



H1 2016 Results Presentation

May 2016

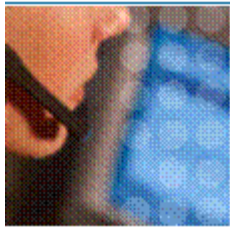


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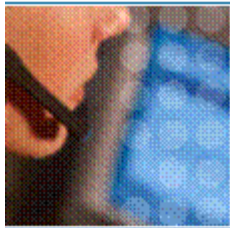


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- Economic Sales growing to €498.4m (+0.8%)
 - Revenues increased by 2.1% to €4,574.9m boosted by tobacco volumes increase (+1.3% cigarettes + RYO) and retail selling price increases at the beginning of Q2 2015 in Spain and Italy
 - Stability of tobacco retail selling prices during this H1 in all geographies
 - Increasing Economic Sales in other activities (Pharma, Transport)
- Adjusted EBIT declining by 5.8% to €99.0m
 - The impact of positive ruling of some litigations in Q2 2015 affecting comparison (€8.2m)
 - Similar Adjusted EBIT margin over Economic Sales if not considering positive ruling impact
- Net Income increased to €51.2m (+8.7%)
- Economic Free Cash Flow: -€68.1m
 - Reflecting seasonality and improving vs. last year
- Dividend per share paid in the semester: €0.5

Recurring Adjusted EBIT growth above 2% despite stability on tobacco retail selling prices



Business Review

Iberia

- Macroeconomic environment: Relative slowdown in growth
- Stable tobacco volumes without RSP increases
- Transport performing well on L-F-L basis
- Pharma growth continues
- The positive ruling on litigations in Q2 2015 impacted y-o-y results' comparison
- Costs increasing below underlying activity growth

Revenues: €1,251.0m (+2.5%)

Ec. Sales: €247.3m (+0.9%)

Adj. EBIT: €43.0m (-13.8%)

France

- Macroeconomic environment: Low growth maintained
- Tobacco volumes increasing without RSP increases
- Rationalization of customers portfolio in Other Businesses continued
- Previous reorganisation measures translated into practically stable costs

Revenues: €2,123.3m (+0.8%)

Ec. Sales: €138.8m (+1.8%)

Adj. EBIT: €34.7m (+6.1%)

Italy

- Macroeconomic environment: Feeble recovery
- Tobacco volumes increasing without RSP increases
- Services to manufacturers raising
- Commercial focus continued boosting convenience sales
- Reorganisation of distribution network: second phase started

Revenues: €1,214.3m
(+3.8%)

Ec. Sales: €109.3m (+0.1%)

Adj. EBIT: €27.5m (-2.8%)

Corporate & Others

- Slight increase of corporate costs
- Good performance of the activity in Poland

Revenues: -€13.7m (+7.5%)

Ec. Sales: €3.0m (-12.7%)

Adj. EBIT: -€6.2m (-6.7%)

Tobacco and Related

- Practically flat tobacco volumes in Spain:
 - Cigarettes: -0.1% vs. +0.1%. RYO: -1.9% vs. -0.7%
- RSP increase: no increase vs. +5 cents in H1 2015
- Distribution contract renewal in Q2 2016: Japan tobacco International (5 years)
- Increase in services to manufacturers and to points of sale
- Significant growth of sales of convenience products (new P&G contract since the beginning of Q2 2016)

Revenues: €1,065.5m
(+3.1%)

Ec. Sales: €118.6m
(-0.5%)

Transport

- Differentiation strategy through quality service continues translating into activity indicators' improvement
- Long-distance: y-o-y comparison affected by divestment in Q3 2015
- Courier: shipment growth close to double digit, slowing down in Q2 vs. Q1

Revenues: €165.3m
(-2.1%)

Ec. Sales: €114.5m
(+0.9%)

Other Businesses

- Pharma growth continues: incorporation of P&G contract since the beginning of FY 2016
- Stable sales of Lottery and slightly declining in Publications

Revenues: €66.0m
(+7.3%)

Ec. Sales: €35.5m
(+7.4%)

Adjusted EBIT

- Continuous cost control and efficiency improvement measures
- The positive impact of litigations' ruling in the previous FY masking good performance of total operating costs, growing below activity growth
- Excluding the litigation ruling impact in H1 2015, Adjusted EBIT growing by more than 3% despite no RSP increases

Adj. EBIT: €43.0m
(-13.8%)

Tobacco and Related

- Tobacco volumes growth:
 - Cigarettes: +1.6% vs. -1.7%
 - RYO: +3.9% vs. +1.7%
- No cigarettes' RSP increases in H1 2016 or H1 2015
- Stable sales of convenience and tobacco related products but declining telephony top-ups
- Good management of Economic Sales margin over Revenues in convenience and electronic transactions translated into Economic Sales growth

