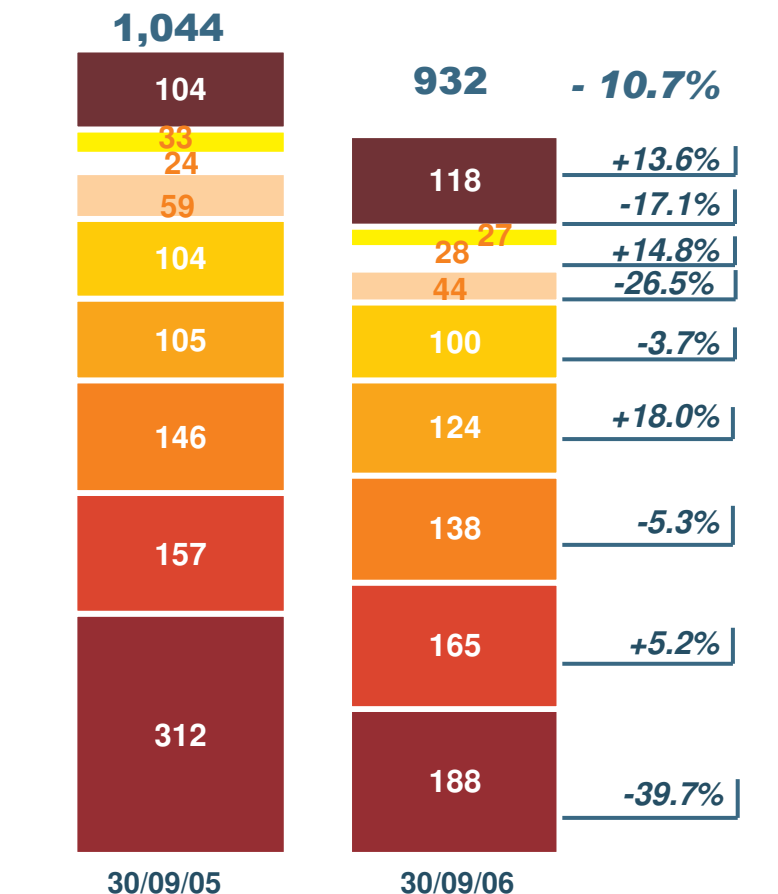
## ■ Marquise, in Morocco, growing to 74.1% blond market share

## ■ Balkan Star in Russia, a key tactical brand

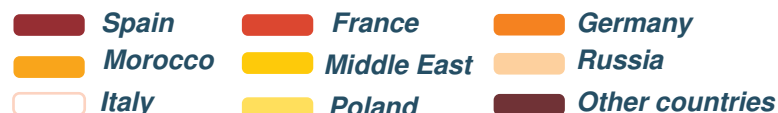
## ■ Ducados Blond, now part of the market in Spain

# Blond sales: Tough Spanish pricing context, Morocco performs strongly

Value (€ mn)



- **Spain:** Excise tax increases and mix hurt sales, amplified by inventory reductions
- **France:** Positive market evolution
- **Germany:** total market decline
- **Morocco** delivers outstanding results
- **Middle East:** Focus on rebuilding trade flows in a difficult political environment
- **Russia:** Q3 shows some recovery vs. a weak H1



# Mixed performance of European blond market shares

<i>(Volumes in billion units)</i>	9M'05	9M'06	Var.
<b>Spain</b>			
Volume	15.2	14.8	-2.4%
Market share	25.5%	25.1%	-0.4
<b>France</b>			
Volume	6.9	6.9	+0.7%
Market share	18.5%	18.0%	-0.5
<b>Germany</b>			
Volume	4.6	4.3	-6.4%
Market share	6.1%	5.9%	-0.2
<b>Italy</b>			
Volume	1.4	1.2	-9.7%
Market share	2.0%	1.7%	-0.3
<b>Austria</b>			
Volume	0.9	0.8	-6.2%
Market share	8.7%	8.1%	-0.6
<b>Poland</b>			
Volume	4.7	4.1	-11.8%
Market share	8.6%	7.6%	-1.0
<b>Belgium &amp; Luxembourg</b>			
Volume	0.8	0.8	+0.1%
Market share	5.9%	6.3%	+0.4

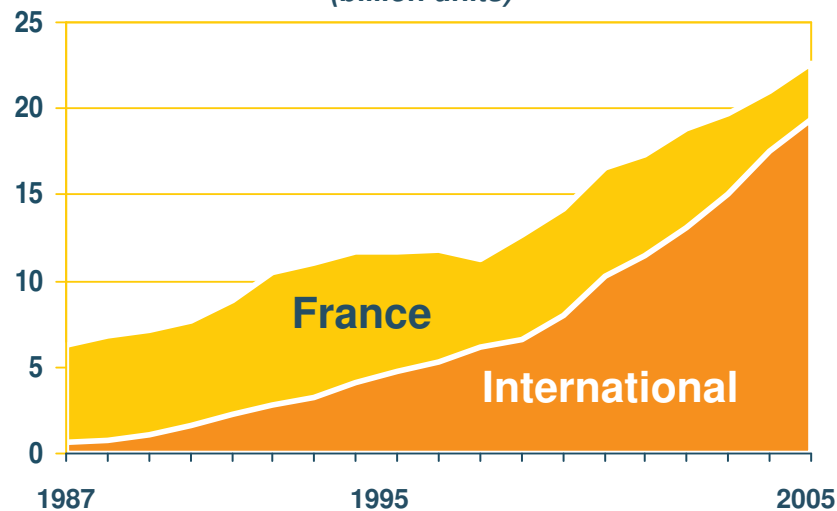
# Gauloises Blondes: a strategic international brand with strong growth momentum



- Immediate recognition, wide awareness, differentiating brand name
- Symbol of freedom together with courage and independence, via its logo « Liberté toujours » (Liberty forever) brand foundation
- Sub-premium pricing
- Aesthetics and originality conveyed by the design
- Higher appeal of the brand mix in mature markets which are priority targets
- Consistent communication

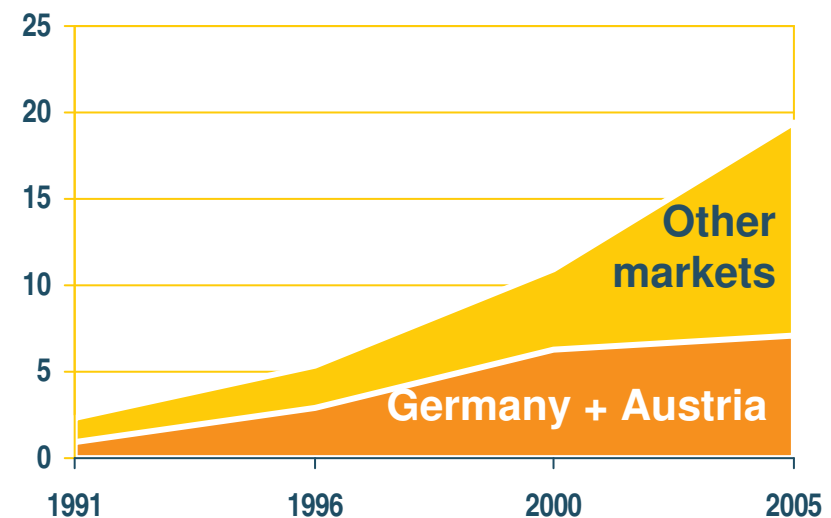
## Gauloises Blondes in the world

(billion units)



## Gauloises Blondes outside France

(billion units)



# Gauloises Blondes international sales slow down temporarily

(Volumes in million units) (Sales in € mn)		9M'03	9M'04	9M'05	9M'06	Var. % 06-05	CAGR (06-03)
Germany							
Volume	5,408	4,837	4,613	4,323	-6.3%	-7.2%	
Sales	113.5	134.2	145.0	137.4	-5.2%	+6.6%	
Other European countries							
Volume	3,124	3,069	3,040	2,945	-3.1%	-1.9%	
Sales	59.6	69.1	70.9	71.5	+0.9%	+6.3%	
Middle East							
Volume	1,229	4,180	5,772	6,015	+4.2%	+69.8%	
Sales	15.1	48.7	61.9	64.4	+4.0%	+62.3%	
Other countries							
Volume	1,275	1,133	849	561	-33.9%	-24.0%	
Sales	16.6	17.0	13.3	10.9	-17.5%	-13.0%	
Total (France excluded)							
Volume	11,036	13,220	14,274	13,844	-3.0%	+7.8%	
Sales	204.8	268.9	291.1	284.2	-2.3%	+11.5%	

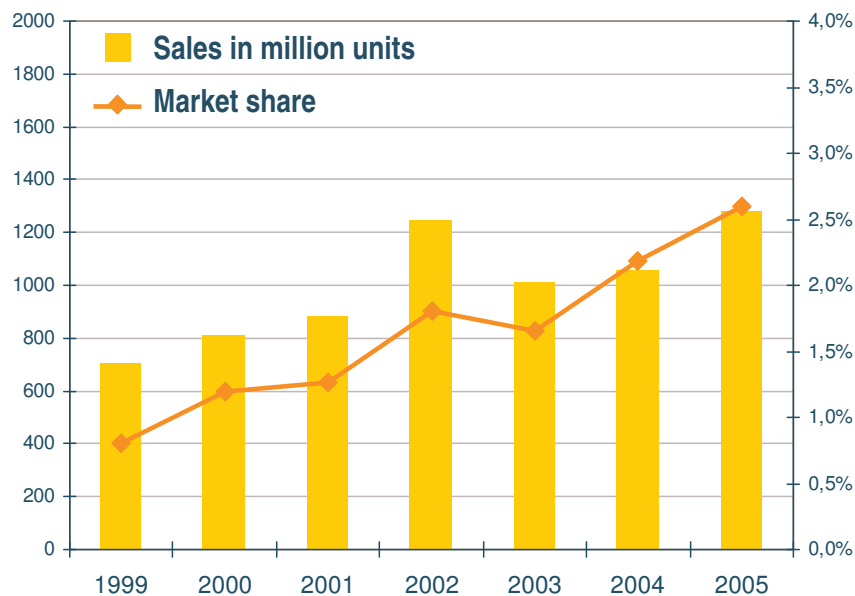
Note: 9M'03 sales figures under former GAAP, 9M'04, 9M'05 and 9M'06 under IFRS  
9M'04 IFRS restatement added € 26.5 mn sales to former GAAP sales

# Fortuna: expanded geographical coverage

## Spain: Strong base, 12.7% market share

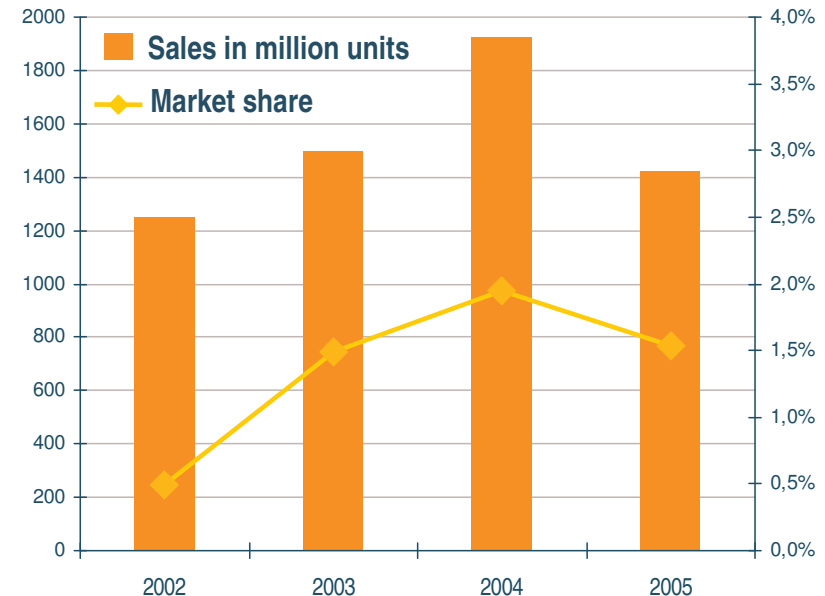
- Capitalise on Spanish and Latin roots: both universal and aspirational
- Potential versus international brands with weaker image
- Medium-to-value priced
- Attractive value-added offer for 18/25 years old, urban male/female consumers

