

## H1 2015 Results Presentation

May 2015

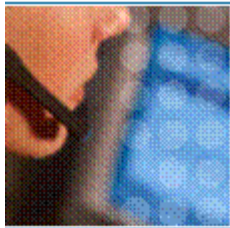


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- Economic Sales declined to €494m (-3.5%)
  - Revenues reduced by 2.1% to €4,482m due to tobacco volumes decline (-0.7% cigarettes + RYO), lower retail selling price increases in France and larger market share of low-price brands in Spain and Italy
  - Growth of Economic Sales in the recurring activity
  - Positive effect of the release of a litigation provision in H1 2014
- +1.8% Adjusted EBIT growth to €105m
  - Significant increase of the Adjusted EBIT margin over Economic Sales
- Net Income increased to €47m (+16.2%)
- Economic Free Cash Flow: -€313m
- Dividend per share paid in the semester: 0.56 €

Solid Business Model: Growth of results, despite the positive impact of non-recurring in Q2 2014



# Business Review

### Iberia

- Macroeconomic environment: progressively improving
- Stable tobacco volumes with RSP increases, growing down-trading
- The release of tax litigations in Q2 2014 impacted y-o-y comparison
- Transport and Other Businesses (Pharma) recorded strong growths
- Publications and Lottery showed the difficult situation of the sectors

Revenues: €1,220m (+1.3%)

Ec. Sales: €245m (-7.5%)

Adj. EBIT: €50m (-12.1%)

### France

- Macroeconomic environment: continued weak
- Lower tobacco volumes decline, without RSP increases
- Rationalization of customers portfolio in Other Businesses continued

Revenues: €2,106m (-2.7%)

Ec. Sales: €136m (-6.3%)

Adj. EBIT: €33m (-5.7%)

### Italy

- Macroeconomic environment: still difficult, stagnant
- Slight tobacco volumes decline with RSP increases
- Higher market share of cigarettes' low-price category
- New operating model boosted activity and margins

Revenues: €1,170m (-4.3%)

Ec. Sales: €109m (+11.1%)

Adj. EBIT: €28m (+63.8%)

### Corporate & Others

- Activity in Poland reported a good performance
- Slight increase of corporate costs

Revenues: -€15m (-4.2%)

Ec. Sales: €3m (+9.9%)

Adj. EBIT: -€6m (-5.7%)

### Tobacco and Related

- Practically stable tobacco volumes in Spain:
  - Cigarettes: +0.1% vs. -6.3%. RYO: -0.7% vs. -13.0%
- RSP increase: +5 cts. vs. no increase in H1 2014 (growing down-trading)
- Recurring Economic Sales growth
- Impact from the release of litigations in Q2 2014
- Distribution contract renewal with Philip Morris Spain (5 years)
- Strong growth in other convenience products

**Revenues: €1,033m**  
(+1.1%)

**Ec. Sales: €119m**  
(-18.8%)

### Transport

- Long-distance: tobacco volumes decline were more than offset with new contracts and growth in other sectors
- Parcel and Courier: robust growth driven by activity increase and lower pressure on tariffs

**Revenues: €169m**  
(+5.7%)

**Ec. Sales: €114m**  
(+8.1%)

### Other Businesses

- Pharma continued reporting an important growth (direct distribution to pharmacies and pre-wholesaling)
- The change of perimeter in Lottery has an impact in the comparison during Q1
- Publications: the weakness in the sector continues
- Books is consolidated from the beginning of the FY under the equity method

**Revenues: €62m** (-6.3%)

**Ec. Sales: €33m** (+2.2%)

### Adjusted EBIT

- Continued cost control and efficiency improvement measures
- The impact of pending litigations resolution in the previous FY was partially offset by the good activity evolution

**Adj. EBIT: €50m**  
(-12.1%)

### Tobacco and Related

- Tobacco volumes decline substantially reduced:
  - Cigarettes: -1.7% vs. -5.0%
  - RYO: +1.7% vs. -2.6%
- No cigarettes' RSP increases vs. +20 cts./ pack in Q2 2014
- Sales in Wholesaling distribution (other products) were affected by the weak economic environment and lower sales of e-cigarettes
- Telephony top-ups sector decrease was offset by the increase of electronic transactions of other products

**Revenues: €2,004m**  
(-2.3%)

**Ec. Sales: €114m**  
(-5.1%)

### Other Businesses

- Rationalization process of the customers portfolio after the absorption of business from the disappearance of one competitor in 2014
- Stagnant consumption
- Convenience channel more affected in a price driven market

