



H1 2017 Results Presentation

3 May 2017

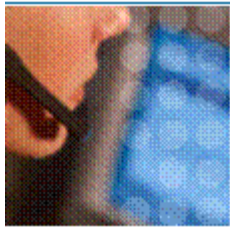


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- Economic Sales growing to €511.9m (+2.7%)
 - Revenues decreased by 1.0% to €4,527.0m despite a higher tobacco volumes drop (-4.2% cigarettes + RYO). Revenues growth in Iberia and Italy mitigated decline in France.
 - Increase of tobacco retail selling prices during H1 in Spain and France, no increase in H1 2016
 - Increasing Economic Sales in all activities in Iberia and Italy
- Adjusted EBIT up by +1.0% to €100.0m, excluding non-recurring cost +7.9%
 - The impact of non-recurring cost in Q1 in Iberia affecting reported figures (€6.8m)
 - Increase of 1 p.p. in Adjusted EBIT margin over Economic Sales if not considering that impact
- Net Income strongly growing to €76.6m (+49.7%)
- Economic Free Cash Flow: -€38.2m
 - Reflecting seasonality and improving vs. last year
- Dividend per share paid in the semester: €0.65 (+30% over dividend paid in H1 2016)

Recurring Adjusted EBIT growing 7.9% despite persistent weakness in France



Business Review

Iberia

- Declining tobacco volumes after RSP increases in Q1
- Very positive track-record in convenience
- Strong performance of Transport
- Pharma growth continues
- Non-recurring costs in Q1 impacting reported figures
- Costs increasing below underlying activity growth

Revenues: €1,264.4m (+1.1%)

Ec. Sales: €261.8m (+5.9%)

Adj. EBIT: €46.8m (+8.7%)

France

- Tough tobacco regulation environment
- Tobacco volumes down in Q1 but growing in Q2; uneven RSP increases
- Other Businesses not showing recovery signals
- Slight growth in costs reducing profitability

Revenues: €2,039.4m (-4.0%)

Ec. Sales: €135.9m (-2.1%)

Adj. EBIT: €30.8m (-11.4%)

Italy

- Tobacco volumes decreasing, no RSP increases in H1 2017 or H1 2016
- Services to manufacturers expanding
- Commercial focus continued boosting convenience sales
- Reorganisation of distribution network continued

Revenues: €1,238.0m (+1.9%)

Ec. Sales: €112.5m (+2.9%)

Adj. EBIT: €28.5m (+3.3%)

Corporate & Others

- Stable corporate costs
- Minor reduction of the activity in Poland

Revenues: -€14.8m (-7.8%)

Ec. Sales: €1.7m (-42.8%)

Adj. EBIT: -€6.0m (+4.7%)

Tobacco and Related

- Change in trend of tobacco volumes in Spain in Q2 leading H1 to:
 - Cigarettes: -2.0% vs. -0.1%; RYO: -2.8% vs. -1.9%
- RSP increase in Q1: +10 cents vs. no increase in H1 2016
- Very good performance of Portuguese business
- Significant growth of sales of convenience products , even at same perimeter (excluding P&G started in Q2 2016)

Revenues: €1,077.4m
(+1.1%)

Ec. Sales: €125.7m
(+5.9%)

Transport

- Differentiation strategy through quality service continues translating into activity indicators' improvement
- Long-distance: stable revenues despite volumes fall
- Parcel and Courier: showing positive activity indicators, double digit in Courier

Revenues: €170.9m
(+3.4%)

Ec. Sales: €119.5m
(+4.4%)

Other Businesses

- Pharma growth was irregular from quarter to quarter due to timing of incorporation of new clients
- Stable sales of Lottery and growing in Publications

Revenues: €61.6m
(-6.6%)

Ec. Sales: €37.4m
(+5.3%)

Adjusted EBIT

- Customary cost control and efficiency improvement measures
- Recurring costs (excluding €6.8m one-off) grew 2.0%, well below activity

Adj. EBIT: €46.8m
(+8.7%)

Tobacco and Related

- Tobacco volumes positive in Q2 but dropping in H1:
 - Cigarettes: -3.0% vs. +1.6%; RYO: -1.3% vs. +3.9%
- Uneven RSP increases in tobacco in Q2 2017 not compensating for new excise taxes and increase in tobacconists' commission. No RSP rise in H1 2016
- Weak sales of convenience and tobacco related products and significant reduction in electronic transactions (telephony top-ups & cash cards)
- Improvement of Economic Sales margin over Revenues in electronic transactions, unitary fee increase from tobacco volume drop and value added services mitigated the reduction in Economic Sales

