



PUBLICIS GROUPE

Analysts' Meeting

Paris — December 9, 2004





Market Trends

1- Advertisers

- **Unrelenting financial pressures**
 - Financial markets: margins/growth,
 - Consumers: price sensitive.
- **Retailers now set the rules**
- **Growing market saturation**
 - Innovation is difficult,
 - Gains in market share, the sole source of growth,
 - Competition heats up.

1- Advertisers

- **Wave of consolidation continues:**
 - Brands now the key corporate asset,
 - Brands stake out wider territory,
 - Communication: the most effective means of achieving differentiation and winning business.
- **Continued alignment and consolidation of advertising accounts worldwide.**
- **Consolidation of media accounts moves up a gear.**
- **Holistic approach gains ground.**
- **Relentless pressure on margins of suppliers and partners** (procurement policies).

-
- **Communication companies' margins are exposed to these pressures – permanently.**



**Agency operation
needs a thorough
overhaul.**

2- Media

- Electronic media take off (TV theme channels, digital/satellite technology, internet, etc.)
- Audience fragmentation increasing



Rising cost of access to consumers.



**Enhanced role for media agencies
(expertise, purchasing power)**



How to Make the Most of this Environment

Growth

- **Consolidate advertising accounts**
- **Develop holistic approach**
(targeted acquisitions in CRM, Promotion, PR, Events, etc.)
- **Increase market share**
(new business, expand relationships with existing clients)
- **Expand in high-growth markets**
(targeted acquisitions in China, India, Russia, etc.)
- **Innovate and offer high value-added services**



How to Make the Most of this Environment

Profitability

- **Profitable growth**
(value vs. volume)
- **Increase high added-value services**
- **Optimize resources worldwide**
- **Overhaul operating methods to reduce costs while enhancing service**

**Scope for improved profitability
lies primarily in our own hands**

How is Publicis Groupe Gearing up for the Challenge?

- **Decisive competitive edge**
 - Be different
 - Offer fresh ideas
- **Powerful brands**
 - A 100% holistic approach
 - Comprehensive analysis of brand and communication options
- **Powerful media agencies using advanced techniques**
 - Expertise
 - Buying clout
 - Holistic media services
 - Innovation is the name of the game



How is Publicis Groupe Gearing up for the Challenge?

A Peak Performing Organization

- **One objective:**
'Not the biggest – the best'
- **Down with complacency!**
- **Raise the bar – every time**
- **Innovation, innovation**
- **One big family, working together**

**The communications group that
constantly astonishes and inspires,
because our differences make
*La Différence***

How is Publicis Groupe Gearing up for the Challenge?

**Focus on optimization
of costs**

- **Areas for improvement:**
 - expanding geographical markets,
 - regions emerging from recession,
 - businesses readying for growth.
- **Newly identified synergies**

**Raising profitability a notch
is possible**



**In 2004, Publicis Groupe
is on course for 15% operating margin.
How can we go even higher?**

Sources of Margin Improvement

- **Some geographical regions are still catching up:**
 - Europe < 15%
Europe is starting to show the benefits of in-depth restructuring in 2003/2004.
 - Asia-Pacific < 15%
Steady growth in business
- **Restructuring complete at certain entities, now set to improve performance:**
 - Publicis Healthcare Communications Group (PHCG):
revamped network
 - SAMS (in particular Arc North America):
new structure
- **Synergies in progress** (Shared Service Centers)



**4-year Target:
17% Operating Margin**

Key Assumptions for New Margin Target

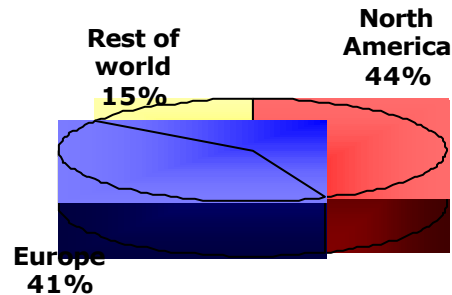
- **Target established under current French accounting standards**
- **Organic growth in line with market trend**
- **Catching up by geographical regions and businesses now lagging Groupe average**
- **Realization of synergies now taking shape**
- **Benefits of new synergies.**

