

International Financial

Michel Favre

Reporting Standards (IFRS)

Status of the implementation within Altadis



Regulatory frame

- European Parliament decision of May 27th, 2002
 - IFRS rules are compulsory for listed companies starting from fiscal year beginning on January 1st, 2005
 - For individual accounts, the use of IFRS is optional, at each country's choice
 - All standards are not stabilised (IAS 32,39 – Financial instruments, ...). They will be stabilised at the latest on December 31st, 2005
 - Additionally, a convergence project with the US GAAP has been launched

- Consequences
 - All listed European companies will have to prepare their financial statements applying IFRS
 - Comparative information will also have to be restated → 2004 will be restated applying IFRS (corresponding norm is IFRS1)

Calendar

ALTADIS HAS OPTED FOR

Adoption year

Year ending
12/31/2005

Transition year

Year ending
12/31/2004

First Balance Sheet in IFRS

01/01/2004

Application of the current norms at 12/31/2005

IFRS project management

- Project team :
 - DELOITTE & TOUCHE
 - ALTADIS Corporate Finance and Internal Audit departments
- Diagnosis and preparation :mid-Sept 02 -Nov 03
 - Collection of information and qualitative analysis
 - Quantitative analysis
- Currently : Defining orientations on major options
 - Tangible asset valuation
 - IFRS Revenue recognition
 - Consolidation method (Habanos, Iberia)
 - Cash-Generating Unit definition
- Information System updating

IAS 1 – Presentation of Financial Statements

- IAS 1 deals with the information to be provided on the financial Statements

NEW FORMAT



Income Statement



ALTADIS ORIENTATION
P&L by destination in the Annual Report for
2004 closing
P&L by nature in the Appendices

P&L Model for Business Unit reporting (tentative)

Before IFRS

ECONOMIC SALES

EBITDA

After IFRS

NET SALES (IFRS Revenues)

Internal Sales

External Sales

ECONOMIC SALES

SEGMENTAL OPERATING RESULT *

EBITDA

Equity Method (if managed by BU)

P&L Model for Group reporting

Before IFRS

ECONOMIC SALES

EBITDA

OPERATING INCOME

Financial result
Goodwill amortization
Associates
Extraordinary result

EARNING BEFORE TAX

Corporate tax
Minority interests

NET INCOME GROUP SHARE

EPS (in eurocents)
Average number of share (million)