## France: Market share growth since 1997



➔ Market share in France 9M'06: 2.7%

## Italy: Strong initial base

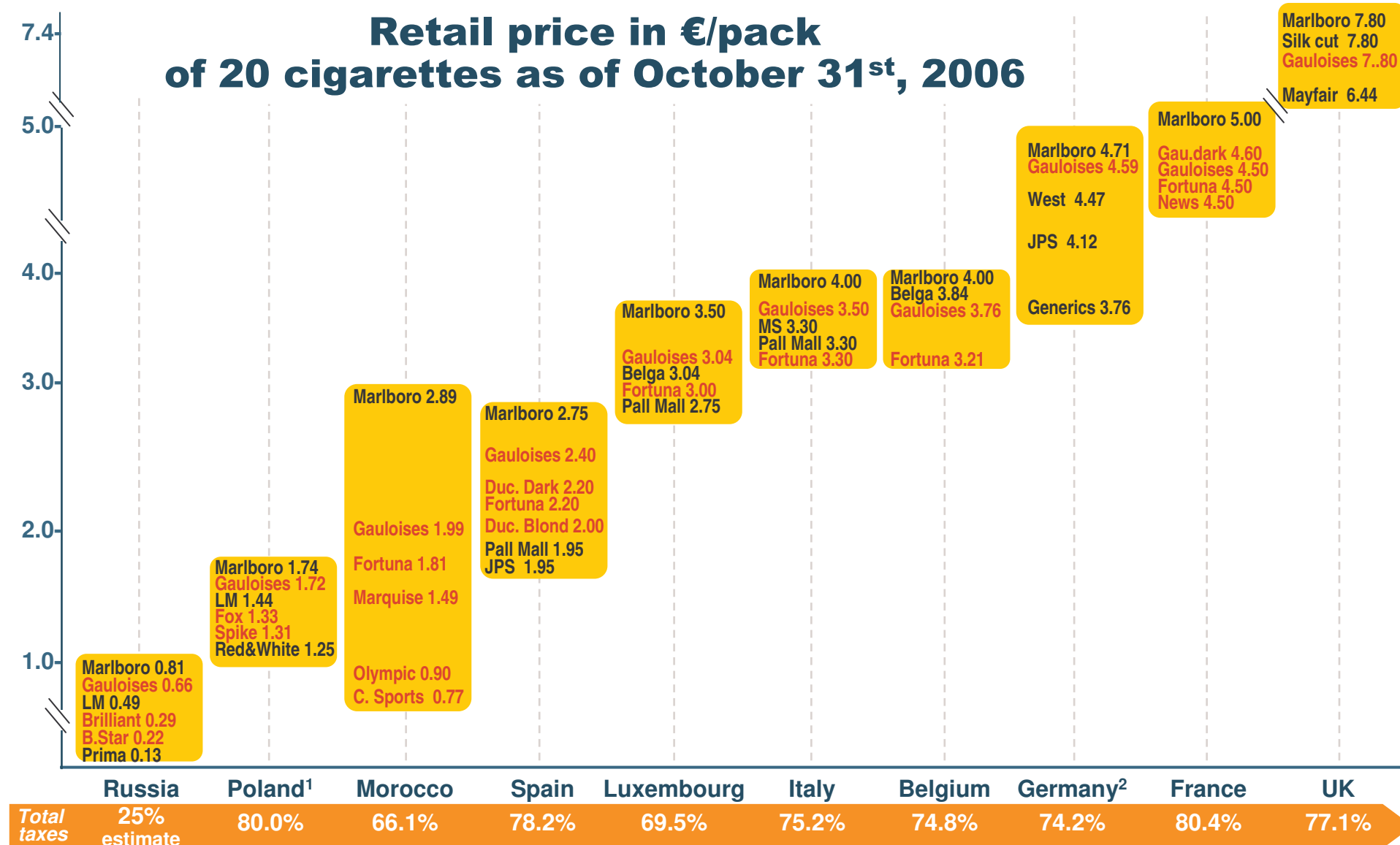


➔ Market share in Italy 9M'06: 1.3%

**In Morocco (launch in June 2004), market share in 9M 2006: 8.1%**

# Pricing power in some key markets

Latest change took place in Germany in October (+ €24 cent)



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 24 cigarettes prices are Fox: € 1.60 and for 30 cigarettes, Spike: € 1.96

<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, € 3.80, € 3.50 and € 3.20

# CIGAR

**# 1 in the world by far**



# Cigar: key figures for first nine months of 2006

## Superior Ebitda performance + 15.9%

€ mn	9M'05	9M'06	Var. 06-05
Volume (mn cigars)	2,605	2,459	-5.6%
Economic sales	647	660	+2.1%
Costs	464	448	-3.4%
EBITDA	183	212	+15.9%
Ebitda margin	28.2%	32.1%	+3.9 points

## Cigar: key events of 9M 2006

### US sales and Havana cigars drove the growth

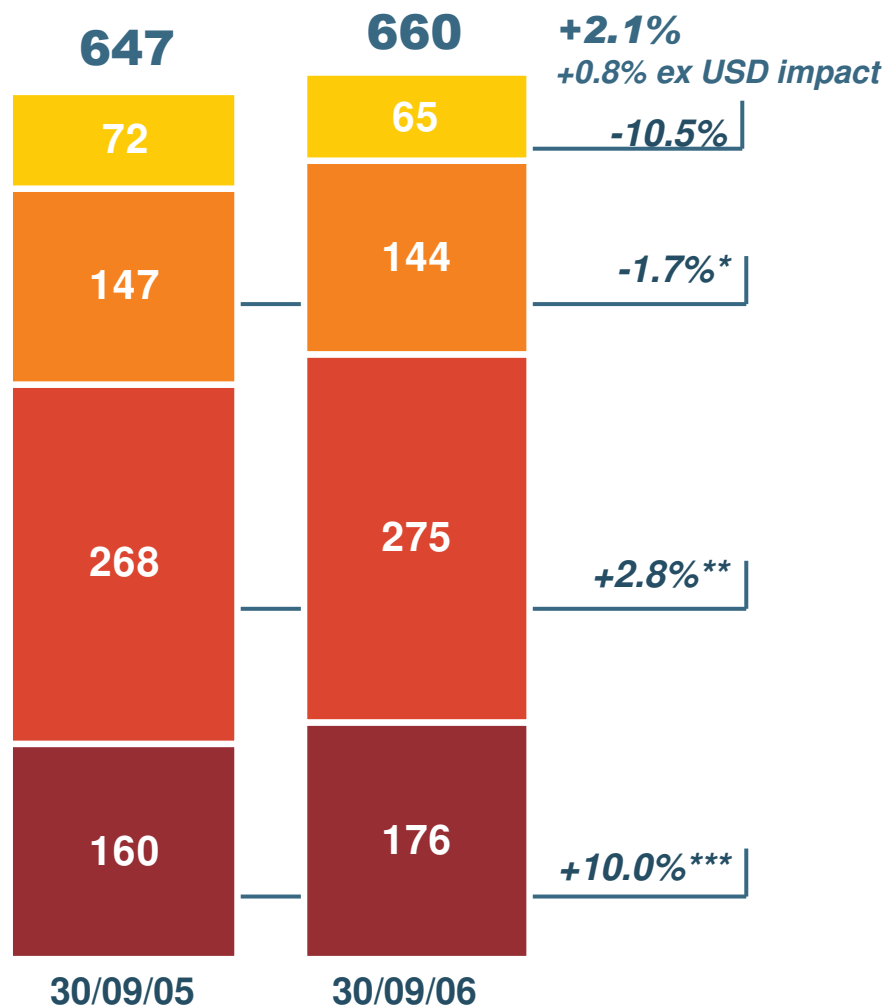
- All key business drivers, except volumes, were strongly positive
- Sales up +4.0% in USD in the key US market with marked seasonality (high Q2, low Q3) and despite increasing competition.
- Havana cigars sales showed very encouraging performance in many emerging markets (Russia, Morocco, Latin America and Asia-Pacific)
- Outstanding margin improvement: +3.9 points

## Cigar strategy: lead

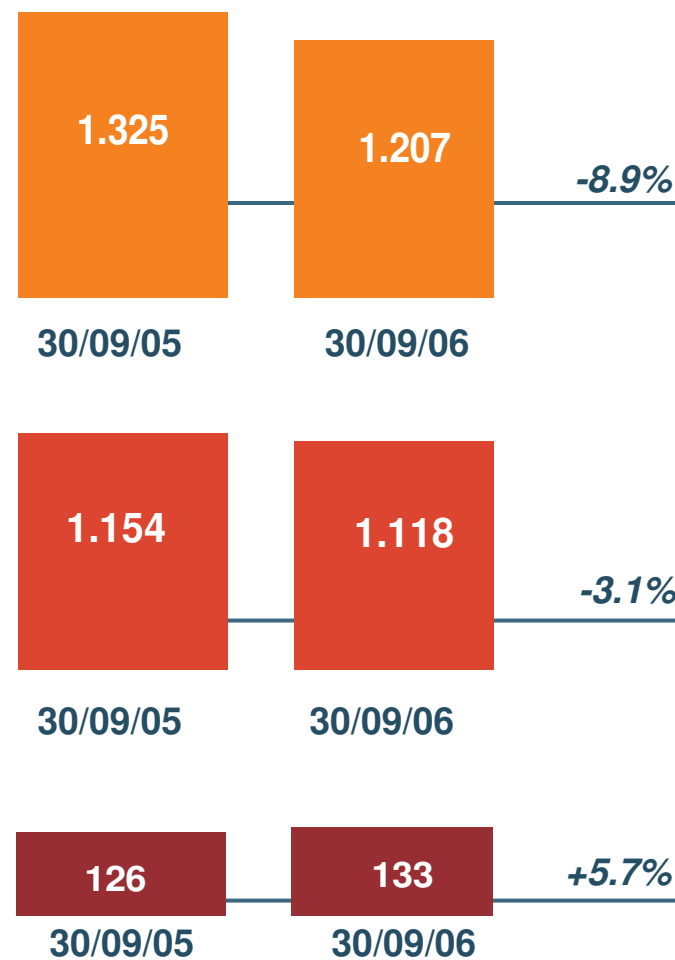
- Constantly reinforce leadership in the US through innovation, product mix and cost efficiency.
- Improve sales and margins in Habanos through portfolio upgrading and broader international distribution.
- Secure market share and enhance profitability both in Spain and France.
- Turn to new markets to establish them as a new growth driver.