Revenues: €2,026.1m
(+1.1%)

Ec. Sales: €116.2m
(+1.4%)

Other Businesses

- Consumption in convenience channels slightly recovering in Q2
- Economic Sales stability reflects the positive impact of the rationalization process of the customers portfolio

Revenues: €100.2m
(-5.4%)

Ec. Sales: €25.1m
(-0.6%)

Adjusted EBIT

- Almost flat total operating costs thanks to measures adopted in previous quarters
- Adjusted EBIT / Economic Sales margin continues improving

Adj. EBIT: €34.7m
(+6.1%)

Tobacco and Related

- Strong tobacco volumes performance:
 - Cigarettes: +1.6% vs. -0.8%
 - RYO: +4.6% vs. +2.4%
- No RSP increase (vs.+20 cents / pack in H1 2015) despite tax incidence increase in brands above minimum tax after the automatic WAP update
- However, this tax incidence increase has led to a RSP increase of +20 cents/pack at the end of April (Q3 2016)
- Important growth of the additional services to manufacturers
- Economic Sales of tobacco related and convenience products continues growing
- Commercial focus: second phase of network reorganisation, looking for best commercial practices

Revenues: €1,214.3m
(+3.8%)

Ec. Sales: €109.3m
(+0.1%)

Adjusted EBIT

- Total operating costs growing well below underlying recurring activity
- Several actions implemented to reduce handling and packaging costs
- Second phase of distribution network reorganisation: 17 points of service closed out of 175 at the end of FY 2015

Adj. EBIT: €27.5m
(-2.8%)



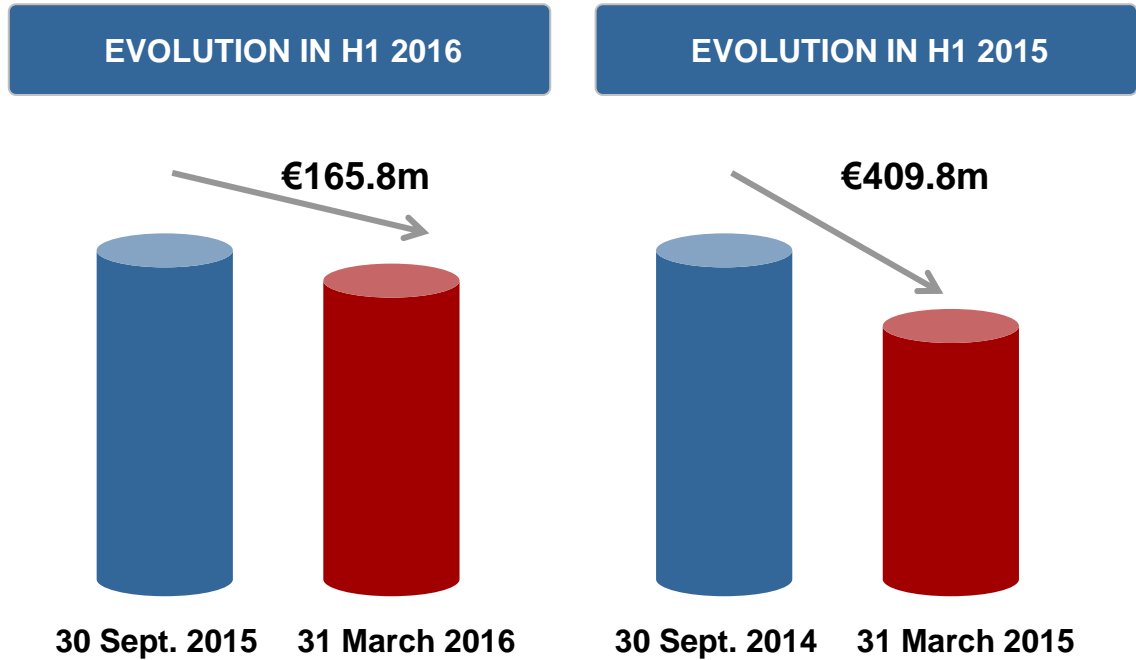
Financial Review

(€m)	H1 2016	H1 2015	Δ%
Revenues	4,574.9	4,481.9	+2.1%
Eco. Sales	498.4	494.2	+0.8%
(-) Distribution Costs	(328.0)	(317.9)	(3.3)%
(-) Sales and Marketing Expenses	(32.5)	(32.0)	(1.6)%
(-) Research Expenses and G&A Expenses	(38.9)	(39.2)	+0.0%
Total Costs	(399.4)	(389.1)	(2.6)%
Adjusted EBIT	99.0	105.1	(5.8)%
Margin %	19.9%	21.3%	(140) b.p.
(-) Restructuring Costs	(4.7)	(9.7)	+51.3%
(-) Amort. of Intangibles Logista France	(26.1)	(26.1)	+0.0%
(-) Net Loss on Disposal and Impairments	0.6	(0.1)	n.r.
(-) Share of Results of Companies and Others	(0.1)	0.5	n.r.
Profit from Operations	68.7	69.7	(1.4)%