**Revenues: €106m**  
(-11.5%)

**Ec. Sales: €25m**  
(13.4%)

### Adjusted EBIT

- Continued measures for cost-savings and adaptation to the activity level
- Strong Adjusted EBIT / Economic Sales margin improvement during Q2 2015

**Adj. EBIT: €33m**  
(-5.7%)



### Tobacco and Related

- Slight tobacco volumes decline:
  - Cigarettes: -0.8% vs. -2.0%
  - RYO: +2.4% vs. +3.2%
- First cigarettes' RSP increase after more than 2 years without RSP increases: +20 cents / pack in most but not all brands
- Repositioning of some brands to the low-price category in Q2 2014 led to a significant market share increase of this segment
- Important growth of the additional services invoiced to manufacturers
- Wholesaling distribution (other products) strongly boosted by the commercial effort and new operating model

Revenues: €1,170m  
(-4.3%)

Ec. Sales: €109m  
(+11.1%)

### Adjusted EBIT

- Very positive performance at cost level driven by improvements on service level and efficiency related to the new operating model
- Adjusted EBIT / Economic Sales margin more in line with other geographies

Adj. EBIT: €28m  
(+63.8%)



# Financial Review

| (€m)   | H1 2015      | H1 2014 (*)  | Δ%              |
|--|--------------|--------------|-----------------|
| <b>Revenues</b>                              | <b>4,482</b> | <b>4,578</b> | <b>(2.1)%</b>   |
| <b>Eco. Sales</b>                            | <b>494</b>   | <b>512</b>   | <b>(3.5)%</b>   |
| (-) Distribution Costs                       | (304)        | (320)        | +4.9%           |
| (-) Sales and Marketing Expenses             | (32)         | (35)         | +10.0%          |
| (-) Research Expenses and G&A Expenses       | (53)         | (54)         | +0.9%           |
| <b>Total Costs</b>                           | <b>(389)</b> | <b>(409)</b> | <b>+4.8%</b>    |
| <b>Adjusted EBIT</b>                         | <b>105</b>   | <b>103</b>   | <b>+1.8%</b>    |
| <b>Margin %</b>                              | <b>21.3%</b> | <b>20.2%</b> | <b>111 b.p.</b> |
| (-) Restructuring Costs                      | (10)         | (6)          | +52.9%          |
| (-) Amort. of Intangibles Logista France     | (26)         | (26)         | 0.0%            |
| (-) Net Loss on Disposal and Impairments     | (0)          | (15)         | n.a.            |
| (-) Share of Results of Companies and Others | 1            | (1)          | n.a.            |
| <b>Profit from Operations</b>                | <b>70</b>    | <b>54</b>    | <b>+28.3%</b>   |

(\*) Restated

- Revenues: The tobacco RSP increases did not offset the volumes decline and the larger relative weight of the low-price brands in Spain and Italy
- Economic Sales: Good performance of the recurring activity, not totally offsetting the reversal of litigation provision in Q2 2014
- Cost-savings measures allowed to reduce its base, despite recurring Economic Sales growth
- Significant improvement in Adjusted EBIT margin
- Restructuring costs increased due to the weakness in French business
- No impairment results
- Profit from Operations increased, despite the Economic Sales decline

| (€m)                             | H1 2015      | H1 2014(*)   | Δ%              |
|----------------------------------|--------------|--------------|-----------------|
| <b>Profit from Operations</b>    | <b>70</b>    | <b>54</b>    | <b>+28.3%</b>   |
| (+) Financial Income             | 5            | 15           | (64.9)%         |
| (-) Financial Expenses           | (2)          | (4)          | +47.4%          |
| <b>Profit before taxes</b>       | <b>73</b>    | <b>65</b>    | <b>+11.9%</b>   |
| (-) Corporate Income Tax         | (25)         | (24)         | (4.3)%          |
| <i>Effective Income Tax Rate</i> | <i>35.0%</i> | <i>37.6%</i> | <i>260 b.p.</i> |
| (+/-) Other Income / (Expenses)  | (0)          | (0)          | n.a.            |
| (-) Minority Interest            | (0)          | 0            | n.a.            |
| <b>Net Income</b>                | <b>47</b>    | <b>41</b>    | <b>+16.2%</b>   |

(\*) Restated

- Lower positive Financial Result:
  - Lower remuneration rate (BCE)
  - Reversal of the litigations provision in H1 2014
  - Financial expenses improvement related to reduced pending litigation
  