# Excellent cigar sales evolution despite stronger competition

## Value (€ mn) & Growth



## Volumes (mn units) & Growth



Premium & Habanos (50%)

Natural

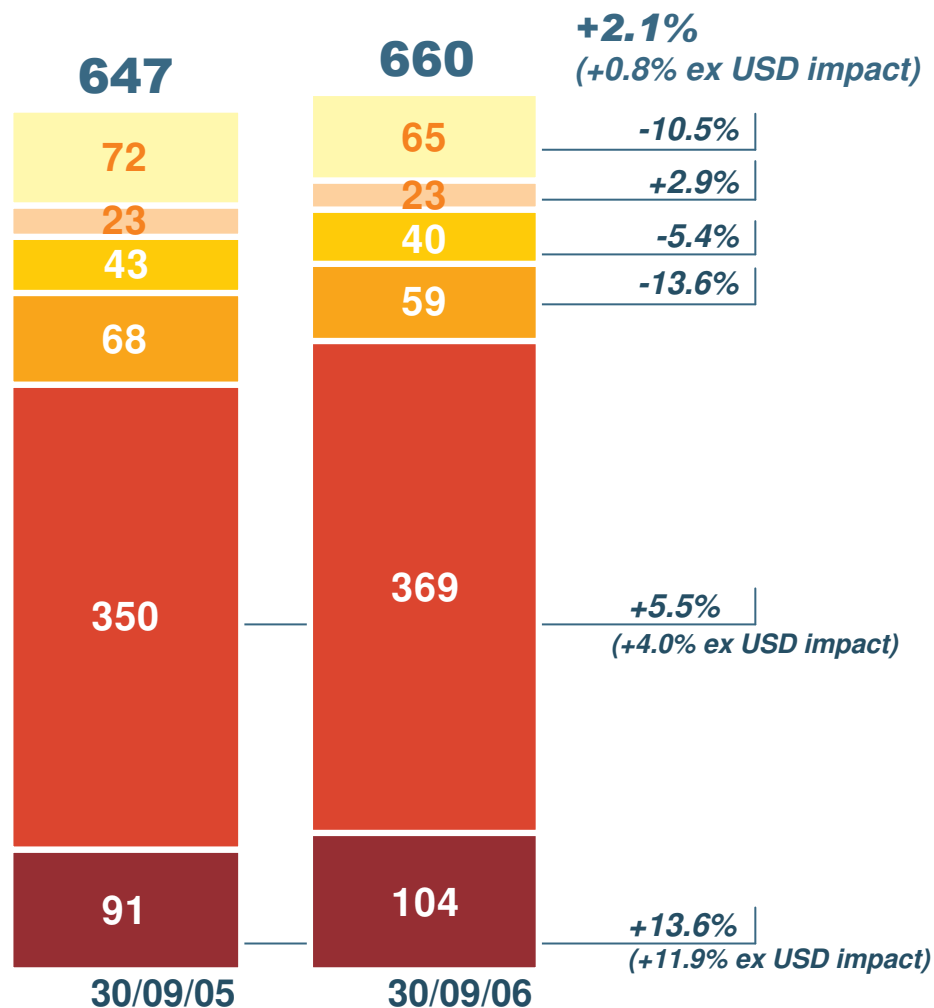
Mass (Popular + Little)

Other sales

Ex USD impact, respectively: \* -3.1%, \*\* +1.7% and \*\*\* +8.6% growth

# Superior growth of US sales and of Havana cigars

## Value (€ mn) & Growth

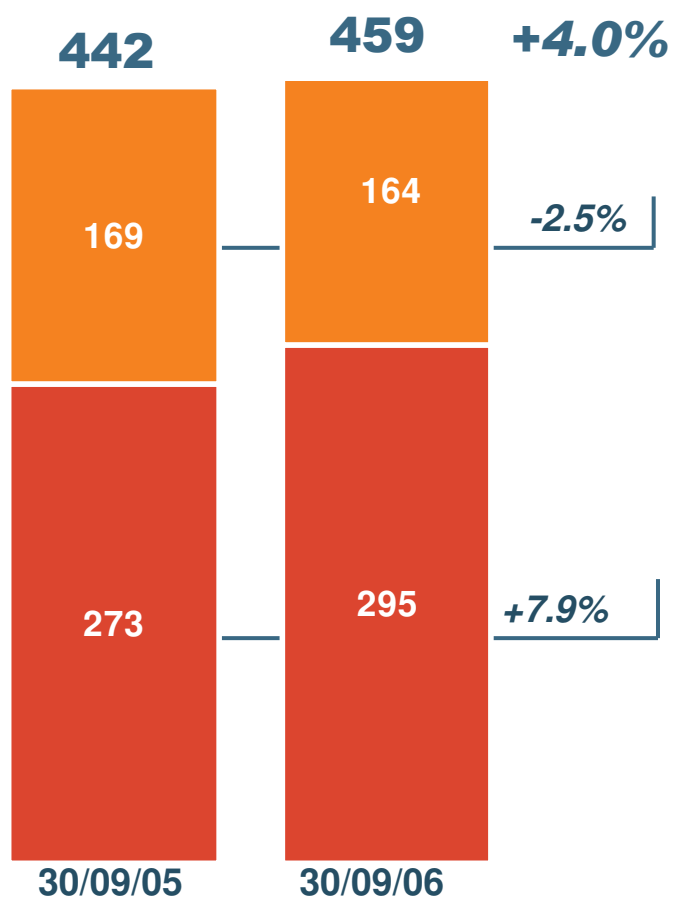


- **JR Cigar:** provides €39 mn sales
- **French and Spanish markets:** Spanish volumes affected by new legal restrictions. French market weak in Q3
- **USA:** Premium & Natural segment leads to a strong performance
- **Havana cigar:** Emerging markets become more relevant

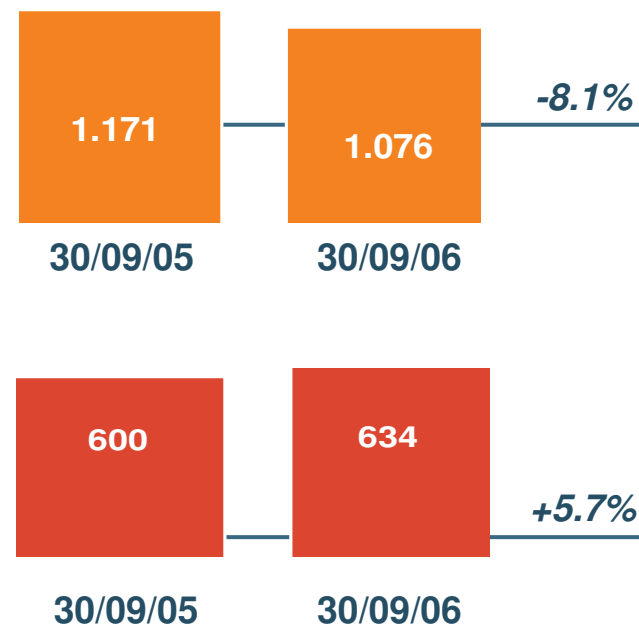
■ Habanos (50%) 
 ■ USA 
 ■ Spain 
 ■ France 
 ■ Export 
 ■ Other sales

# United States: up 4.0% in USD driven by Premium & Natural segment

## Value (USD mn) & Growth



## Volumes (mn units) & Growth

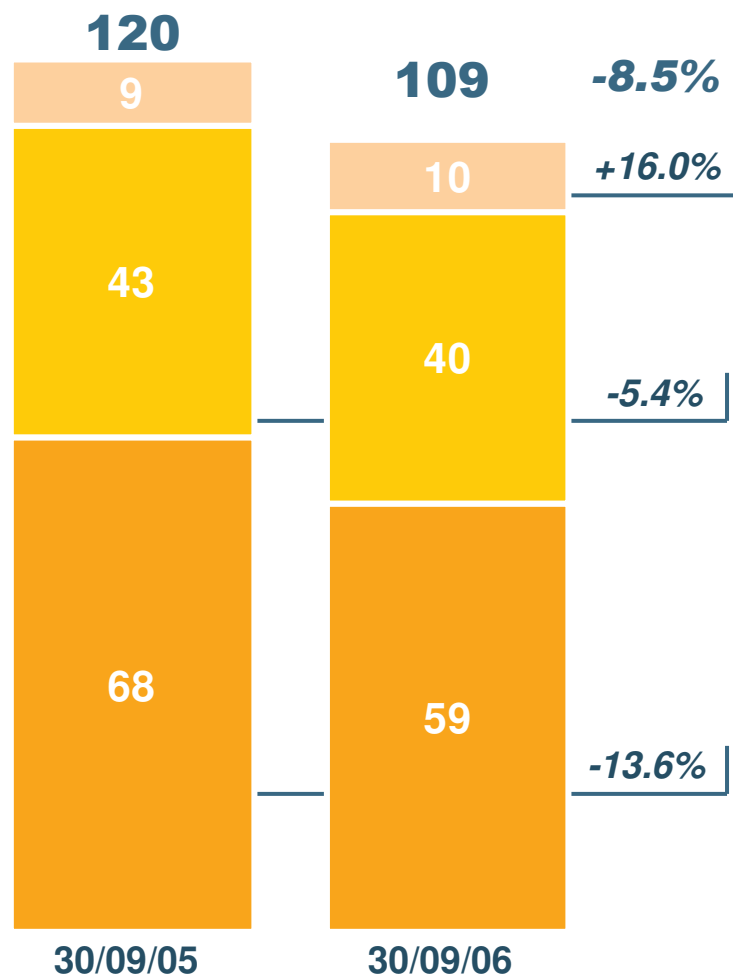


■ Premium & Natural

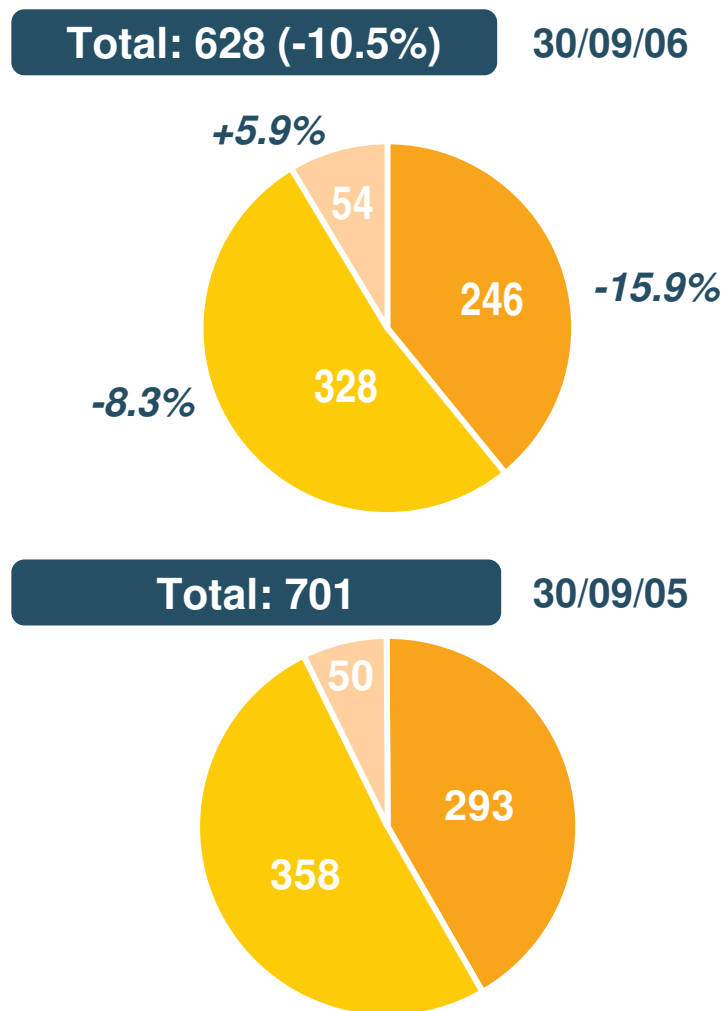
■ Mass (Popular + Little)

# Cigar Europe: Spanish market affected by new legal restrictions and weak Q3 in France

## Value (€ mn) & Growth



## Volumes (mn units) & Growth



Spain France Export

# LOGISTICS



**A unique business model**

## Logistics: key figures for 9M 2006

€ mn	9M'05	9M'06	Var. 06-05
IFRS Revenue	8,117	7,901	-2.7%
Economic sales	848	877	+3.5%
Costs	617	646	+4.7%
EBITDA	231	231	-
Ebitda margin	27.2%	26.3%	-0.9 points

## Logistics: key events of 9M 2006

- Contrasted evolution of total cigarettes volumes in markets where Altadis operates (-4.3% in Spain, +2.0% in France, +1.9% in Morocco, +0.8% in Italy)
- General logistics: +6.2% economic sales increase, driven by the strong performance of transportation services in Spain and Portugal
- Progress of the pharma project (€14 mn sales)

## Logistics strategy: expanding a unique expertise

- Keep the lead of tobacco goods distribution in Spain, France, Morocco, Italy and Portugal.
- Further develop successful application of expertise with wide-coverage networks to general (i.e. non-tobacco) logistics in niche services with high margins.
- Optimise operational means.