- Revenues: Positive performance due to growth in tobacco volumes, RSP increases in Spain and Italy in Q2 FY 2105 and Pharma
- Economic Sales: Tobacco and related in France, Pharma and Transport more than offset tough comparison due to stability on RSP in Tobacco and related Spain and Italy
- Total costs: Adjusting non-recurring positive impact of litigations ruling on Q2 FY 2015 (€8.2m), growing below activity growth thanks to continuous measures to improve efficiency
- Adjusted EBIT margin: Growing as expected excluding non-recurring effect last year, despite RSP stability
- Restructuring costs reduced reflecting positive underlying activity
- Profit from Operations increasing on comparable basis

(€m)	H1 2016	H1 2015	Δ%
Profit from Operations	68.7	69.7	(1.4)%
(+) Financial Income	6.3	5.2	+21.0%
(-) Financial Expenses	(1.7)	(2.1)	+22.0%
Profit before taxes	73.3	72.7	+0.7%
(-) Corporate Income Tax	(21.9)	(25.4)	+13.9%
<i>Effective Income Tax Rate</i>	<i>29.9%</i>	<i>35.0%</i>	<i>(500) b.p.</i>
(+/-) Other Income / (Expenses)	(0.1)	(0.1)	+0.0%
(-) Minority Interest	(0.1)	(0.1)	(2.2)%
Net Income	51.2	47.1	+8.7%

- Higher positive Financial Result:
 - Higher average cash position mainly due to working capital evolution
- Corporate Income Tax :
 - Lower applicable tax rate in Spain
 - Some deductions applied in Spain this year



- Working Capital shows a much better figure based on business evolution
- Average cash position during H1 2016: €1,419m vs. €1,147m in the previous year
- Interest rate basis (ECB reference rate) already at 0%

(MM€)	H1 2016	H1 2015	Change
EBITDA	117.7	123.8	(6.2)
Movements in Prov. And Other Fixed Liabilities	(5.7)	(4.3)	(1.4)
Working Capital Variations and Other	(165.8)	(409.8)	+244
Corporate Income Tax Paid	(11.1)	(21.2)	+10.1
Financial Income and Expenses Flows	4.7	3.4	+1.3
Cash Flow From Operating Activities	(60.3)	(299.5)	+239.2
Capex	(7.8)	(13.9)	+6.1
Economic Free Cash Flow	(68.1)	(313.4)	+245.3
% over EBITDA	(57.9)%	(253.1)%	

- Seasonality of the business results in a negative cash flow during H1 that is recovered during H2
- Lower negative Economic Free Cash Flow in H1 2016 vs. H1 2015 mainly due to better working capital evolution
- Total Gross Investments: €9.2m (50% in IT), skewed towards H2
- During Q2 2016, final dividends for FY 2015 were paid: €66m

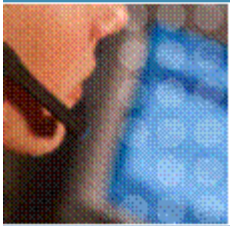
- Improvement of results' quality (strong underlying performance, lack of one-off impacts)
- Current interest rates offer additional growth potential
- Progressive reduction of corporate income tax will continue boosting Net Profit growth
- Attractive Dividend retribution through 2 dividend payments per year (interim in August and final in March of the following year)



Outlook

- Tobacco:
 - Better volumes' performance offsetting the impact on results of lower RSP increases
 - Ongoing RSP increase in Italy (average +20 cents/pack)
 - Plain Packaging calendar in France confirmed: Logista to stop distributing non-compliant products by 20 November 2016 (FY 2017) and PoS stop selling non-PP products by 1 January 2017
- Wholesale target for H2: gaining SoM in Other products
 - Adding exclusive/preferred contracts
 - Omni-channel strategy, enlarged catalogue in Spain, loyalty programs...
- Transport improvement boosted by better activity (especially in Spain) slowing down
- Growth in direct distribution to pharmacies, after incorporating new agreements will continue
- Cost control measures and efficiency improvement programs (Adj. EBIT margin expansion) will continue on a continuous basis
- Higher Adj. EBIT together with lower restructuring costs and corporate income tax rate resulting in Net Profit growth
 - Pay-out: 90% of Net Profit