Revenues: €1,950.2m
(-3.8%)

Ec. Sales: €114.5m
(-1.5%)

Other Businesses

- Not showing recovery signals
- Revenues and Economic Sales rate of decline moderating in Q2 vs. Q1

Revenues: €92.3m
(-7.8%)

Ec. Sales: €24.0m
(-4.3%)

Adjusted EBIT

- Total operating costs slightly up, 1% over same period last fiscal year
- Adjusted EBIT / Economic Sales margin eroded from preceding year

Adj. EBIT: €30.8m
(-11.4%)

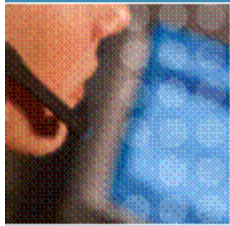
**Tobacco and
Related**

- Sharp drop in cigarette volumes, probably caused by ban on sales of 10-cigarettes pack:
 - Cigarettes: -7.8% vs. +1.6%; RYO: +10.9% vs. +4.6%
- No RSP increase despite higher tax incidence in brands above minimum tax after the automatic WAP update as already happened in H1 2016
- Some brands reduced RSP in Q1 by 20-30 cents/pack
- Important growth of the additional services to manufacturers
- Double digit growth in Economic Sales of tobacco related and convenience products

Revenues: €1,238.0m
(+1.9%)**Ec. Sales: €112.5m**
(+2.9%)**Adjusted EBIT**

- Total operating costs growing below recurring activity
- Continuous actions to improve efficiency

Adj. EBIT: €28.5m
(+3.3%)