4-year Targets

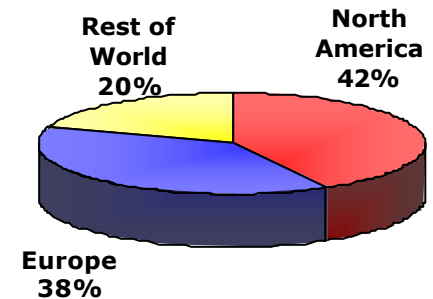
Today

2008

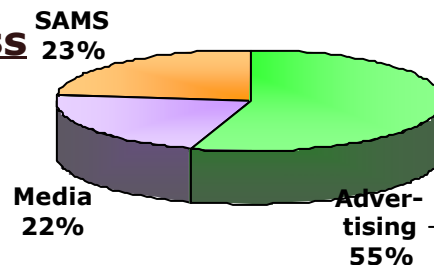
Revenues by region



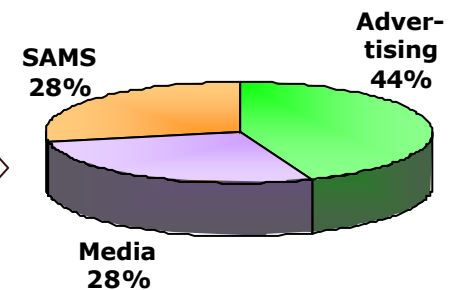
- Organic growth
- Selective acquisitions



Revenues by business



- Organic growth
- Holistic approach
- Selective acquisitions



Operating margin

15%

+ synergies

17%

Contributions to Rise in Operating Margin

Catching-up for margin:

- Europe
- Asia-Pacific
- Healthcare
- SAMS

54%

New initiatives:

- Publicis Groupe Media
- Network optimization
- Production
- Procurement

37%

Realization of synergies now under way:

- Shared Service Centers (10 major countries)

9%

Total annual savings: approx. €80m

- **Charge totaling €40m over 4 years**
 - **Additional capital expenditure of €20m over 4 years**

1– Entities and Regions Set to Rise to Groupe Average

- **Following restructuring launched in 2003 and 2004:**
 - advertising, media and SAMS in Europe,
 - advertising in Asia-Pacific,
 - SAMS,
 - Healthcare communications.

2- New Initiatives

- **Publicis Groupe Media (PGM):**
synergies with Starcom MediaVest Group/
ZenithOptimedia:
 - Rationalization of non-proprietary data acquisition and technology that is not client-specific
 - Administration
 - Pooling of some diversified media services (Relay Sports & Events Marketing, SMG Directory Marketing, etc.)
- **Optimize our resources in emerging markets**
(Central Europe, Latin America, Asia-Pacific)
- **Procurement policy**

3- Development of Shared Service Centers Nearly Complete

- **Description:**

- Creation in each of our top 10 countries of a Shared Service Center handling administrative services for agencies and brands (accounting, HR, IT, property, legal affairs, etc.),
- Start-up in early 2003, following merger with Bcom3.

- **To be finalized in 1st half 2005.**

- **New opportunities:**

- Adopt the same structure in 5 to 7 other major countries,
- Create regional Shared Service Centers in Scandinavia, Central Europe, Asia-Pacific and Latin America.



IFRS Transition

Introduction

- Both the French regulatory authority AMF and auditors recommend extreme caution when presenting information under IFRS.
- The information in this presentation has been prepared in compliance with IFRS texts published to date. Several standards have not yet been published, while others are undergoing modifications or subject to interpretation by accounting professionals. In addition, some standards have not yet been adopted by the European Union.

Introduction (continued)

- Changes to IFRS and finalization of implementation of the standards at Publicis Groupe may be subject to additional adjustments not yet identified. The adjustments could be material.
- The information in this presentation is thus subject to change.
- Data are unaudited at this stage.