# Both, tobacco and general logistics performed solidly

Number of points of sale serviced: around 300,000

<i>Economic sales (in € million)</i>	9M'05	9M'06	Growth
<b>Spain and Portugal</b>	130.6	114.1	-12.6%
<b>France</b>	122.4	124.3	+1.5%
<b>Italy</b>	132.2	146.3	+10.7%
<b>Morocco</b>	39.0	41.5	+6.4%
<b>Tobacco</b>	<b>424.2</b>	<b>426.2</b>	<b>+0.5%</b>
<b>Spain and Portugal</b>	269.7	291.0	+7.9%
<b>France</b>	162.9	166.3	+2.1%
<b>Morocco &amp; Italy</b>	2.8	4.9	+75.5%
<b>General</b>	<b>435.4</b>	<b>462.2</b>	<b>+6.2%</b>
Eliminations	(11.8)	(11.3)	NS
<b>TOTAL</b>	<b>847.8</b>	<b>877.1</b>	<b>+3.5%</b>

# Financials



# Key P&L evolutions: Organic growth affected by impact of excise tax changes in the Spanish market

9M 2005 vs 9M 2006 (€ mn)

**Economic sales:**  
**-99**

**Organic: -146**

Of which  
Spanish market impact in  
cigarettes Division: -206

**Perimeter: +39**

**Currency conversion: +8**

■ Important drop in Spain

■ Tax change in Spain  
impacts on Cigarettes

■ Aldeasa

■ Favorable dollar  
evolution

- Important drop in Spain  
with important savings
- Restructuring and cost  
cutting
- Tax change in Spain  
Impact on Cigarettes

■ Aldeasa

■ Favorable dollar evolution

**Organic: -54**

Of which  
Restructuring: +45  
Cost cutting: +68  
Spanish market impact in  
cigarettes Division: - 170

**Perimeter: +7**

**Currency conversion : +3**

**Ebitda:**  
**-44**

# EBITDA: -4.8% to €865 million

(€ mn)	9M'05	9M'06	Change <sup>(1)</sup>
<b>Revenues</b>	<b>9,450.3</b>	<b>9,304.0</b>	<b>-1.5%</b>
<i>(Cost of distributed products) + (Consignment fees) + Discount</i>	<i>(6,410.3)</i>	<i>(6,363.3)</i>	<i>+0.7%</i>
<b>Economic Sales</b>	<b>3,040.0</b>	<b>2,940.7</b>	<b>-3.3%</b>
<b>EBITDA <sup>(2)</sup></b>	<b>908.9</b>	<b>865.0</b>	<b>-4.8%</b>
<i>(Amortization) + (Depreciation)</i>	<i>(147.2)</i>	<i>(157.8)</i>	<i>-7.2%</i>
<b>Ordinary activities result</b>	<b>761.7</b>	<b>707.2</b>	<b>-7.2%</b>
<i>Other income and expenses</i>	<i>(4.8)</i>	<i>(61.7)</i>	<i>NS</i>
<b>Operating result</b>	<b>756.9</b>	<b>645.5</b>	<b>-14.7%</b>
<i>Financial Results</i>	<i>(59.6)</i>	<i>(85.7)</i>	<i>-43.8%</i>
<i>Corporate Tax</i>	<i>(231.0)</i>	<i>(185.9)</i>	<i>+19.5%</i>
<i>Associates</i>	<i>3.2</i>	<i>6.1</i>	<i>+92.2%</i>
<i>Minority Interests</i>	<i>(46.2)</i>	<i>(40.9)</i>	<i>+11.5%</i>
<b>Net Income Group Share</b>	<b>423.3</b>	<b>339.1</b>	<b>-19.9%</b>
<b>EPS (€cent) <sup>(3)</sup></b>	<b>155</b>	<b>130</b>	<b>-15.9%</b>
<b>Cash EPS (€cent) <sup>(4)</sup></b>	<b>197</b>	<b>184</b>	<b>-6.8%</b>
<i>Average number of shares (million) <sup>(5)</sup></i>	<i>273.8</i>	<i>260.7</i>	<i>4.8% reduction</i>

(1) + symbols are used for beneficial evolutions, and reversely, - symbols for detrimental evolutions.

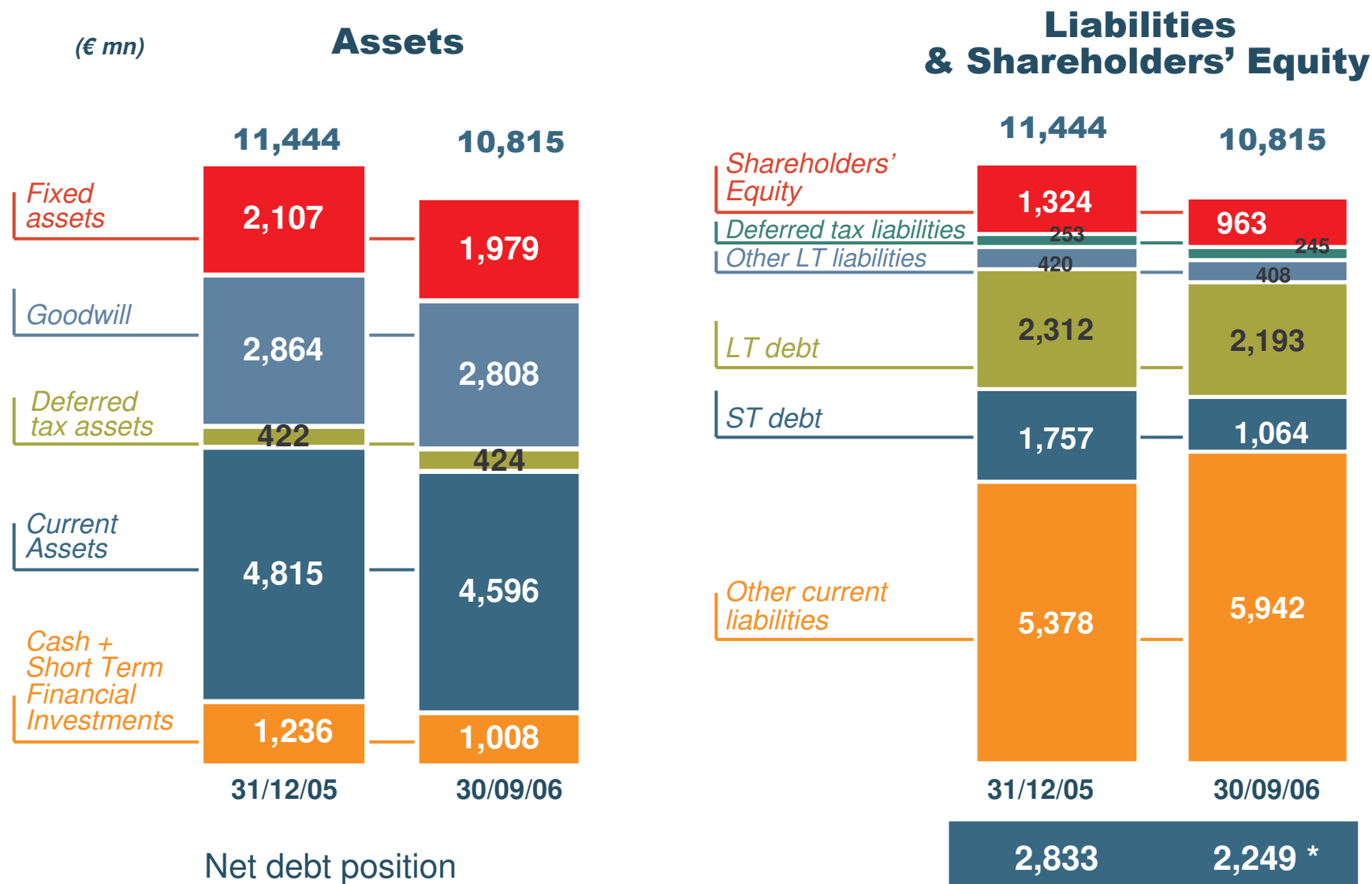
(2) Ebitda: Ordinary activities result before Depreciation and Amortisation.

(3) Basic and diluted EPS were equal.

(4) Cash earnings : Net income + Depreciation and amortisation (net of taxes) + impairment charge (net of taxes) + Balance sheet tax benefits (from goodwill amortisation deductibility) net of minorities

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

# Balance sheet reflects buy backs and dividend payments



\* Net debt evolution in 9M'06 has benefited from a change in the payment process applied to excise taxes in Italy (€427mn)

# Cash generation funded buy back and dividend

	(€ mn)	9M'05	9M'06
<i>Ebitda</i>		909	865
<i>WCR variation</i>		54	438**
<b><i>Operating flow (Ebitda +Change in WCR)</i></b>		<b>963</b>	<b>1,303</b>
<i>Corporate tax paid</i>		(146)	(173)
<i>Restructuring &amp; other extraordinary cash out</i>		(36)	(82)
<b><i>Cash flow from operating activities</i></b>		<b>781</b>	<b>1,048</b>
<i>Dividends from associates</i>		28	5
<i>Cash out / in from short term financial assets</i>		25	45
<i>Cash out for tangible and intangible assets</i>		(115)	(92)
<i>Divestment cash in***</i>		23	136
<i>Acquisition/ Disposal of subsidiaries net of cash acquired / disposed (net amount)***</i>		109	23
<b><i>Cash flow from investing activities</i></b>		<b>70</b>	<b>117</b>
<i>Borrowing costs</i>		(43)	(44)
<i>Dividends paid</i>		(253)	(273)
<i>Purchase of shares (of Group companies)</i>		(352)	(412)
<i>Increase/Decrease in debt (short and long term)</i>		(354)	(612)
<b><i>Cash flow from financing activities</i></b>		<b>(1,002)</b>	<b>(1,341)</b>
<b><i>Net change in cash and cash equivalent</i></b>		<b>(151)</b>	<b>(176)</b>
<i>Net foreign exchange differences</i>		13	(8)
<i>Cash and cash equivalents Initial position</i>		978	1,092
<b><i>Cash and cash equivalent Final position</i></b>		<b>840</b>	<b>908</b>
<i>Short term financial investments</i>		122	100
<i>Short term debt</i>		(878)	(1,064)
<i>Long term debt</i>		(2,063)	(2,193)
<b><i>Final net debt position</i></b>		<b>(1,979)</b>	<b>(2,249)**</b>
<b><i>Operating free cash flow*</i></b>		<b>702</b>	<b>1,038**</b>

\* Operating free cash flow = Operating flow - Corporate tax - Maintenance CAPEX (€115 mn in 9M'05, €92 mn in 9M'06)

\*\* WCR variation, Operating free cash flow and net debt evolution in 9M'06 have benefited from a change in the payment process applied to excise taxes in Italy (€427 mn)

\*\*\* Cash in from Disposal of non core assets in 9M'06: €197 mn (€136 mn Divestment cash in + €61 mn Disposal of subsidiaries)

# Financing



# Detailed current debt

million €	31/12/05	30/09/06
Bonds	1,600 *	1,600
Securitization	500	425
LT Loans	613	708
Others	37	42
<b>Total LT</b>	<b>2,750</b>	<b>2,775</b>
Commercial Paper	290	285
ST Loans	776 **	66
<b>Total ST</b>	<b>1,066</b>	<b>351</b>
<b>GROSS DEBT</b>	<b>3,816</b>	<b>3,126</b>
Cash and equivalents	983	877
<b>NET DEBT</b>	<b>2,833</b>	<b>2,249</b>

\* A new issuance of bonds took place as at December 05. Amount: 500 M €. Coupon: 4%. Maturity: 2015.

\*\* It includes 326 for the option on the remaining 20% RTM and 50% of non-recourse financing on Aldeasa already set up as at Sept. 06.