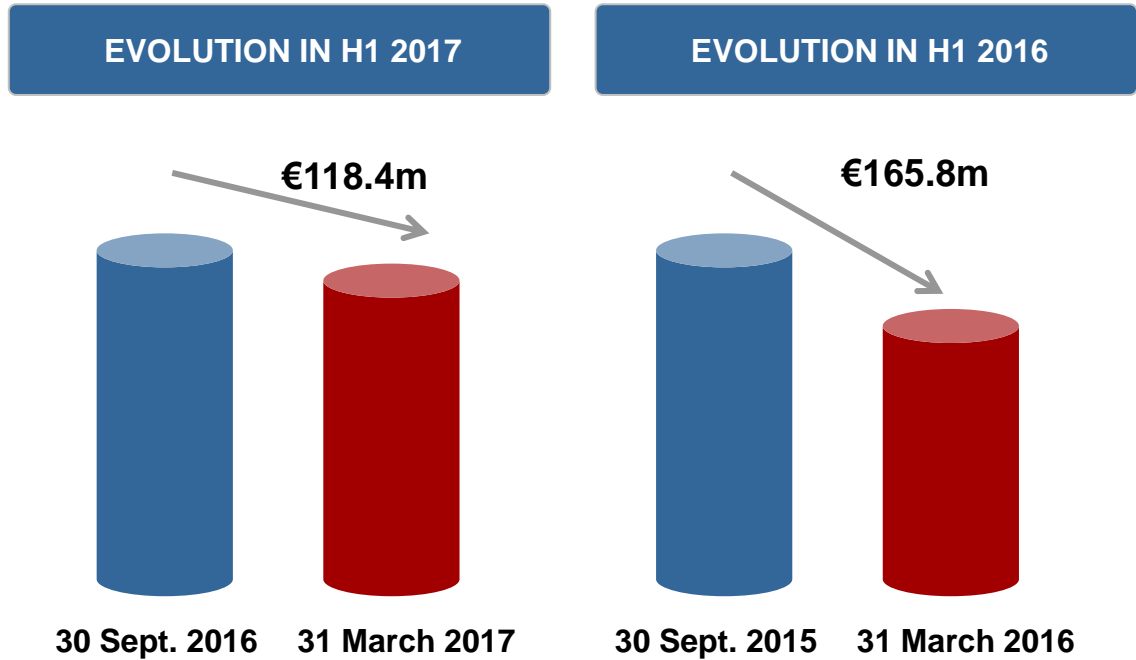
Financial Review

(€m)	H1 2017	H1 2016	Δ%
Revenues	4,527.0	4,574.9	(1.0)%
Eco. Sales	511.9	498.4	+2.7%
(-) Distribution Costs	(338.5)	(328.0)	(3.2)%
(-) Sales and Marketing Expenses	(33.2)	(32.5)	(2.3)%
(-) G&A and Research Expenses	(40.2)	(38.9)	(3.1)%
Total Costs	(411.9)	(399.4)	(3.1)%
Adjusted EBIT	100.0	99.0	+1.0%
Margin %	19.5%	19.9%	(40) b.p.
(-) Restructuring Costs	(5.2)	(4.7)	(9.3)%
(-) Amort. of Intangibles Logista France	(26.1)	(26.1)	+0.0%
(-) Net Loss on Disposal and Impairments	0.0	0.6	n.r.
(-) Share of Results of Companies and Others	0.8	(0.1)	n.r.
Profit from Operations	69.5	68.7	+1.2%

- Revenues: Reduction mainly due to drop in tobacco volumes partially offset by RSP increases in Spain and France this year and in Italy in Q3 FY 2106
- Economic Sales: All activities growing in Spain and Italy more than offsetting the weaker performance in France
- Total costs: Adjusting non-recurring costs in Iberia (€6.8million) in Q1 up +1.4%, below reported and recurring activity
- Recurring Adjusted EBIT: +7.9% implies a 20.9% margin over Ec. Sales (+1 p.p. vs. H1 2016)
- Restructuring costs up as a consequence of actions to mitigate activity reduction in France and continuous efficiency measures
- Improvement of results from Books' distribution
- Profit from Operations up +11.1% excluding non-recurring costs in Iberia

(€m)	H1 2017	H1 2016	Δ%
Profit from Operations	69.5	68.7	+1.2%
(+) Financial Income	24.0	6.3	+278.7%
(-) Financial Expenses	(0.7)	(1.7)	+56.4%
Profit before taxes	92.8	73.3	+26.6%
(-) Corporate Income Tax	(16.2)	(21.9)	+25.9%
<i>Effective Income Tax Rate</i>	<i>17.5%</i>	<i>29.9%</i>	<i>+1,240b.p.</i>
(+/-) Other Income / (Expenses)	(0.0)	(0.1)	+72.0%
(-) Minority Interest	+0.1	(0.1)	n.r.
Net Income	76.6	51.2	+49.7%

- Higher positive Financial Result:
 - Positive impact from sale of Italian affiliate in Q1
 - Lower interest rate over slightly higher average cash position
- Corporate Income Tax :
 - Lower applicable tax rate in all geographies
 - Continues benefiting from some deductions applied in Spain since last year
 - The capital gain in Italy taxable at a very low rate



- Working Capital shows a better figure based on business evolution
- Average cash position during H1 2017: €1,453m vs. €1,419m in the previous year
- Interest rate basis (ECB reference rate) stood at 0% compared to 0.05% throughout most of H1 2016

(MM€)	H1 2017	H1 2016	Change
EBITDA	117.1	117.7	(0.6)
Working Capital Variations and Other	(117.7)	(171.5)	+53.8
Corporate Income Tax Paid	(45.4)	(11.1)	(34.3)
Financial Income and Expenses Flows	4.9	4.7	+0.3
Cash Flow From Operating Activities	(41.1)	(60.3)	+19.2
Capex	2.9	(7.8)	+10.7
Economic Free Cash Flow	(38.2)	(68.1)	+29.9
% over EBITDA	(33.0)%	(57.9)%	

- 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 2017 vs. H1 2016 mainly due to better working capital evolution and funds from the sale of the stake in an affiliate in Italy
- Total Gross Investments: €13.8m (40% in IT), skewed towards H2
- During Q2 2017, final dividends for FY 201 were paid: €86m

- Good recurring performance despite drop in distributed volumes and negative impact of excise taxes/prices movements
- Positive impact from sale of affiliate in Italy translating into strong Profit before taxes growth
- Reduction of corporate income tax rate in all geographies continues 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:
 - Drop in volumes in Spain and Italy to soften
 - Plain Packaging in France not having a significant impact in volumes
 - Uncertain scenario in terms of tobacco taxation and resulting pricing decisions by manufacturers
- Wholesale target for H2:
 - Continuing growth in Spain and Italy
 - Recovering weak performance in France
- Transport maintaining good performance
- Pharma activity expanding thanks to new clients incorporated in Q2
- Cost control measures and efficiency improvement programs (Adj. EBIT margin expansion) will continue as is customary in the Group
- Higher Adj. EBIT together with lower restructuring costs and corporate income tax rate resulting in Net Profit growth
 - Pay-out: 90% of Net Profit