After IFRS

Before CNMV recommendations

NET SALES

ECONOMIC SALES

EBITDA

OPERATING RESULT

Financial result
Impairment on Goodwill
Associates

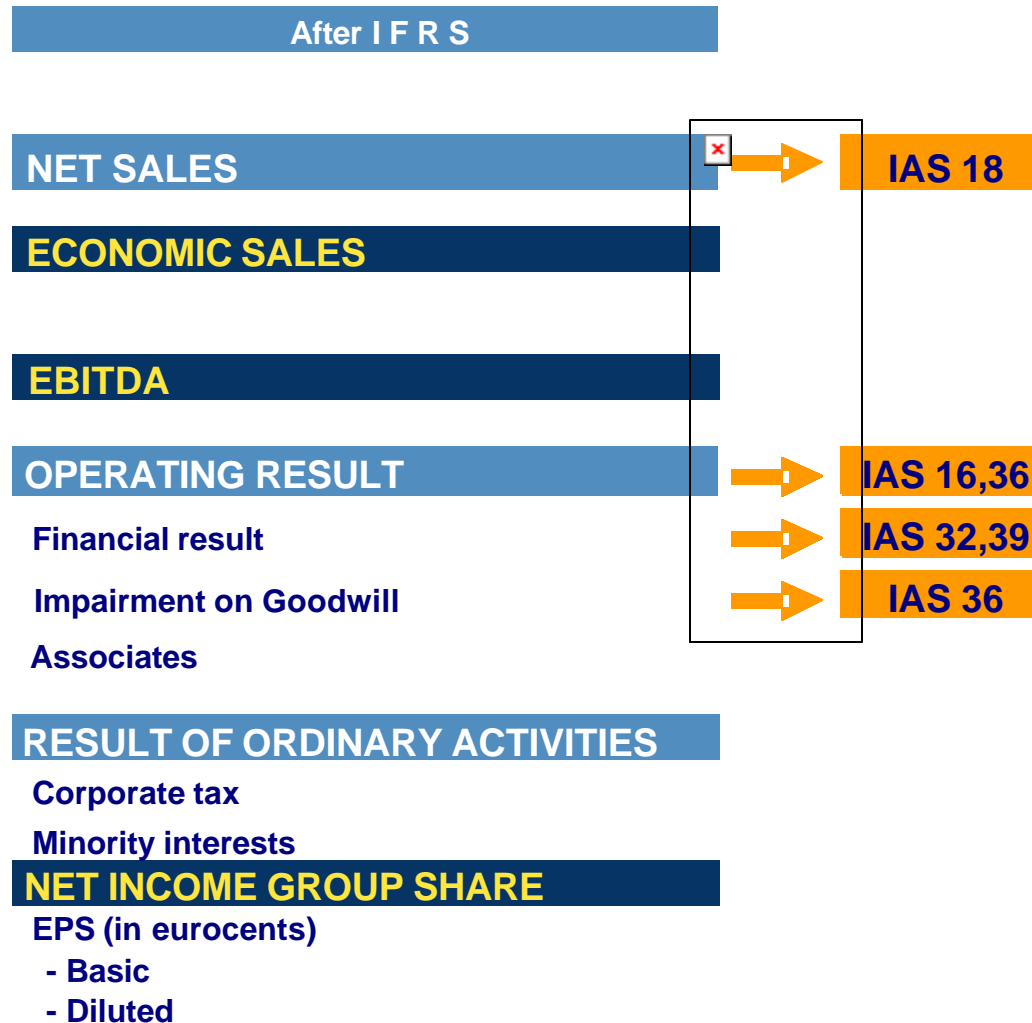
RESULT OF ORDINARY ACTIVITIES

Corporate tax
Minority interests

NET INCOME GROUP SHARE

EPS (in eurocents)
- Basic
- Diluted
Average number of share (million)

P&L Main standards



P&L

Evolutions norm by norm

- Definition of net sales
IAS 18 – Revenue
- Value loss on assets (including goodwill) and release of the value loss has (excluding goodwill) to be taken into account through the P&L in application of the IFRS standard
IAS 36 – Impairment of Assets
IAS 16 – Tangible Assets
- A new classification for the financial instruments in application of the IFRS standard
IAS 32, 39 – Financial Instruments

P&L

IAS 18 – Revenue

ALTADIS ORIENTATION FOR APPLICATION :

- FINISHED PRODUCTS & SERVICES (TOBACCO & NON TOBACCO) Spanish contract	2 - FINISHED PRODUCTS UNDER CONSIGNEMENT French contract	3 - OTHER GOODS	4 - SERVICE HIDDEN IN GOODS "SALE OF SERVICES" (TOBACCO & NON TOBACCO)
INDIVIDUAL REVENUES	INDIVIDUAL REVENUES	INDIVIDUAL REVENUES	INDIVIDUAL REVENUES
Net production sold & services	Net production sold + Tobacconist distribution fee	Distribution net sales	Distribution net sales - Cost of distributed product
IFRS REVENUES	IFRS REVENUES	IFRS REVENUES	IFRS REVENUES
	- Tobacconist distribution fee	- Cost of distributed product	
ECONOMIC SALES	ECONOMIC SALES	ECONOMIC SALES	ECONOMIC SALES

- Cash Generating Unit : the smallest identifiable group of assets that generates cash inflows from continuing use independently from the cash inflows from other assets or groups of assets.