# Sound credit ratios

million €	31/12/05	30/09/06
Net debt	2,833	2,249
Net debt / EBITDA	2.30	1.95
EBITDA / Net Interest	12.7	10.6
FFO / Net debt	28.0%	32.1%

	S&P	Moody's
Corporate Rating	BBB+	Baa2
Outlook	Negative	Stable

## Methodology :

- Actual accounting figures: 2005 and Net debt 30/09/06.
- Rest of 30/09/06 figures : RF3 2006.
- FFO = EBITDA less net interest plus dividend received from associates less income tax less restructuring - all items on a cash basis

# Liquidity position

+ = debt / - = cash

million €

	30/09/2006	MATURITY					
		2006	2007	2008	2009	2010	2011
Bonds	1,600			-600			
Securitization	425					-425	
LT loans €	226	-19	-81	-13	-85	-13	-17
LT loans \$	27	-11	-16				
LT Syndicated loan MAD	455	0	-114	-114	-114	-114	0
Leasings	42	-1	-3	-3	-3	-3	-2
<b>Total LT</b>	<b>2,775</b>	<b>-31</b>	<b>-214</b>	<b>-729</b>	<b>-201</b>	<b>-554</b>	<b>-18</b>
Commercial Paper	285						
ST loans	66						
<b>Total ST</b>	<b>351</b>						
<b>GROSS DEBT</b>	<b>3,126</b>						
Cash and equivalents	877						
<b>EXTERNAL NET DEBT</b>	<b>2,249</b>						

## LIQUIDITY

Undrawn Committed lines	1,200
add available cash & equivalents	263
Commercial Paper Availability	215
Less debt maturing < 1 year	382
<b>Coverage of ST debts</b>	<b>1,296</b>

# Rating Agencies assessments

**STANDARD  
& POOR'S**

*Setting the Standard*

Last report:  
February 2006

**Corporate : BBB+**

**Bonds : BBB**

**CPs : A2**

- Feb 2nd, 2006: Corporate rating changed to BBB+ (negative outlook). A-2 short term rating affirmed.
- May 17th, 2005: previous rating reaffirmed.
- Sept 22nd, 2004 : A- corporate rating (negative outlook) reaffirmed, waiving of negative watch
- Sept 1st, 2003 : Bond issue rated BBB+, in consideration of Altadis SA debt being structurally subordinated to that of subsidiaries
- June 2, 2003: outlook changed to negative for the long-term A- rating following the RNTM acquisition. A-2 short-term rating affirmed
- March 20, 2002: rating initiated at A- (long term) and A-2 (short term)



**Moody's Investors Service**

Last report:  
May 2006

**Corporate : Baa2**

**Bonds : Baa2**

**CPs : P2**

- May 17th, 2006: Corporate rating changed to **Baa2**. Outlook changed to stable for the long term. **P-2** short term rating affirmed.
- Sept 1st, 2003 : Bond issue rated **Baa1**, in line with Corporate rating
- June 3, 2003: long-term rating lowered to **Baa1** following the RNTM acquisition. Outlook is stable. **P-2** short-term rating affirmed
- May 14, 2002: short-term rating initiated at **P-2** / March 20, 2002: long-term rating initiated at **A3**

# Conclusion



# A strong and diversified activity

1. **Unique business model** with strong business diversification limiting exposure to cigarettes (50% cigarettes, 25% cigars, 25% logistics)
2. **Leading market positions** in core businesses:
  - **#4 in Western Europe in cigarettes**
  - **#1 worldwide in Cigars,**
  - **leading logistics**
3. **Limited litigation** exposure, with no operations in the US in cigarettes
4. Good **geographic diversification** with mix of mature (Spain, France, Germany, Italy, USA) and emerging countries (Morocco, Russia)
  - Outlook: performance in 2006 is impacted by Spanish price war. In 2007 it is expected to resume growth in cigarettes and at Group level.

# Our Vision, Strategy & Goals



# Our Vision & Strategy

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

# Key Ambitions & Goals

## CIGARETTES

### Targeted Geographies

- Grow through core business and alliances, catalysed by unique brands
- Optimise cost base to deliver growth on top of industry average
- Capture opportunities to step-change critical mass

## CIGARS

### Globalisation

- Domestic markets (USA, Spain and France) – maintain share, value-add strategy
- Rest of Europe - continue development of Cuban portfolio, optimise profitability
- Expand distribution in Rest of the World (premium and mechanised cigars)

## LOGISTICS

### Leverage Existing Platform

- Widen product scope in existing countries, while keeping leadership in tobacco
- Explore business expansion to Europe, taking advantage of existing infrastructure and relationship with tobacco manufacturers

## CORPORATE

### Enhance synergies and flexibility

- Adapt corporate structure to operations and strategy
- Increasingly capture group synergies
- Optimise financial structure to suit strategy

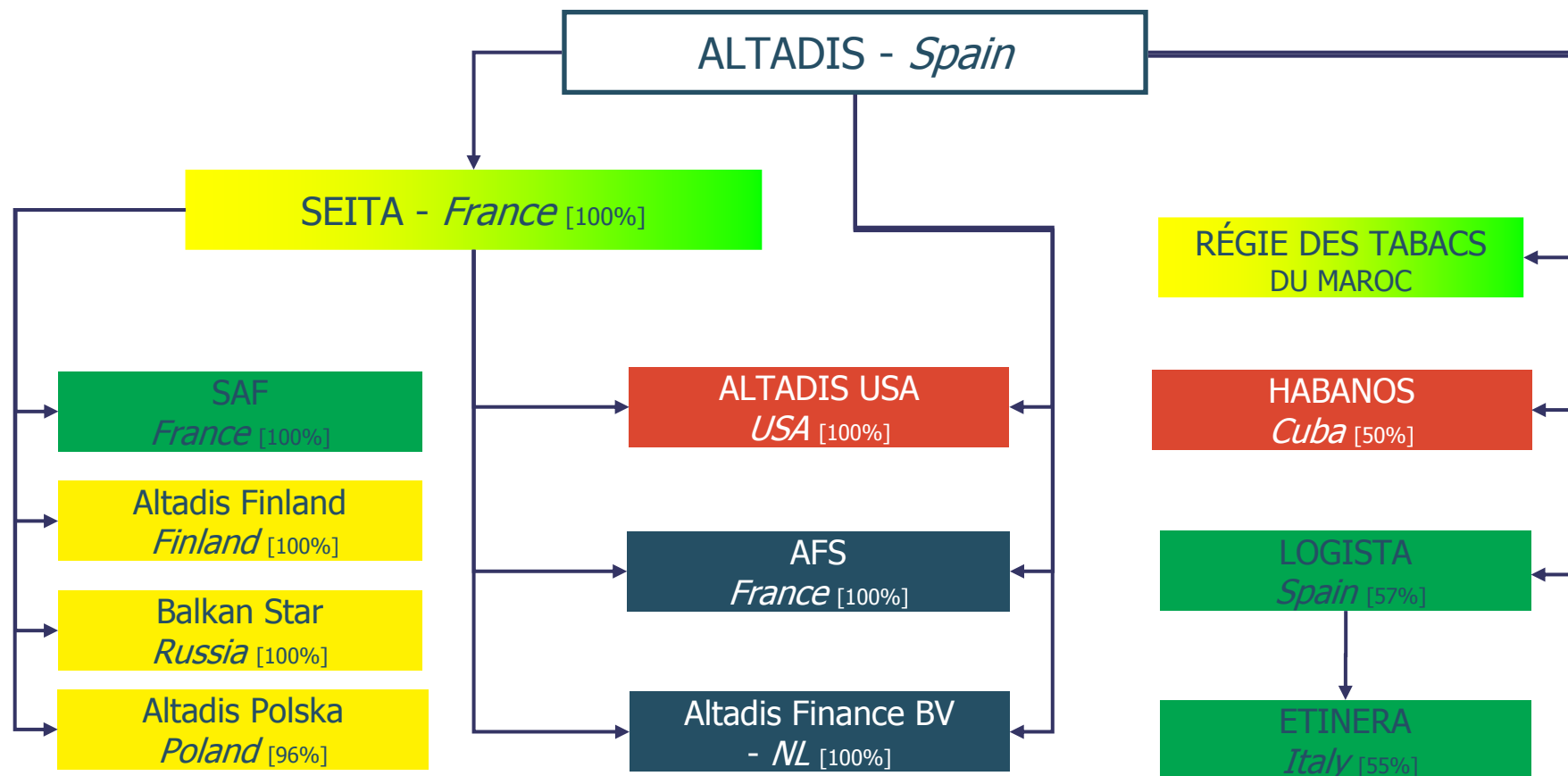
# APPENDICES



# Content

- Summarised Group Chart
- Definitions
- Restructuring
- RTM
- Corporate governance
- Cigarette data
- New tobacco legislation in Spain
- General logistics
- Change in equity Altadis S.A.
- Structural subordination
- Limited exposure to the US dollar and off-balance sheet contingencies
- Quarterly data
- Contacts

# Summarised Group Chart



CIGARETTES

CIGARS

DISTRIBUTION

OTHERS

# Definitions

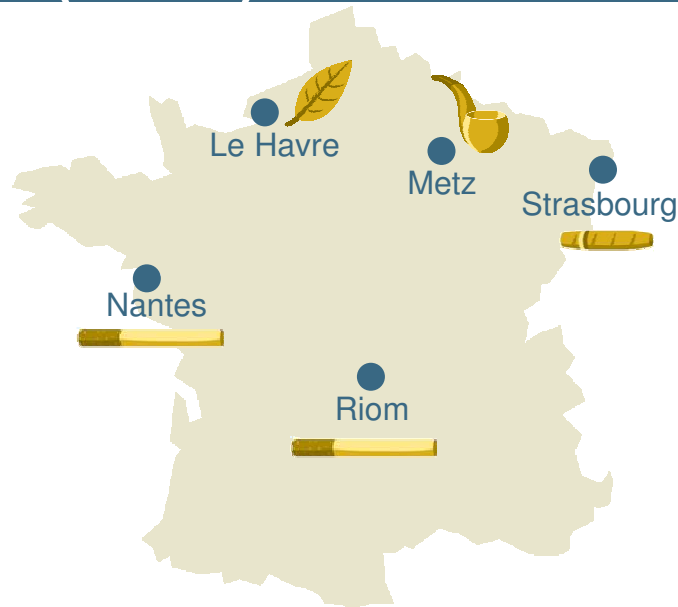
## Definitions of some concepts specific to Altadis and frequently used within this presentation

- **Economic sales.** For the Cigarette and the Cigar Divisions, Economic sales are equal to revenues + consignment fees + early payment discounts. For the Logistics Division, they are equal to the logistic fee (as opposed to revenue which also include the value of the goods distributed).

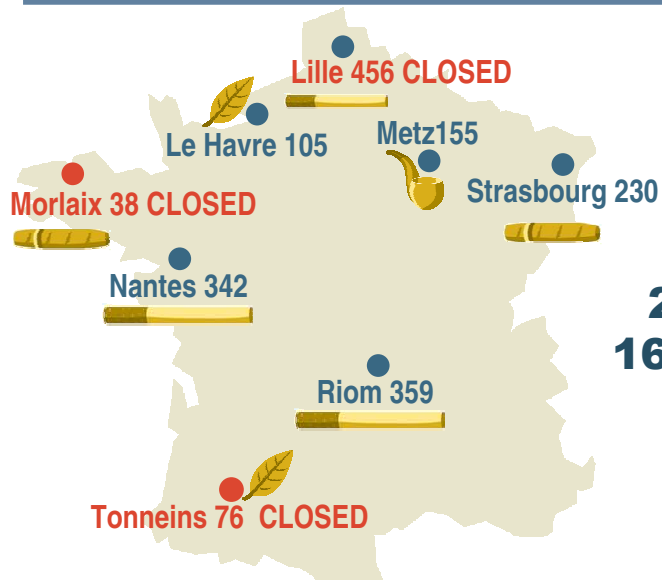
The aggregate provides a better appraisal of the Group's activity, since revenue inflates logistic sales by a very high amount and therefore changes the appraisal of the balance of activities within the Group, in a way that does not reflect actual operations.

- **Eliminations** (as part of Total Economic sales and Ebitda), contain:
  - Operations between divisions (the most typical being sales of cigarettes and cigars to the Logistic Division when they lead to an increased inventory at the latter, as opposed to sales that are immediately sold by the Logistic Division to the market, without change in its inventory)
  - Accounting adjustments, normally of a limited magnitude.
- **Operating free cash flow** = Operating cash flow - Corporate tax - Maintenance CAPEX.
- **Organic** (applied to Economic sales, Ebitda). At constant consolidation scope (consolidation perimeter) and constant currency.
- **Others** (as part of Total Economic sales and Ebitda), contain:
  - The performance of Aldeasa since May, 1st, 2005 and of a limited number of smaller subsidiaries that are not reporting to the three divisions.
  - Corporate Center costs.