IFRS Transition at Publicis Groupe

- In 2003 Publicis Group set up an implementation task force to prepare the IFRS transition. To date, we have quantified principal accounting differences for the opening balance sheet at 1 January 2004 under IFRS, but the comprehensive review of differences with current French Gaap is still in progress.
- To date, no major IFRS adjustments have been identified at subsidiary level; IFRS impacts are mainly at corporate level.
- Publicis Groupe has also examined IFRS impacts on information systems and accounting principles set out in "Publicis Corporate Policies". Full deployment is scheduled for 2005 to ensure IFRS compliance at subsidiaries.

IFRS 1 – First-time Adoption of IFRS

- IFRS provide a number of options for first-time application of standards. Publicis Groupe has chosen the following :
 - **Business combinations**
No restatement of business combinations that took place before 1 January 2004. Only acquisitions made since that date will be restated. Acquisitions-related restructuring costs will be expensed as opposed to being recorded in goodwill.
No impact for Publicis Groupe.

IFRS 1 – First-time Adoption of IFRS

- **Revaluation** at market value on 1 January 2004 of the building owned by Publicis at 133 avenue des Champs Elysées,
- Transfer of **unrealized exchange gains/losses** included in shareholders' equity to retained earnings,
- Full recognition of actuarial gains/losses on **pension commitments** booked to equity (already anticipated in French Gaap financial statement at 1 Jan. 2004),
- Accounting for **stock options** applied only to plans granted after 7 Nov. 2002 (assuming that IFRS 2 is applicable at 31 Dec. 2005),
- Application of standards covering **financial instruments** from 1 Jan. 2004.

IFRS 2 - Stock Options

IFRS 2 — not approved by the European Union at the date of this presentation — requires stock-options to be expensed under personnel costs.

- Under French Gaap, stock-option charges are an off-balance sheet commitment
- Under IFRS, the fair value of each option is determined using the Black & Scholes model
- The total fair value of the options is amortized in the P&L over the vesting period
- Publicis Groupe has elected the option to apply IFRS 2 for all plans granted after 7 Nov. 2002.
- **The stock-option charge to the P&L has no cash impact.**

IFRS 2 - Stock Options

- The fair value of options is determined at grant date and is not reviewed during the vesting period, even if the Black & Scholes valuation model parameters change.
 - Even if options are not exercised at the end of the exercise period, the expense recorded during the vesting period cannot be reversed.
 - If the value of the options increases during the vesting period, no additional expense is recorded.
- **The annual charge is estimated at between €20m and €25m.**

IAS 32/39 – IFRS Adjustments of Debt

General principles:

Under IFRS, the value of convertible bonds is composed of a debt portion plus an option, recorded under equity.

Fair value of debt is determined at the **date of issuance** by discounting future cash flows, with interest under IFRS accrued retrospectively over the life of the debt.

Fair value of the option is the difference between the fair value of the instrument (i.e., debt + option) and the fair value of the debt.

IAS 32/39 – IFRS Adjustments of Debt

ORANE
(€858m
nominal value)

Opening balance sheet

Bond value	€44m
Equity value	€451m
Total	€495m

- The value of the debt portion is determined by discounting future coupon payments at the market rate available to Publicis (risk-free interest plus Publicis credit spread, or 8.5% in Sept. 2002)
- **Impact on P&L: financial income of €3 million in 2004.**
- **The Orane (currently recorded in « other equity » under French Gaap) is reclassified in retained earnings for most of its value.**

IAS 32/39 – IFRS Adjustments of Debt

OCEANE 2008
(€672m
nominal value)

Opening balance sheet

Bond value	€524m
Equity value	€148m
Total	€672m

- Bond value is determined by discounting future cash flows and debt reimbursement at the market rate for Publicis Groupe debt (6.61% in July 2003).
- **Impact on interest expense: the difference of €29m in 2004 between the nominal cost (0.75%) and interest under IFRS (6.61% applied to current present value of debt) is recorded as an additional charge in the P&L.**

IAS 32/39 – IFRS Adjustments of Debt

OCEANE 2018
(€690m
nominal value)

Opening balance sheet

Bond value	€659m
Equity value	€55m
Total	€714m

- All calculations assume that the put is exercised in 2006.
- Bond value is determined by discounting future cash flows and debt reimbursement at the market rate for Publicis Groupe debt (7.37% in January 2002).
- **Impact on interest expense: the difference of €28m in 2004 between the nominal cost of the Oceane (2.75%) and interest under IFRS (7.37% applied to current present value of debt) is recorded as an additional charge in the P&L.**