For ALTADIS Group

CGU = Crossing between BU and the legal entity*

Approximately 50 CGU identified

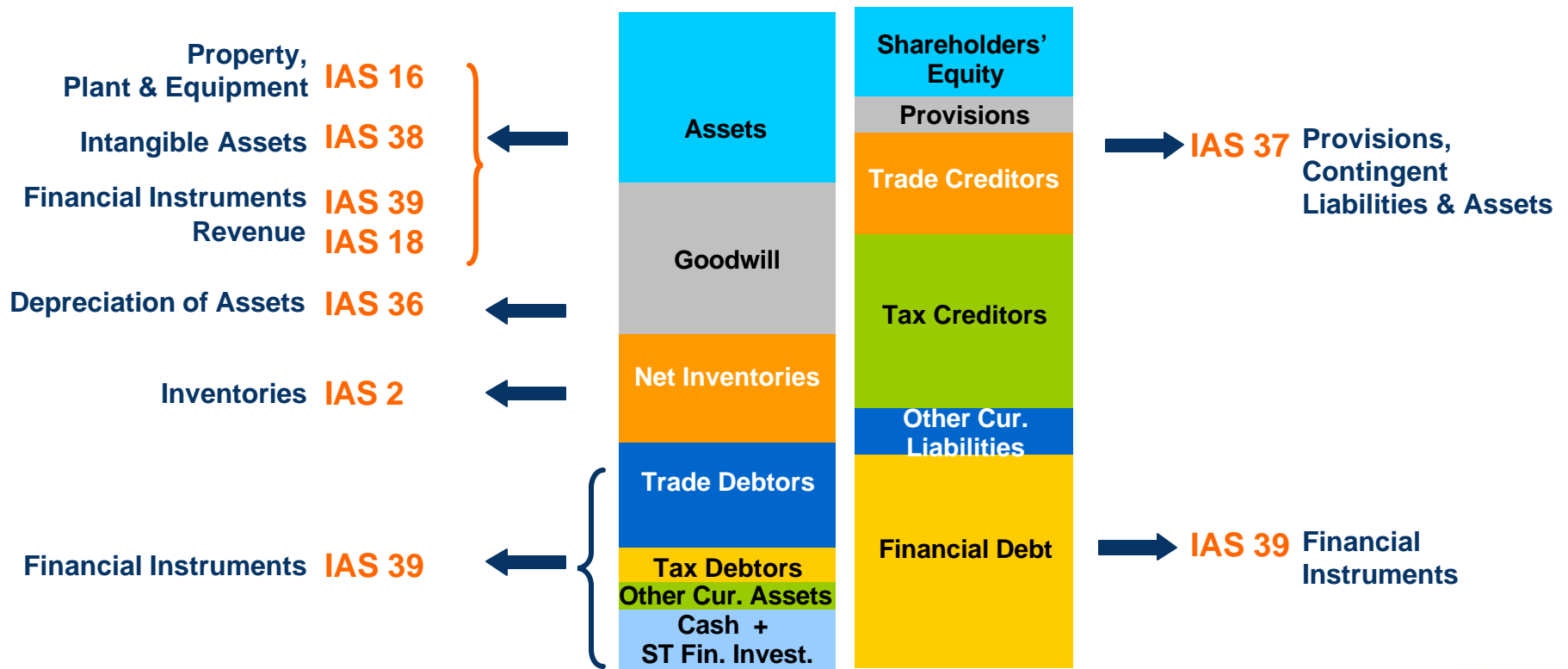
* With some exceptions if required

- Goodwill and brands are expected to be subjected to a yearly impairment test as opposed to amortisation
- The release of a goodwill value loss is expected not be authorised.
- The goodwill has to be allocated to Cash-Generating Unit of the acquired entity.
- As a reference :
 - goodwill amortisation in 2002 was Euro 95 million.
 - brand amortisation in 2002 was Euro 36 million.

Balance sheet Evolution standard by standard

Assets

Liabilities



Balance sheet

- IAS 16 - Property, plant and equipment
 - Altadis orientation is to choose historical cost accounting, therefore this norm will have close to no impact.
- IAS 18 – Revenue
 - Special terms to tobacconists in France (equivalent to 60 % of average delivery) will be reclassified from Financial assets to inventory
- IAS 36 – Depreciation of assets
 - See P& L.
- IAS 2 - Inventories
 - No impact expected.
- IAS 39 - Financial instruments
 - Will generate modifications in the classification of cash, cash equivalent and financial assets.
- IAS 37 - Provisions, contingent assets and liabilities
 - No provisions based on statistical evaluation.

CF statement and Statement of change in shareholders' equity

No significant change versus current statements.

Conclusion

- IFRS implementation : a perfect opportunity to improve comparability and underline Altadis performance.
- Altadis has prepared the change with a lot of anticipation: progress is good and the Group will be ready on time.
- Impacts will be very limited on key profitability ratios.

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