- Corporate Income Tax :
  - Lower relative weight of the France Segment (higher theoretical tax rate)

| (€m)                        | H1 2015     | H1 2014     | Δ%             |
|-----------------------------|-------------|-------------|----------------|
| Maintenance                 | 2.6         | 2.6         | 0.0%           |
| Infrastructure              | 6.0         | 6.7         | (10.4)%        |
| IT investments (technology) | 5.2         | 9.6         | (45.8)%        |
| <b>Total investments</b>    | <b>13.9</b> | <b>18.9</b> | <b>(26.4)%</b> |

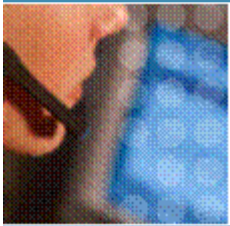
- Investment in line with previous years
- ~ 1/3 dedicated to technology
- Limited investment in warehouses: asset light business model

| (MM€)  | H1 2015      | H1 2014      | Δ%           |
|--|--------------|--------------|--------------|
| <b>EBITDA</b>                                  | <b>124</b>   | <b>122</b>   | <b>1.1%</b>  |
| Movements in Prov. And Other Fixed Liabilities | 4            | (86)         | n.a.         |
| Working Capital Variations and Other           | (410)        | (518)        | 20.9%        |
| Corporate Income Tax Paid                      | (21)         | (23)         | 6.6%         |
| Financial Income and Expenses Flows            | 3            | 11           | (68.8)%      |
| <b>Cash Flow From Operating Activities</b>     | <b>(300)</b> | <b>(494)</b> | <b>39.4%</b> |
| Capex  | (14)         | (18)         | 23.2%        |
| <b>Economic Free Cash Flow</b>                 | <b>(313)</b> | <b>(512)</b> | <b>38.8%</b> |
| % over EBITDA                                  | (253)%       | (418)%       |              |

(\*) Restated

- 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 2015 vs. H1 2014:
  - Increase in profits
  - Lower working capital investments
- During Q2 2015, dividends charged to the premium share amounting €74.3m were paid

- Highly resilient business model in terms of sales and profits
- Superior profitability with improving margins
- Robust Economic Cash Flow profile
- Attractive Dividend retribution



## Outlook



- Tobacco volumes: similar trend
    - Tobacco RSP: increases lower than expected, down-trading trend in Spain and Italy
  - Commercial efforts focused on the wholesaling activity growth
  - Growth in Transport driven by better activity in Spain
    - Higher than GDP growth
  - Growth in direct distribution to pharmacies
  - Constant cost control measures and efficiency improvement programs
    - Adjusted EBIT margin expansion
  - Lower impairments resulting in Net Income growth
    - Pay-out: 90% of Net Income
- Operational results in line with Management's expectations but tougher tobacco retail selling prices evolution
  - Low single digit growth in Adjusted EBIT expected for current fiscal year



# Appendix

|                 | Million units |         |         | % change            |                     |
|-----------------|---------------|---------|---------|---------------------|---------------------|
|                 | H1 2015       | H1 2014 | H1 2013 | H1 2015 vs. H1 2014 | H1 2014 vs. H1 2013 |
| <b>TOTAL</b>    |               |         |         |                     |                     |
| Cigarettes      | 78,998        | 79,678  | 83,053  | (0.9)%              | (4.1)%              |
| RYO/MYO         | 9,795         | 9,709   | 10,266  | 0.9%                | (5.4)%              |
| Cigars          | 1,918         | 1,948   | 1,988   | (1.5)%              | (2.0)%              |
| <b>SPAIN</b>    |               |         |         |                     |                     |
| Cigarettes      | 21,472        | 21,456  | 22,888  | 0.1%                | (6.3)%              |
| RYO/MYO         | 3,141         | 3,162   | 3,634   | (0.7)%              | (13.0)%             |
| Cigars          | 1,024         | 1,029   | 1,043   | (0.5)%              | (1.3)%              |
| <b>PORTUGAL</b> |               |         |         |                     |                     |
| Cigarettes      | 764           | 811     | 860     | (5.8)%              | (5.7)%              |
| RYO/MYO         | 81            | 95      | 124     | (14.5)%             | (23.0)%             |
| Cigars          |               |         |         |                     |                     |
| <b>FRANCE</b>   |               |         |         |                     |                     |
| Cigarettes      | 21,917        | 22,299  | 23,477  | (1.7)%              | (5.0)%              |
| RYO/MYO         | 4,524         | 4,450   | 4,568   | 1.7%                | (2.6)%              |
| Cigars          | 665           | 686     | 712     | (3.1)%              | (3.7)%              |
| <b>ITALY</b>    |               |         |         |                     |                     |
| Cigarettes      | 34,845        | 35,112  | 35,828  | (0.8)%              | (2.0)%              |
| RYO/MYO         | 2,049         | 2,002   | 1,940   | 2.4%                | 3.2%                |
| Cigars          | 229           | 233     | 233     | (1.6)%              | 0.0%                |