Current recurring results support Management's expectations



Appendix

	Million units			% change	
	H1 2017	H1 2016	H1 2015	H1 2017 vs. H1 2016	H1 2016 vs. H1 2015
TOTAL					
Cigarettes	76,142	79,963	78,998	(4.8)%	+1.2%
RYO/MYO	10,066	9,997	9,795	+0.7%	+2.1%
Cigars	1,874	1,869	1,918	+0.3%	(2.5)%
SPAIN					
Cigarettes	21,009	21,449	21,472	(2.0)%	(0.1)%
RYO/MYO	2,996	3,081	3,141	(2.8)%	(1.9)%
Cigars	956	1,001	1,024	(4.5)%	(2.3)%
PORTUGAL					
Cigarettes	862	839	764	2.8%	+9.9%
RYO/MYO	55	71	81	(23.1)%	(12.5)%
Cigars					
FRANCE					
Cigarettes	21,605	22,265	21,917	(3.0)%	+1.6%
RYO/MYO	4,638	4,701	4,524	(1.3)%	+3.9%
Cigars	603	639	665	(5.6)%	(3.9)%
ITALY					
Cigarettes	32,665	35,410	34,845	(7.8)%	+1.6%
RYO/MYO	2,377	2,144	2,049	+10.9%	+4.6%
Cigars	315	229	229	+37.8%	(0.1)%

(€m)	H1 2017	H1 2016	Δ%
Iberia	1,264.4	1,251.0	+1.1%
Tobacco and Related	1,077.4	1,065.5	+1.1%
Transport	170.9	165.3	+3.4%
Other Businesses	61.6	66.0	(6.6)%
Adjustments	(45.5)	(45.8)	+0.7%
France	2,039.4	2,123.3	(4.0)%
Tobacco and Related	1,950.2	2,026.1	(3.8)%
Other Businesses	92.3	100.2	(7.8)%
Adjustments	(3.1)	(3.0)	(2.2)%
Italy	1,238.0	1,214.3	+1.9%
Tobacco and Related	1,238.0	1,214.3	+1.9%
Corporate & Others	(14.8)	(13.7)	(7.8)%
Total Revenues	4,527.0	4,574.9	(1.0)%

(€m)	H1 2017	H1 2016	Δ%
Iberia	261.8	247.3	+5.9%
Tobacco and Related	125.7	118.6	+5.9%
Transport	119.5	114.5	+4.4%
Other Businesses	37.4	35.5	+5.3%
Adjustments	(20.8)	(21.3)	+2.4%
France	135.9	138.8	(2.1)%
Tobacco and Related	114.5	116.2	(1.5)%
Other Businesses	24.0	25.1	(4.3)%
Adjustments	(2.6)	(2.5)	(3.8)%
Italy	112.5	109.3	+2.9%
Tobacco and Related	112.5	109.3	+2.9%
Corporate & Others	1.7	3.0	(42.8)%
Total Economic Sales	511.9	498.4	+2.7%

(€m)	H1 2017	H1 2016	Δ%
Iberia	46.8	43.0	+8.7%
France	30.8	34.7	(11.4)%
Italy	28.5	27.5	+3.3%
Corporate & Others	(6.0)	(6.2)	+4.7%
Total Adjusted EBIT	100.0	99.0	1.0%

(€m)	H1 2017	H1 2016	Δ%
Maintenance	3.0	1.8	+66.7%
Infrastructure	5.5	2.8	+96.4
IT investments (technology)	5.3	4.6	+15.2%
Total investments	13.8	9.2	+50.0%

(€m)	31 March 2017	30 September 2016
PP&E and other Fixed Assets	207.4	208.7
Net Long Term Financial Assets	6.9	28.6
Net Goodwill	924.0	919.1
Other Intangible Assets	575.3	602.4
Deferred Tax Assets	20.1	22.4
Net Inventory	1,045.6	1,085.8
Net Receivables and Others	1,674.1	1,793.1
Cash & Cash Equivalents	1,945.1	2,062.7
Total Assets	6,398.5	6,722.8
Group Equity	460.0	489.8
Minority Interests	2.1	2.1
Non Current Liabilities	45.2	37.6
Deferred Tax Liabilities	312.1	328.7
Short Term Financial Debt	33.4	33.6
Short Term Provisions	15.4	17.1
Trade and Other Payables	5,530.3	5,813.9
Total Liabilities	6,398.5	6,722.8



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