# Factories today and at the end of the restructuring (Plan I)



**Target  
10 sites**



**2004  
16 sites**



Cigarette factories 	7 to 4
Cigar factories 	4 to 2
Pipe tobacco & RYO factory 	1
Processing plants 	4 to 3

# Régie des Tabacs du Maroc granted with an extension of the monopoly status till end of 2010

9M 2006

<b>Cigarette</b>	<b>Volume (bn units)</b>	<b>Var. 9M'06-9M'05</b>	<b>SOM</b>
Local Blond	6.2	+11.9%	58%
Local Dark	2.4	-19.4%	23%
Altadis international	0.8	+34.6%	7%
<b>Total Altadis</b>	<b>9.4</b>	<b>+2.9%</b>	<b>88%</b>
Other	1.2	-4.5%	12%
<b>Total Market</b>	<b>10.6</b>	<b>+1.9%</b>	<b>100%</b>

€ million

**9M'06**

**Economic sales**

204

**Ebitda**

118

- Voluntary leave plan implemented in 2004. More than 800 people left the company (1/3 of the headcount). Net savings: € 10 mn

## Key features of the company

- RTM operates a distribution and imports monopoly until January 1<sup>st</sup>, 2011

### Expected synergies

**2005: € 18 mn**

**2008: € 25 mn**

# Corporate governance

- From the creation of Altadis, and updated in 2005 to match latest recommendations
  - Audit and control committee
  - Appointments and remuneration committee
  - Strategic, Ethical and Good Governance Committee
  - Internal ethical guidelines
- Auditors
  - Altadis, Altadis USA, Logista, RTM: Deloitte & Touche
  - Seita: Deloitte & Touche and BFA (Ernst & Young)
- Full year accounts are audited, interim accounts are reviewed
- Rated by Standard & Poor's at BBB+ (negative outlook) and by Moody's at Baa2 (stable outlook)
- IFRS (International Financial Reporting Standards) migration successfully implemented since January 1<sup>st</sup>, 2005
- Yearly corporate governance report, included in the Annual Report, since 2004

# Spanish, French, German, Moroccan and Russian total cigarette markets

Volume: (bn units)  
Value: (€ mn)

30/09/05 30/09/06 Var. %

## SPANISH TOTAL MARKET

<b>Volumes</b>	<b>Blond</b>	<b>60.1</b>	<b>59.1</b>	<b>-1.7%</b>
	<b>Dark</b>	<b>9.3</b>	<b>7.3</b>	<b>-21.1%</b>
	<b>Total</b>	<b>69.4</b>	<b>66.4</b>	<b>-4.3%</b>
<b>Value</b>	<b>Blond</b>	<b>1,315</b>	<b>1,021</b>	<b>-22.3%</b>
	<b>Dark</b>	<b>177</b>	<b>118</b>	<b>-33.6%</b>
	<b>Total</b>	<b>1,492</b>	<b>1,139</b>	<b>-23.7%</b>

## MOROCCAN TOTAL MARKET

<b>Volumes</b>	<b>Blond</b>	<b>7.4</b>	<b>8.2</b>	<b>+10.7%</b>
	<b>Dark</b>	<b>3.0</b>	<b>2.4</b>	<b>-19.4%</b>
	<b>Total</b>	<b>10.4</b>	<b>10.6</b>	<b>+1.9%</b>

30/09/05 30/09/06 Var. %

## FRENCH TOTAL MARKET

<b>Volumes</b>	<b>Blond</b>	<b>37.2</b>	<b>38.5</b>	<b>+3.5%</b>
	<b>Dark</b>	<b>4.2</b>	<b>3.8</b>	<b>-11.0%</b>
	<b>RYO</b>	<b>5.9</b>	<b>5.9</b>	<b>+0.8%</b>
<b>Value</b>	<b>Total</b>	<b>47.3</b>	<b>48.2</b>	<b>+1.9%</b>
	<b>Blond</b>	<b>989</b>	<b>1,028</b>	<b>+3.9%</b>
	<b>Dark</b>	<b>105</b>	<b>93</b>	<b>-11.3%</b>
	<b>RYO</b>	<b>129</b>	<b>136</b>	<b>+5.5%</b>
	<b>Total</b>	<b>1,223</b>	<b>1,257</b>	<b>+2.8%</b>

(Volumes)

## GERMAN TOTAL MARKET

<b>Cigarettes</b>	<b>74.2</b>	<b>69.4</b>	<b>-6.4%</b>
-------------------	-------------	-------------	--------------

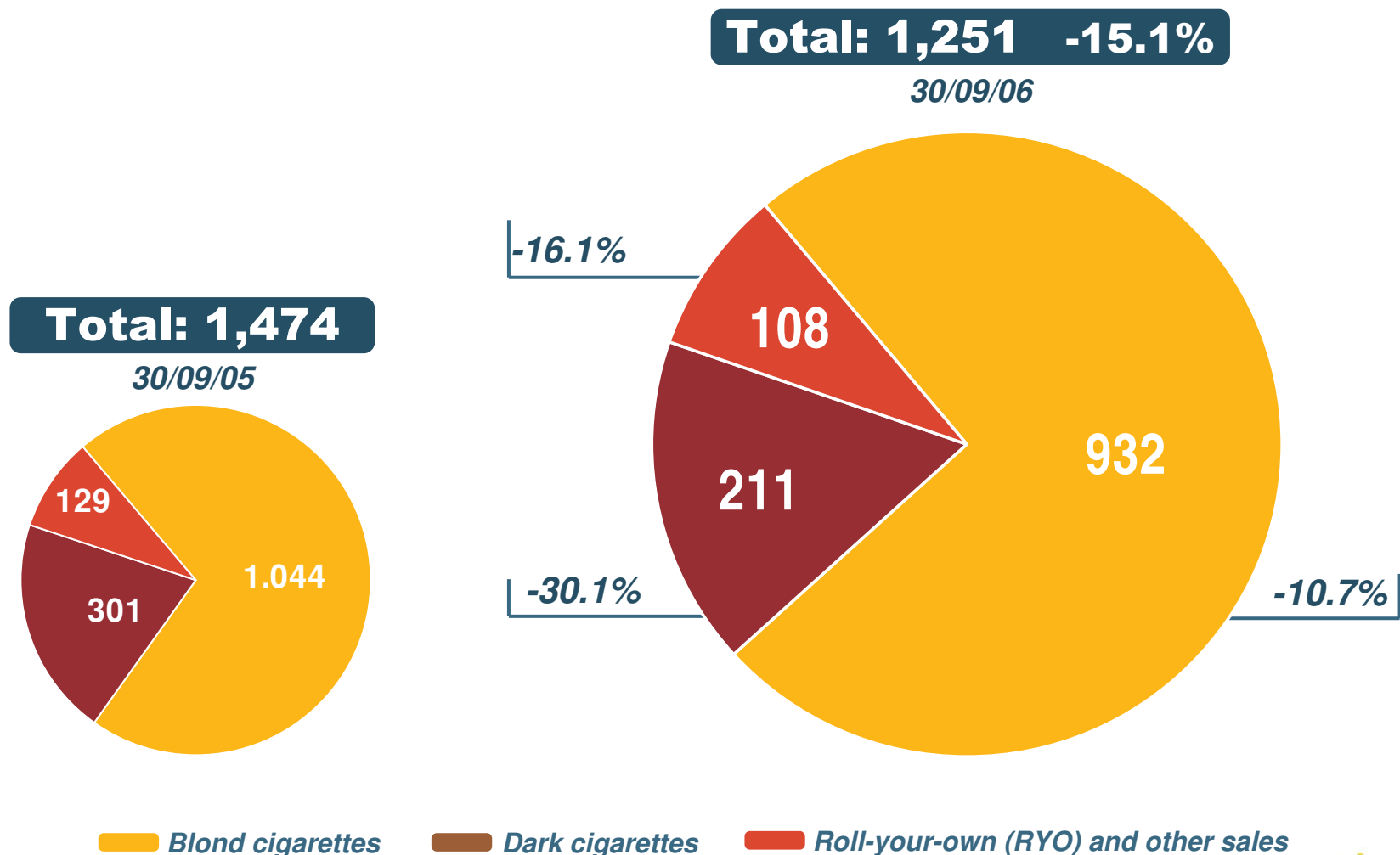
## RUSSIAN TOTAL MARKET (12 months ending August 31th, 2006)

<b>Cigarettes</b>	<b>330</b>	<b>337</b>	<b>+2.0%</b>
-------------------	------------	------------	--------------

Notes: Market performance which may differ from sales invoiced to distribution  
Value figures are distribution fees deducted.  
RYO sales in Spain are negligible  
Russia : Source Business Analytica

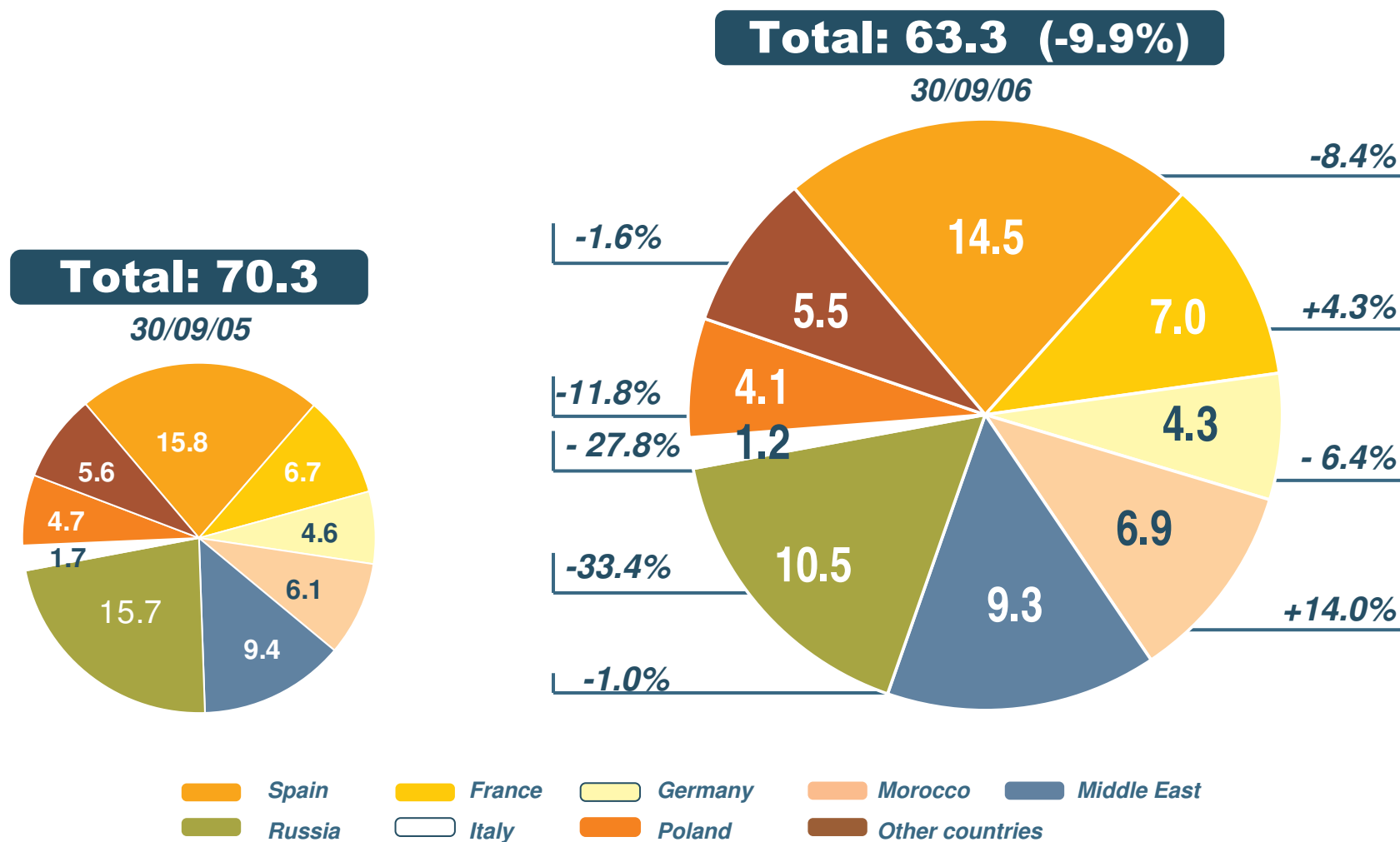
# Cigarette: Blond now 75 % of total

## Segments (€ mn) & Change



# Blond cigarettes volume

## Volumes (bn units) & Change



# Altadis cigarette sales by segments & markets

	9M'05	9M'06	Var. %
<b>SALES BY SEGMENTS (bn units)</b>			
Blond	70.3	63.3	-9.9%
Dark	20.7	15.1	-27.1%
RYO	2.7	2.6	-4.4%
<b>Total</b>	<b>93.7</b>	<b>81.0</b>	<b>-13.5%</b>

<b>MAJOR BRANDS (bn units)</b>			
Gauloises Blondes	16.8	16.3	-2.8%
Fortuna	14.5	10.9	-24.5%
<b>Blond</b>	<b>31.3</b>	<b>27.2</b>	<b>-12.9%</b>
Ducados	7.0	4.6	-34.4%
Gauloises Dark	3.1	2.9	-6.4%
<b>Dark</b>	<b>10.1</b>	<b>7.5</b>	<b>-25.8%</b>

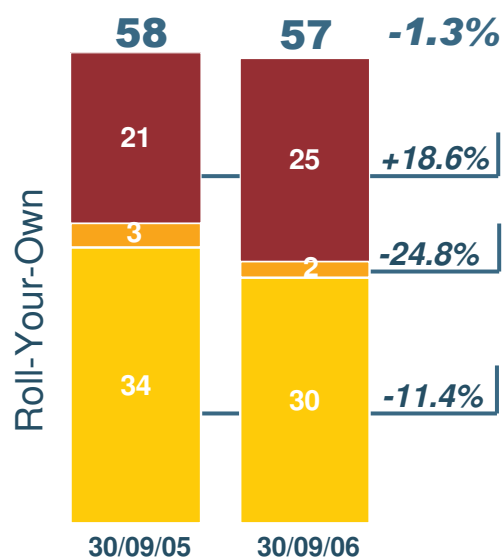
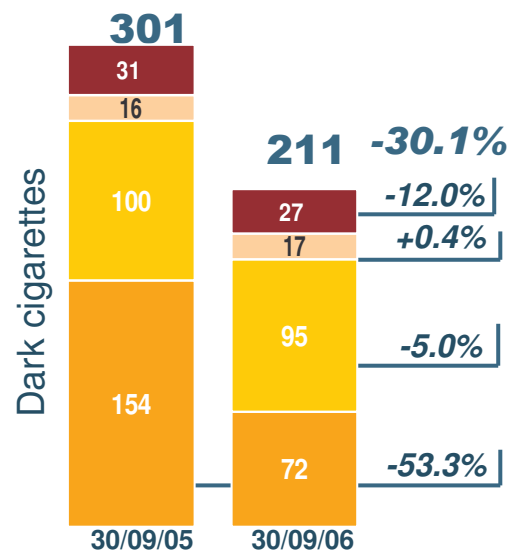
	9M'05	9M'06	Var. %
<b>SALES BY MARKETS (bn units)</b>			
Spain	23.8	19.8	-16.6%
France	12.2	12.1	-0.6%
Germany	5.0	4.7	-6.0%
Morocco	9.2	9.5	+3.0%
Middle East	9.4	9.3	-1.2%
Russia	20.9	13.5	-35.3%
Italy	1.7	1.3	-27.2%
Poland	4.7	4.1	-12.0%
Other European countries	4.5	4.6	+2.2%
Other countries	2.3	2.1	-8.2%
<b>Total</b>	<b>93.7</b>	<b>81.0</b>	<b>-13.5%</b>

<b>SALES BY MARKETS (€ mn)</b>			
Spain	468	262	-44.1%
France	291	290	-0.3 %
Germany	157	150	-4.2%
Morocco	123	142	+15.5%
Middle East	104	100	-4.0%
Russia	70	51	-27.1%
Italy	25	28	+15.5%
Poland	33	27	-17.2%
Other European countries	101	118	+16.7%
Other countries	32	32	-0.8%
Other Sales	70	51	-28.2%
<b>Total</b>	<b>1,474</b>	<b>1,251</b>	<b>-15.1%</b>

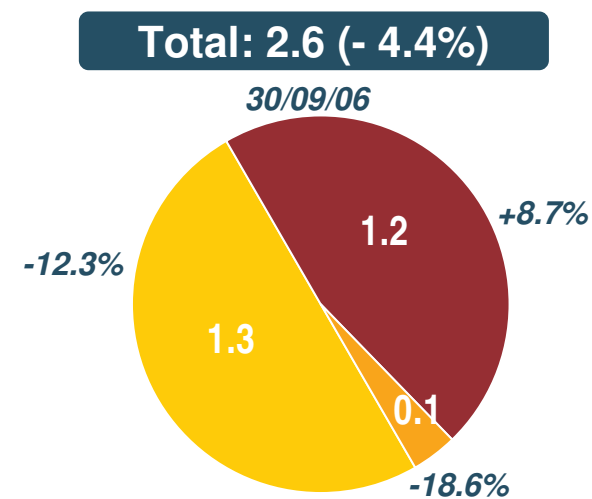
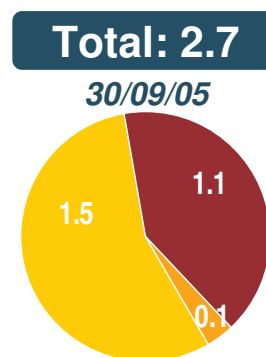
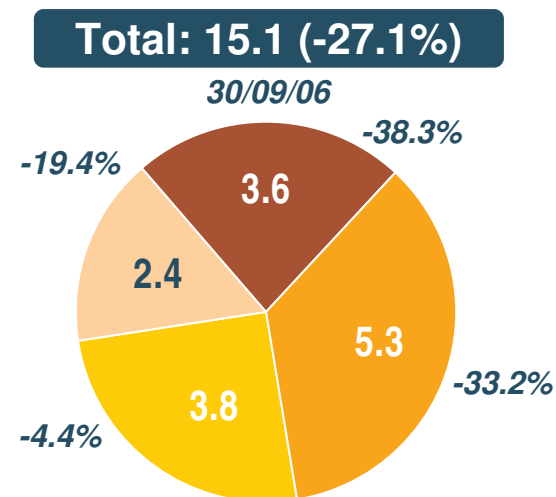
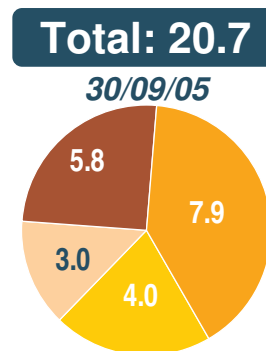
Note: Sales invoiced to distribution

# Dark cigarettes & Roll-your-own sales

**Value (€ mn) & Growth**



**Volumes (bn units) & Growth**



Spain France Morocco International

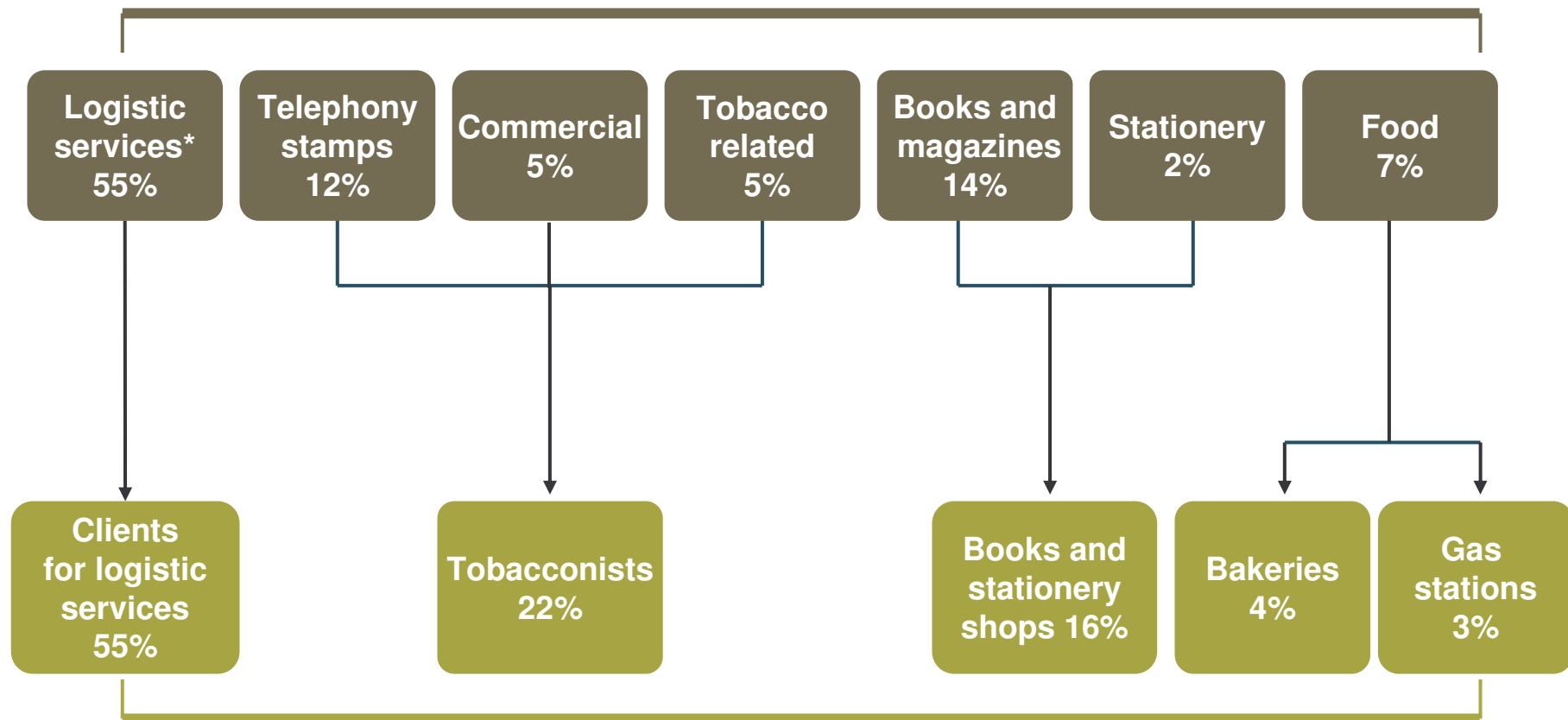
# New tobacco legislation in force in Spain since January 1<sup>st</sup>, 2006

Previous situation	Current situation	Major differences
<b>Sale of tobacco goods</b>		
<ul style="list-style-type: none"> <li>■ Tobacconists shops</li> <li>■ Vending machines <sup>(1)</sup></li> <li>■ Hotels, Restaurants, Bars, Pubs, Petrol stations, Kiosks,... (over the counter) <sup>(1)</sup></li> <li>■ Duty free (Airports &amp; Ports)</li> <li>■ Buyers &gt;16 years old</li> <li>■ Samples and packs &lt;20 sticks are allowed</li> </ul>	<ul style="list-style-type: none"> <li>■ Tobacconists shops</li> <li>■ Vending machines <sup>(1)</sup></li> <li>■ Bars &amp; Restaurants &gt;100 m<sup>2</sup> allowed only for Natural &amp; Premium cigars</li> <li>■ Duty free (Airports &amp; Ports)</li> <li>■ Buyers &gt;18 years old</li> <li>■ Samples and packs &lt;20 sticks are banned</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Cigarette sales over the counter banned</b></li> <li>■ <b>&lt;20 sticks packs banned</b></li> </ul>
<b>Consumption</b>		
<ul style="list-style-type: none"> <li>■ Smoking ban in a limited number of public places (Public transport, Hospitals,...)</li> </ul>	<ul style="list-style-type: none"> <li>■ Total smoking ban in working &amp; public places Exceptions; Hotels, Bars &amp; Restaurants: <ul style="list-style-type: none"> <li>→ &gt;100m<sup>2</sup>: Smoking rooms allowed up to 30% of the surface and under special conditions</li> <li>→ &lt;100m<sup>2</sup>: Fully allowed or banned under the owner's decision</li> </ul> </li> <li>■ Other special allowances for specific places: Airports, Theatres, Cinemas,...</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Total smoking ban in working places</b></li> <li>■ <b>Special conditions for Hotels, Bars &amp; Restaurants &gt;100m<sup>2</sup></b></li> </ul>
<b>Advertising</b>		
<ul style="list-style-type: none"> <li>■ Only TV banned</li> </ul>	<ul style="list-style-type: none"> <li>■ Total A&amp;P ban: <ul style="list-style-type: none"> <li>→ TV, radio, newspapers, internet, sponsoring<sup>2</sup> &amp; outdoor advertising</li> <li>→ Promotion only allowed in tobacconists shops</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Total ban</b></li> </ul>

# General logistics: varied and complementary products and channels

*As a percentage of total General logistics (non tobacco) first 9M '06 ec. sales*

## PRODUCT LINES

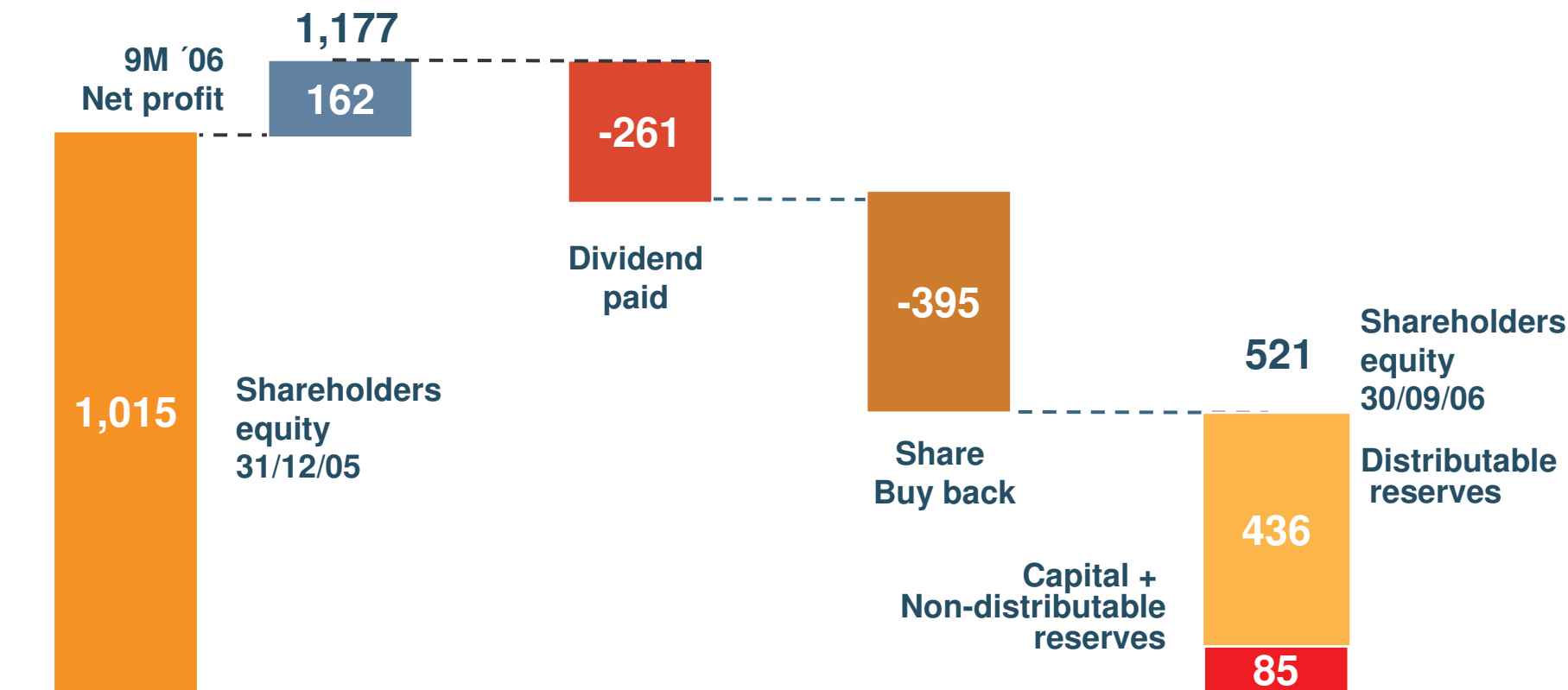


## CHANNELS

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

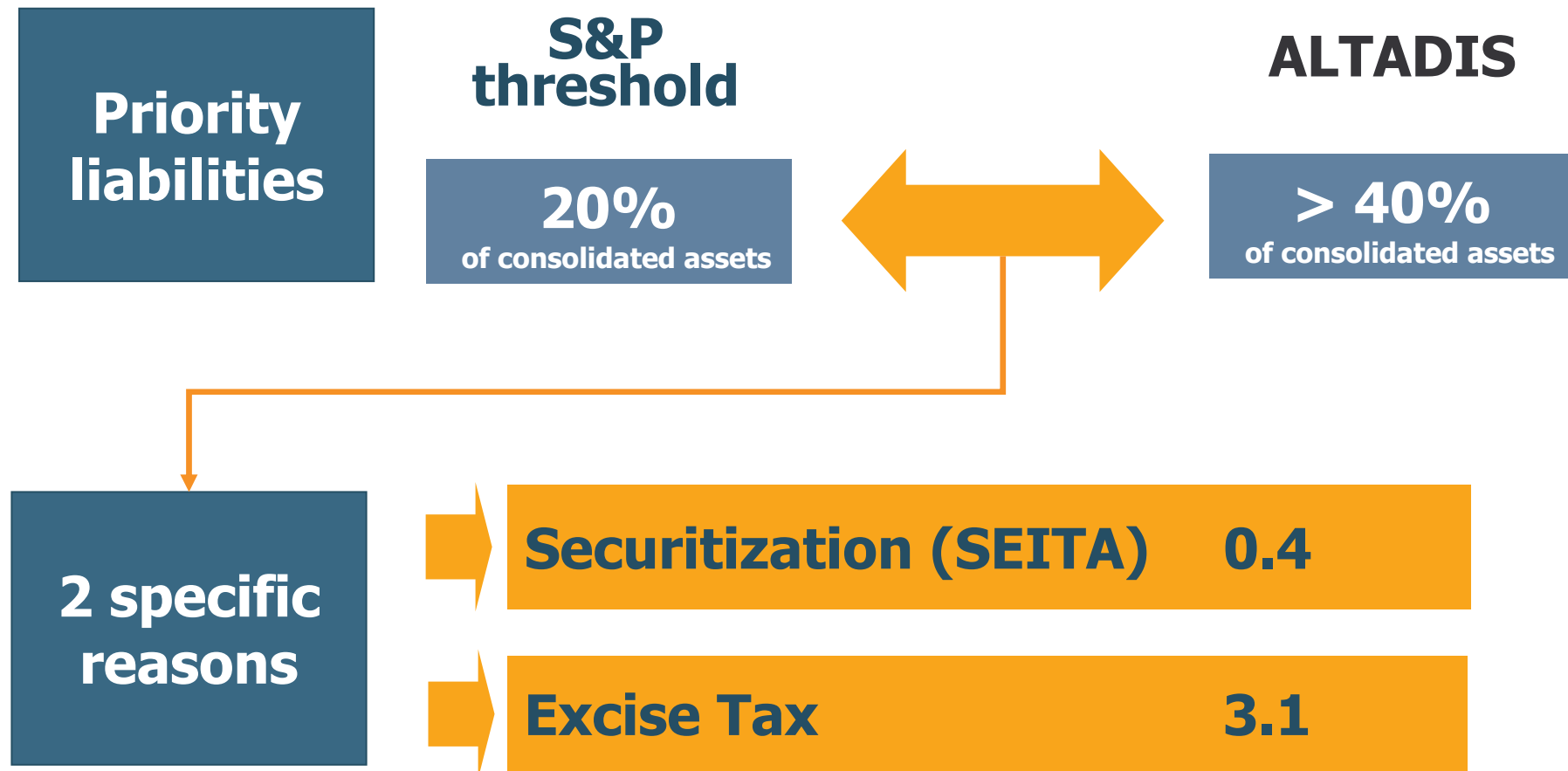
# Dividend and buy backs bring Altadis, S.A. distributable reserves to €436 mn

Euro mn



Note: Statutory accounts of Altadis, S.A. are prepared under Spanish GAAP mandatorily

# Structural Subordination



# Exposure to the US dollar: mostly a translation impact

*Most of Altadis operations are fully run (procurement, manufacturing, marketing) within single currency zones*

## Activity in the Euro zone

USD - 10 mn net exposure  
(net purchases, lead time > 12 months)

## Activity in the US dollar zone

USD + 300 mn net exposure  
(contribution to Group Ebitda)



Development of USD denominated sales  
slightly increased the impact of the US Dollar on the P&L

**ALTADIS IS THE SOLE EURO DENOMINATED  
TOBACCO STOCK**

# Limited off-balance sheet contingencies

- Comfort letter for a € 120 mn bank loan to a Group's subsidiary, 50% of which is currently in Altadis Balance Sheet
- JR CIGAR: Put and call option for the purchase of the remaining shares to be exercised at the end of 2008  
The purchase price for such shares will be based on the financial performance of the company during the last eight quarters prior to the exercise of the put or call
- Most pension schemes are contribution based
- All derivatives are already booked in the Balance Sheet (IFRS policy). Cautious hedging policy

# Quarterly data

## ECONOMIC SALES

(Figures in million Euros)

	Q1'05	Q2'05	Q3'05	Q4'05	FY'05	Q1'06	Q2'06	Q3'06
<b>Cigarette</b>	468.3	529.2	476.1	505.8	<b>1,979.4</b>	393.1	425.4	432.1
<b>Cigar</b>	190.1	224.2	232.5	237.9	<b>884.7</b>	212.4	237.8	209.9
<b>Logistics</b>	259.2	303.1	285.6	298.8	<b>1,146.7</b>	279.3	301.7	296.1
<b>Others</b>	10.1	41.1	58.3	52.1	<b>161.6</b>	46.4	54.0	59.5
<b>Eliminations</b>	(42.6)	(36.2)	41.0	(22.7)	<b>(60.5)</b>	(1.3)	(14.4)	8.7
<b>Total</b>	885.1	1,061.4	1,093.5	1,071.9	<b>4,111.9</b>	929.9	1,004.5	1,006.3

## EBITDA

(Figures in million Euros)

	Q1'05	Q2'05	Q3'05	Q4'05	FY'05	Q1'06	Q2'06	Q3'06
<b>Cigarette</b>	159.9	182.1	162.0	163.7	<b>667.7</b>	115.5	133.8	143.3
<b>Cigar</b>	46.0	61.5	75.2	71.0	<b>253.7</b>	66.2	76.2	69.3
<b>Logistics</b>	58.4	90.6	81.8	79.9	<b>310.7</b>	62.0	85.5	83.4
<b>Others</b>	(9.9)	(2.8)	3.8	8.1	<b>(0.8)</b>	(5.0)	3.7	9.3
<b>Eliminations</b>	(12.1)	(17.9)	30.3	0.3	<b>0.6</b>	12.5	-	9.3
<b>Total</b>	242.3	313.5	353.1	323.0	<b>1,231.9</b>	251.2	299.2	314.6

# Contacts

## CONTACTS

Pedro ALONSO DE OZALLA  
Head of Investor Relations  
Altadis Group

Telephone: 34 91 360 92 47  
Fax: 34 91 360 90 33  
E-mail: [paozalla@altadis.com](mailto:paozalla@altadis.com)