| (€m)                          | H1 2015      | H1 2014 (*)  | Δ%            |
|-------------------------------|--------------|--------------|---------------|
| <b>Iberia</b>                 | <b>1,220</b> | <b>1,205</b> | <b>+1.3%</b>  |
| Tobacco and Related           | 1,033        | 1,021        | +1.1%         |
| Transport                     | 169          | 160          | +5.7%         |
| Other Businesses              | 62           | 66           | (6.3)%        |
| Adjustments                   | (43)         | (42)         | (2.8)%        |
| <b>France</b>                 | <b>2,106</b> | <b>2,165</b> | <b>(2.7)%</b> |
| Tobacco and Related           | 2,004        | 2,051        | (2.3)%        |
| Other Businesses              | 106          | 120          | (11.5)%       |
| Adjustments                   | (4)          | (6)          | 34.4%         |
| <b>Italy</b>                  | <b>1,170</b> | <b>1,222</b> | <b>(4.3)%</b> |
| Tobacco and Related           | 1,170        | 1,222        | (4.3)%        |
| <b>Corporate &amp; Others</b> | <b>(15)</b>  | <b>(14)</b>  | <b>(4.2)%</b> |
| <b>Total Revenues</b>         | <b>4,482</b> | <b>4,578</b> | <b>(2.1)%</b> |

(\*) Restated

| (€m)                          | H1 2015    | H1 2014(*) | Δ%            |
|-------------------------------|------------|------------|---------------|
| <b>Iberia</b>                 | <b>245</b> | <b>265</b> | <b>(7.5)%</b> |
| Tobacco and Related           | 119        | 147        | (18.8)%       |
| Transport                     | 114        | 105        | +8.1%         |
| Other Businesses              | 33         | 32         | +2.2%         |
| Adjustments                   | (21)       | (19)       | (7.5)%        |
| <b>France</b>                 | <b>136</b> | <b>146</b> | <b>(6.3)%</b> |
| Tobacco and Related           | 114        | 120        | (5.1)%        |
| Other Businesses              | 25         | 29         | (13.4)%       |
| Adjustments                   | (3)        | (4)        | (22.7)%       |
| <b>Italy</b>                  | <b>109</b> | <b>98</b>  | <b>+11.1%</b> |
| Tobacco and Related           | 109        | 98         | +11.1%        |
| <b>Corporate &amp; Others</b> | <b>3</b>   | <b>3</b>   | <b>+9.9%</b>  |
| <b>Total Economic Sales</b>   | <b>494</b> | <b>512</b> | <b>(3.5)%</b> |

(\*) Restated

| (€m)                       | H1 2015    | H1 2014(*) | Δ%           |
|----------------------------|------------|------------|--------------|
| Iberia                     | 50         | 57         | (12.1)%      |
| France                     | 33         | 35         | (5.7)%       |
| Italy                      | 28         | 17         | +63.8%       |
| Corporate & Others         | (6)        | (6)        | (5.7)%       |
| <b>Total Adjusted EBIT</b> | <b>105</b> | <b>103</b> | <b>+1.8%</b> |

(\*) Restated

| (€m)                           | 31 March 2015 | 30 September 2014(*) |
|--------------------------------|---------------|----------------------|
| PP&E and other Fixed Assets    | 218           | 224                  |
| Net Long Term Financial Assets | 9             | 9                    |
| Net Goodwill                   | 919           | 919                  |
| Other Intangible Assets        | 689           | 713                  |
| Deferred Tax Assets            | 53            | 59                   |
| Net Inventory                  | 1,136         | 1,067                |
| Net Receivables                | 1,802         | 1,777                |
| Cash & Cash Equivalents        | 1,313         | 1,701                |
| <b>Total Assets</b>            | <b>6,139</b>  | <b>6,469</b>         |
| Group Equity                   | 414           | 441                  |
| Minority Interests             | 2             | 2                    |
| Non Current Liabilities        | 50            | 60                   |
| Deferred Tax Liabilities       | 349           | 357                  |
| Short Term Financial Debt      | 32            | 32                   |
| Short Term Provisions          | 19            | 16                   |
| Trade and Other Payables       | 5,273         | 5,561                |
| <b>Total Liabilities</b>       | <b>6,139</b>  | <b>6,469</b>         |

(\*) Restated

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