IFRS 16 / IFRS 1 – Fair Value of Publicis Building

Opening balance sheet (assets)

Publicis building	€164m
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- Fair value at 1 Jan. 2004 will be the new historic cost of its building at 133 avenue des Champs Elysées.
 - IFRS 1 allows revaluation of the building at its market value in the **opening balance sheet**. The value was estimated at €164m at 1 January 2004. (€160 m added to €4 m recorded under French Gaap). The impact (net of tax) on retained earnings is €105m.
 - P&L impact in 2004 under IFRS: the building itself (not land) is amortized over 70 years resulting in an additional annual charge of €1m.

IAS 36 – Goodwill Amortization

- Goodwill is no longer amortized under IFRS, but subject to impairment tests. Tests have been conducted in financial statements under French Gaap as of 31 December 2003.
- Under IFRS, impairment tests are conducted on the basis of CGU (Cash Generating Units). The base CGU for Publicis Groupe is the agency, but CGUs can be aggregated if several agencies present similar economic characteristics.
- Valuation work is now in progress.
No significant impact is anticipated.

IAS 37 – Provisions for Restructuring

- Provisions for restructuring appearing in financial statements at 31 December 2003 (under French Gaap) comply with IFRS.
- **No adjustment is needed.**

IAS 39 – Other Financial Instruments

- Under French Gaap, **Interpublic shares** (5.3 million altogether) are recorded at historical cost in the consolidated balance sheet, for an amount of €16m.
- Under IFRS in the opening balance sheet, these shares are reported at their **fair value of €66m** at 1 January 2004.
- Subsequent fluctuations are booked to equity under "*other comprehensive income*".

IAS 37 - Buy-outs

- Under French Gaap, buy-outs are considered off-balance sheet commitments.
- Under IFRS, buy-outs must be recorded as non-financial liabilities if Publicis Groupe has committed to buy out minority interests.
- At 1 January 2004, the amount is **€129m.**

Impact of IFRS on Calculation of ETR

- **Because some charges are not deductible under IFRS, the Effective Tax Rate will increase:**
 - Stock-option charges are not tax deductible for the most part.
 - Impairment charges on goodwill are reclassified in operating income in IFRS (whereas they would appear under “goodwill amortization” under French Gaap).

Impact of IFRS on Calculation of ETR

- **IAS 12 – Tax Loss Carryforwards**
 - In French Gaap, loss carryforwards of acquired companies can be charged to taxable income, thus improving ETR.
 - Under IFRS, the tax advantage is offset by a reduction in goodwill for an equivalent amount.

Overall, the mechanical increase in the tax rate is estimated at 500 bp.

The effective tax rate becomes less relevant than the cash tax amount.

Impact of IFRS on EPS

Earnings per Share (IAS 33, revised)

- **Basic EPS**

No change compared with current French rules except for reporting of instruments subject to mandatory conversion.

The 28,125,000 shares to be issued for redemption of ORANEs are included in the weighted average number of ordinary shares outstanding (the denominator).

Impact of IFRS on EPS

Earnings per Share (IAS 33, revised) (cont'd)

- **Diluted EPS**

No change from current French rules, except:

- **Convertible bonds** become accretive due to the high level of interest expense added back to earnings in the numerator.
- **Positive impact on the calculation: fully diluted EPS converges with basic EPS calculation.**

Impact on Operational Ratios

- **Revenues and organic growth:**
No impact has been identified to date
- **Personnel cost/Revenues:**
This ratio will be affected by stock-option charges recorded under personnel costs.

Impact on Financial Ratios

- **The net debt-to-equity ratio** will improve due to the reclassification under equity of the fair value attributed to the option part of debt instruments (Oceanes).
- **Net debt / EBITDA:** this ratio will improve, due primarily to the reduction of net debt.
- **Interest cover:** this ratio will no longer be meaningful due to the substantial non-cash financial charges recorded under IFRS for Oceanes.