Operational results in line with Management's expectations



Appendix

	Million units			% change	
	H1 2016	H1 2015	H1 2014	H1 2016 vs. H1 2015	H1 2015 vs. H1 2014
TOTAL					
Cigarettes	79,963	78,998	79,678	1.2%	(0.9)%
RYO/MYO	9,997	9,795	9,709	2.1%	0.9%
Cigars	1,869	1,918	1,948	(2.5)%	(1.5)%
SPAIN					
Cigarettes	21,449	21,472	21,456	(0.1)%	0.1%
RYO/MYO	3,081	3,141	3,162	(1.9)%	(0.7)%
Cigars	1,001	1,024	1,029	(2.3)%	(0.5)%
PORTUGAL					
Cigarettes	839	764	811	9.9%	(5.8)%
RYO/MYO	71	81	95	(12.5)%	(14.5)%
Cigars					
FRANCE					
Cigarettes	22,265	21,917	22,299	1.6%	(1.7)%
RYO/MYO	4,701	4,524	4,450	3.9%	1.7%
Cigars	639	665	686	(3.9)%	(3.1)%
ITALY					
Cigarettes	35,410	34,845	35,112	1.6%	(0.8)%
RYO/MYO	2,144	2,049	2,002	4.6%	2.4%
Cigars	229	229	233	(0.1)%	(1.6)%

(€m)	H1 2016	H1 2015	Δ%
Iberia	1,251.0	1,220.4	+2.5%
Tobacco and Related	1,065.5	1,033.5	+3.1%
Transport	165.3	168.9	(2.1)%
Other Businesses	66.0	61.5	+7.3%
Adjustments	(45.8)	(43.5)	(5.2)%
France	2,123.3	2,106.3	+0.8%
Tobacco and Related	2,026.1	2,004.3	+1.1%
Other Businesses	100.2	105.8	(5.4)%
Adjustments	(3.0)	(3.8)	+20.7%
Italy	1,214.3	1,170.0	+3.8%
Tobacco and Related	1,214.3	1,170.0	+3.8%
Corporate & Others	(13.7)	(14.8)	+7.5%
Total Revenues	4,574.9	4,481.9	2.1%

(€m)	H1 2016	H1 2015	Δ%
Iberia	247.3	245.2	+0.9%
Tobacco and Related	118.6	119.3	(0.5)%
Transport	114.5	113.4	+0.9%
Other Businesses	35.5	33.0	+7.4%
Adjustments	(21.3)	(20.6)	(3.4)%
France	138.8	136.4	+1.8%
Tobacco and Related	116.2	114.7	+1.4%
Other Businesses	25.1	25.2	(0.6)%
Adjustments	(2.5)	(3.5)	+28.1%
Italy	109.3	109.2	+0.1%
Tobacco and Related	109.3	109.2	+0.1%
Corporate & Others	3.0	3.4	(12.7)%
Total Economic Sales	498.4	494.2	+0.8%

(€m)	H1 2016	H1 2015	Δ%
Iberia	43.0	49.9	(13.8)%
France	34.7	32.7	+6.1%
Italy	27.5	28.3	(2.8)%
Corporate & Others	(6.2)	(5.9)	(6.7)%
Total Adjusted EBIT	99.0	105.1	(5.8)%

(€m)	H1 2016	H1 2015	Δ%
Maintenance	1.8	2.6	(30.8)%
Infrastructure	2.8	6.0	(53.3)%
IT investments (technology)	4.6	5.2	(11.5)%
Total investments	9.2	13.9	(33.8)%

(€m)	31 March 2016	30 September 2015
PP&E and other Fixed Assets	211.7	216.0
Net Long Term Financial Assets	8.9	9.5
Net Goodwill	919.1	919.1
Other Intangible Assets	629.6	660.7
Deferred Tax Assets	29.9	40.9
Net Inventory	1,097.6	1,060.5
Net Receivables and Others	1,654.0	1,773.0
Cash & Cash Equivalents	1,661.5	1,798.3
Total Assets	6,212.3	6,478.0
Group Equity	424.6	442.6
Minority Interests	2.0	1.8
Non Current Liabilities	43.7	48.2
Deferred Tax Liabilities	343.7	328.1
Short Term Financial Debt	32.7	31.7
Short Term Provisions	16.7	16.8
Trade and Other Payables	5,348.9	5,608.8
Total Liabilities	6,212.3	6,478.0



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