Summary of Impacts Shown*

P&L (2004)

-

- Stock-options charge recorded in personnel costs: **€20-25m.**
- Increase in financial charge related to two Océanes and one Orane: **€54m.**

+

- Goodwill is no longer amortized (**approx. €100m**) but subject to impairment tests.

Opening balance sheet 1 January 2004

+

- Assets: revaluation of Publicis building: **€160 m.**
- Liabilities: reclassification from debt to equity of:
 - the equity component of Oranes and Oceanes
 - equity warrants.

→ Resulting reduction of net debt:- **€350 m.**

-

- Liabilities: buy-out recorded as non-financial debt: **€129 m**



Simplification of Balance Sheet

Simplification of Balance Sheet

- **Objectives:**

- Reduce debt,
- Maintain high level of liquidity and long-term maturities,
- Exit “complex” securities,
- Gradually reduce dilution of EPS.

Simplification of Balance Sheet (cont'd)

- **Progress report:**

- 2004: Review of options following presentations by banks.
- Autumn 2004: first transaction
Sale of CLNs and purchase of bond portion of OBSAs (bonds with equity warrants attached).

- **Between now and summer 2005: further transactions to simplify balance sheet**
- **Year-end 2005: official rating**



**Internal Control,
the Sarbanes-Oxley Act,
and France's
*loi de Sécurité Financière (LSF)***

Internal Control, Sarbanes-Oxley and LSF

- **Important for Publicis Groupe:**
 - compliance with regulations,
 - corporate responsibility,
 - financial markets.
- **Significant potential benefits:**
 - harmonization and dissemination of best practices,
 - quicker identification of problems,
 - better corporate governance.

Approach

- Changes to ensure compliance of *Publicis Corporate Policies (PCP)* *completed*
- Continued deployment of *Shared Service Centers* *2005*
- Enhancement and harmonization of internal control procedures:
 - Phase 1:
Define and document standard key processes
 - Phase 2:
Deployment at a significant sample of agencies (60-70% of revenues).

Stage 2: Milestones

- **Training** February 2005
- **Local documentation** Feb.-April 2005
- **Trouble-shooting** } April-July 2005
● **Compliance testing** }
- **Verification** July -
● **by external auditors** December 2005
- **Management certification** December 2005

Resources Deployed

- **Dedicated team at HQ:**
12 people
- **Dedicated team for brands/networks:**
11 people
- **Outside consultants:**
Process control (stage 1 only)



Trading Update December 2004



Appendix

IAS / IFRS Published to Date

IAS Standard	Title	Main identified impact on accounts	Impact on notes
IAS 1	Presentation of Financial Statements	X	X
IAS 2	Inventories		
IAS 7	Cash Flow Statements		X
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors		
IAS 10	Events after the Balance Sheet Date		
IAS 11	Construction Contracts		
IAS 12	Income Taxes	X	X
IAS 14	Segment Reporting		X
IAS 16	Property, Plant and Equipment	X	X
IAS 17	Leases		
IAS 18	Revenue		X
IAS 19	Employee Benefits		
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance		
IAS 21	The effects of Changes in Foreign Exchange Rates		
IAS 23	Borrowing Costs		
IAS 24	Related Party Disclosures		X
IAS 26	Accounting and Reporting by Retirement Benefit Plans		X
IAS 27	Consolidated and Separate Financial Statements		
IAS 28	Investments in Associates		X
IAS 29	Financial Reporting in Hyperinflationary Economies		
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions		
IAS 31	Interests in Joint Ventures		
IAS 32	Financial Instruments : Disclosure and Presentation	X	X
IAS 33	Earnings per Share	X	
IAS 34	Interim Financial Reporting		
IAS 36	Impairment of Assets	X	X
IAS 37	Provisions, Contingent Liabilities and Contingent Assets		
IAS 38	Intangible Assets		X
IAS 39	Financial instruments : Recognition and Measurement	X	X
IAS 40	Investment Property		
IAS 41	Agriculture		
IFRS 1	First time Adoption of International Financial Reporting Standards	X	X
IFRS 2	Share based Payment	X	X
IFRS 3	Business Combinations		
IFRS 4	Insurance Contracts		
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations		