

PUBLICIS GROUPE SA
Form 20-F
April 06, 2007

As filed with the Securities and Exchange Commission on April 6, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

.. REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 001-14736

Publicis Groupe S.A.

(Exact name of registrant as specified in its charter)

N/A
*(Translation of Registrant[s]
name into English)*

133, AVENUE DES CHAMPS-ELYSEES
75008 PARIS
France
(Address of principal executive offices)

THE REPUBLIC
OF FRANCE
*(Jurisdiction of incorporation
or organization)*

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class:</u>	<u>Name of Each Exchange on Which Registered:</u>
American Depositary Shares (as evidenced by American Depositary Receipts), each American Depositary Share representing one Ordinary Share	The New York Stock Exchange, Inc.
Ordinary shares, nominal value �0.40 per share*	The New York Stock Exchange, Inc.

* Listed not for trading, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: Equity Warrants and ORANEs

Indicate the number of outstanding shares of each of the issuer[s] classes of capital or common stock as of the close of the period covered by the Annual Report:

Edgar Filing: PUBLICIS GROUPE SA - Form 20-F

share	Ordinary shares, nominal value €0.40 per	198,709,229(1)
class)	<i>(title of</i>	<i>(number of ordinary shares)</i>

(1) Including 15,105,351 ordinary shares held in treasury.

Edgar Filing: PUBLICIS GROUPE SA - Form 20-F

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer:

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

FORWARD-LOOKING STATEMENTS

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Certain statements included in this Annual Report, as well as oral statements that may be made by Publicis or its officers, members of its Management Board or Supervisory Board or employees acting on behalf of Publicis related to the information contained herein, may constitute or be based upon "forward-looking statements" (within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, specifically Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended). All statements, other than statements of historical facts, are forward-looking statements, including without limitation statements relating to our strategy, financial and operating targets, outlook, capital expenditures and future financial position.

The words "anticipate", "believe", "expect", "estimate", "intend", "plan", "may", "will", "should", "target", "project" or similar expressions, as well as the use of the future or conditional tense, identify certain of these forward-looking statements although the absence of such words does not necessarily mean that a statement is not forward-looking. These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors that could cause our actual results and outcomes to differ materially from historical results or any future results implied or expected by such forward-looking statements. These statements are presented at the date of the present document and Publicis assumes no responsibility regarding updating them following new events or for any other reason other than to the extent required by applicable regulations.

Among the factors that may influence Publicis' actual results and cause them to differ materially from the implied or expected results as described in forward-looking statements are those risks identified in Item 3 "Key Information" "Risk Factors" and our other filings and submissions with the U.S. Securities and Exchange Commission ("SEC"), including, without limitation :

- the advertising and communications industry is highly competitive;
- unfavorable economic conditions may adversely affect our operations;
- laws, regulations or voluntary codes applying in the sectors in which we operate may have an impact on our business;
- our contracts with clients may be terminated on short notice;
- a significant portion of our revenues comes from a small number of large clients;
- conflicts of interest between our clients who compete with each other in the same business sector may negatively impact our business development;
- we may be exposed to liabilities from allegations that certain of our clients' advertising claims may be false or misleading or that our clients' products may be defective;
- our business is highly dependent on the services of our management and our employees;
- our strategy of development through acquisitions and investments can be risky;
- goodwill on acquisitions and intangible assets, including brands and client relationships, accounted for on the balance sheets of acquired companies may be subject to adjustment;
- we may not achieve announced numerical targets;
- we are exposed to a number of risks from operating in developing countries;

- downgrades of our credit ratings could adversely affect us;
- some provisions of our *status* (by-laws) may make takeovers more difficult; and

Edgar Filing: PUBLICIS GROUPE SA - Form 20-F

□ we are subject to corporate disclosure standards that are less demanding than those applicable to some U.S. companies.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Readers are encouraged to carefully read all information included in this document, and particularly Item 3 "Key Information □ Risk Factors."

All written and oral forward-looking statements attributable to Publicis, or persons acting on its behalf, are qualified in their entirety by these cautionary statements. Publicis disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless it is required by law.

In this Annual Report on Form 20-F, the term the □Company□ refers to Publicis Groupe S.A. and the terms □Publicis□, the □Group□, □Publicis Groupe□, □we□, □us□, and □our□ refer to the Company together with its consolidated subsidiaries.

As used herein, references to □EUR□ or □€□ are to euros and references to □dollars□, □USD□ or □\$□ are to U.S. dollars. Annual Report contains translations of certain euro amounts into dollar amounts at the rate of USD 1.32 per EUR 1.00, the noon buying rate in New York for cable transfers in euros as certified for customs purposes by the Federal Reserve Bank of New York (the □Noon Buying Rate□) on December 29, 2006, the last business day prior to the date of Publicis' most recent balance sheet included in this Annual Report. You should not assume, however, that euros could have been exchanged into dollars at any particular rate or at all. See Item 3. □Key Information □ Selected Financial Data□ for certain historical information regarding the Noon Buying Rate.

The Consolidated Financial Statements for the fiscal years ended December 31, 2004, 2005 and 2006 included elsewhere in this Annual Report are referred to herein as the □consolidated financial statements.□ References to fiscal years 2004, 2005 and 2006 in this Annual Report mean the fiscal years ending respectively on December 31, 2004, 2005 and 2006, unless the context otherwise requires.

EXPLANATORY NOTE

Certain of the U.S. GAAP financial statement information as of December 31, 2004, 2003 and 2002 and for the year ended December 31, 2003 contained in Item 3.A □Selected Financial Data□ and Item 18 □Financial Statements□ was restated in our Annual Report for the year ended December 31, 2005, and the restated figures appear in this Annual Report. We have not amended, and do not intend to amend, our previously filed Annual Reports on Form 20-F for the years affected by the restatements that ended prior to December 31, 2005. For this reason, those prior Annual Reports and the consolidated financial statements, auditors' reports and related financial information for the affected years contained in such reports should no longer be relied upon.

PRESENTATION OF INFORMATION

We prepare our consolidated financial statements in accordance with IFRS as adopted by the European Union. The term □IFRS□ as used in this Annual Report refers collectively to International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), Standing Interpretations Committee (SIC) interpretations and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the IASB. We do not believe the differences between IFRS as adopted by the European Union and IFRS as issued by the International Accounting Standards Board had any impact on Publicis' consolidated financial statements included in Item 18 of this Annual Report.

IFRS differs in certain significant respects from U.S. generally accepted accounting principles (□U.S. GAAP□). For a description of the principal differences between IFRS and U.S. GAAP, and for a reconciliation of our shareholders' equity and net income to U.S. GAAP, see note 33 to our consolidated financial statements included in Item 18 of this Annual Report.

MARKET AND INDUSTRY DATA AND FORECASTS

This Annual Report includes market and industry data and forecasts that we have obtained from independent consultant reports, publicly available information, various industry publications, other published industry sources and our internal data and estimates. Although we have no reason to believe that the independent consultant reports, publicly available information, industry publications and published industry sources are not reliable, we

have not independently verified the data. Our internal data, estimates and forecasts

4

are based upon information obtained from our customers, partners, trade and business organizations and other contacts in the markets in which we operate and our management's understanding of industry conditions. Although we believe that such information is reliable, we have not had such information verified by any independent sources.

TABLE OF CONTENTS

PART I		7
Item 1.	Identity of Directors, Senior Management and Advisers	7
Item 2.	Offer Statistics and Expected Timetable	7
Item 3.	Key Information	7
Item 4.	Information on the Company	12
Item 4A.	Unresolved Staff Comments	26
Item 5.	Operating and Financial Review and Prospects	26
Item 6.	Directors, Senior Management and Employees	45
Item 7.	Major Shareholders and Related Party Transactions	65
Item 8.	Financial Information	71
Item 9.	The Offer and Listing	71
Item 10.	Additional Information	72
Item 11.	Quantitative and Qualitative Disclosures About Market Risk	88
Item 12.	Description of Securities Other Than Equity Securities	93
PART II		94
Item 13.	Defaults, Dividend Arrearages and Delinquencies	94
Item 14.	Material Modifications to the Rights of Security Holders and Use of Proceeds	94
Item 15.	Controls and Procedures	94
Item 16A.	Audit Committee Financial Expert	96
Item 16B.	Code of Ethics	96
Item 16C.	Principal Accountant Fees and Services	96
Item 16D.	Exemptions from the Listing Standards for Audit Committees	97
Item 16E.	Purchases of Equity Securities by the Issuer and Affiliated Purchasers	97
PART III		99
Item 17.	Financial Statements	99
Item 18.	Financial Statements	99
Item 19.	Exhibits	100

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

SELECTED FINANCIAL DATA

The tables below set forth selected consolidated financial data for Publicis Groupe. The selected financial data, as of and for the years ended December 31, 2005 and 2006, are derived from the consolidated financial statements of Publicis included in this Annual Report, prepared in accordance with IFRS, including the U.S. GAAP (Generally Accepted Accounting Principles) reconciliation thereof, which have been audited by Ernst & Young Audit and Mazars & Guerard, our independent auditors. The selected financial data as of and for the year ended December 31, 2004, prepared in accordance with IFRS, including the US GAAP reconciliation thereof, have been audited by Ernst & Young Audit, our independent auditors. The selected financial data prepared in accordance with U.S. GAAP as of and for each of the years ended December 31, 2002 and 2003 are derived from the consolidated financial statements of Publicis prepared under French GAAP and reconciled to US GAAP, not included in this Annual Report, which have been audited by Ernst & Young Audit and Mazars & Guerard, our independent auditors.

The consolidated financial statements of Publicis Groupe as of and for the years ended December 31, 2006, 2005 and 2004 have been prepared in compliance with IFRS as adopted by the European Union as of December 31, 2005 and with IFRS as issued by the International Accounting Standards Board (IASB) as of the same date. The opening balance sheet as of the transition date (January 1, 2004) and the comparative financial statements for the year ended December 31, 2004 have been prepared in accordance with the same principles.

Publicis Groupe reports its financial results in euros and in conformity with IFRS, with a reconciliation to U.S. GAAP. Publicis Groupe also publishes condensed U.S. GAAP information. IFRS differs in certain significant respects from U.S. GAAP. For a description of the principal differences between IFRS and U.S. GAAP as they relate to the Publicis Groupe's consolidated financial statements and a reconciliation to U.S. GAAP and net income and shareholders' equity see note 33 to the Publicis Groupe audited consolidated financial statements included in this Annual Report.

The selected historical consolidated financial data should be read in conjunction with Item 3 "Key Information" Risk Factors, Item 5 "Operating and Financial Review and Prospects" and Publicis' consolidated financial statements and related notes and other financial information included elsewhere in this Annual Report.

As of and for the Year Ended December 31,

	2006	2005	2004
--	------	------	------

*(Millions of euros, except per share data)***IFRS Income statement data:**

Revenue	4,386	4,127	3,832
Operating margin before depreciation and amortization	820	765	699
Operating margin	713	649	580
Operating income	689	652	326
Net income	469	414	304
Net earnings attributable to Publicis Group	443	386	278
Earnings per share: basic(1)	2.11	1.83	1.32
Earnings per share: diluted(2)	1.97	1.76	1.29
Dividends per share(3)	0.50	0.36	0.30

IFRS Balance sheet data (4):

Tangible and intangible assets, net	4,206	4,377	4,132
Total assets	11,627	11,758	9,860
Bank borrowings and overdrafts (Short-term and long-term)	2,114	2,137	1,765
Shareholders' equity	2,080	2,056	1,621

- (1) Based on the weighted average number of shares outstanding in each period used to compute basic earnings per share (including the Oranes (bonds redeemable in our shares)), equal to 210.5 million shares in 2004, 210.4 million shares in 2005, and 209.6 million shares in 2006.
- (2) Based on the weighted average number of shares outstanding in each period used to compute diluted earnings per share, equal to 234.0 million shares in 2004, 233.8 million shares in 2005, and 240.1 million shares in 2006.
- (3) Dividends per ADS in U.S. Dollars were \$0.35 in 2004, \$0.42 in 2005, and \$ 0.66 in 2006. (For your convenience, the dividends per share have been translated from the euro amounts actually paid into the corresponding U.S. dollar amounts at the Noon Buying Rate on December 29, 2006. This Noon Buying Rate may differ from the rate that may be used by the Depositary to convert euros to U.S. dollars for purposes of making payments to holders of ADSs.)
- (4) The figures as of December 31, 2004 and 2005 were restated in connection with changes in accounting methods used for commitments, which are described in note 1.6 of the notes to consolidated financial statements.

As of and for the Year Ended December 31,

	2006	2005	2004	2003	2002(3)
--	------	------	------	------	---------

*(Millions of euros, except per share data)***U.S. GAAP Income statement data:**

Revenues	4,386	4,127	3,825	3,863	2,969
Operating profit (loss)	685	644	402	(585)	353
Net income (loss)	441	395	346	(777)	(13)
Earnings (loss) per share:					

Edgar Filing: PUBLICIS GROUPE SA - Form 20-F

basic(1)	2.40	2.16	1.90	(4.25)	(0.09)
Earnings (loss) per share:					
diluted(2)	1.89	1.63	1.51	(4.25)	(0.09)

U.S. GAAP Balance Sheet

data:

Tangible and intangible assets, net	6,433	6,748	6,408	7,036	8,307
Total assets	13,945	14,115	12,188	13,271	14,421
Bank borrowings and overdrafts (short-term and long-term)	3,087	3,153	2,911	3,975	3,540
Shareholders' equity	3,075	3,074	2,402	2,302	3,755

(1) Based on the weighted average number of shares outstanding in each period used to compute basic earnings (loss) per share (excluding Oranes (bonds redeemable in our shares)), equal to 146.0 million shares in 2002, 182.8 million shares in 2003, 182.4 million in 2004, 182.8 million in 2005 and 183.6 million in 2006.

- (2) Based on the weighted average number of shares outstanding in each period used to compute diluted earnings (loss) per share (excluding Oranes (bonds redeemable in our shares)), equal to 171.0 million shares in 2002, 239.5 million shares in 2003, 251.6 million in 2004, 249.3 million in 2005 and 240.3 million in 2006.
- (3) 2002 amounts include the operations of Bcom3 Group, Inc. for the period between the acquisition date in September 2002 through December 31, 2002.

EXCHANGE RATE INFORMATION

Share capital in our company is represented by ordinary shares with a nominal value of €0.40 per share (hereinafter generally referred to as "our shares"). Our shares are denominated in euros. Because we generally intend to pay cash dividends denominated in euros, exchange rate fluctuations will affect the U.S. dollar amounts that shareholders will receive on conversion of dividends from euros to dollars. For information regarding the effect of currency fluctuations on our results of operations, see "Operating and Financial Review and Prospects". See also "Risk Factors" "Currency exchange rate fluctuations and interest rate and market risk may negatively affect our financial results" and "Risk Factors" "The trading price of our ADSs and dividends paid on our ADSs may be materially adversely affected by fluctuations in the exchange rate for converting euros into U.S. dollars".

The following table sets forth, for the periods indicated, information with respect to the high, low, average and period end Noon Buying Rates, expressed in U.S. Dollars per euro.

	<u>Period End(1)</u>	<u>Average Rate (2)</u>	<u>High</u>	<u>Low</u>
2002	1.05	0.95	1.05	0.86
2003	1.26	1.14	1.26	1.04
2004	1.35	1.25	1.36	1.18
2005	1.18	1.24	1.35	1.17
2006	1.32	1.26	1.33	1.19
October 2006	1.28	1.26	1.28	1.25
November 2006	1.33	1.29	1.33	1.27
December 2006	1.32	1.32	1.33	1.31
2007 (through April 4)(3)	1.34	1.31	1.34	1.29
January 2007	1.30	1.30	1.33	1.29
February 2007	1.32	1.32	1.32	1.29
March 2007	1.33	1.31	1.34	1.31
April 2007 (through April 4, 2007)	1.34	1.34	1.34	1.34

- (1) The period end Noon Buying Rate is the Noon Buying Rate on the last business day of the relevant period.
- (2) The average of the Noon Buying Rates on the last business day of each month during the relevant period.
- (3) The Noon Buying Rate for April 4, 2007 was 1.34.

RISK FACTORS

You should carefully consider the risk factors described below, together with the other information concerning Publicis Groupe and its consolidated financial statements included in this Annual Report, before investing in the shares or other securities of Publicis Groupe. Each of the risk factors described below may have a negative impact on the Group's earnings, financial condition and share price. Other risks and uncertainties of which Publicis is not aware or which are not currently deemed to be significant, could also have a negative impact on Publicis.

The advertising and communications industry is highly competitive.

The advertising and communications industry is highly competitive and we expect it to remain so. Our competitors run the gamut from large multinational companies to smaller agencies that operate in local or regional markets. New participants also include systems integrators, database marketing and modeling companies, telemarketers and internet companies offering technological solutions to marketing and communications issues faced by clients. We must compete with these companies and agencies to maintain existing client relationships and to obtain new clients and assignments. Increased competition could have a negative impact on our revenue and results of operations.

Unfavorable economic conditions may adversely affect our operations.

The advertising and communications industry is subject to downturns in general economic conditions, changes in clients' underlying businesses and decreases in marketing budgets. Downturns in general economic conditions can have a more severe impact on the advertising and communications industry than on other industries, in part because clients may respond to economic downturns by reducing their advertising and communications budgets in order to meet their earnings goals. For this reason, our prospects, business, financial condition and results of operations may be materially adversely affected by a downturn in general economic conditions in one or more markets and a reduction in client budgets for advertising and communications.

Laws, regulations or voluntary codes applying in the sectors in which we operate may have an impact on our business.

The communications sector in which we operate is subject to legislation, regulation and voluntary codes of conduct. Governments, regulatory authorities and consumer groups regularly propose prohibitions or restrictions on the advertising of certain products and services or the regulation of certain business that we conducted, such as the *Loi Sapin* in France, which prohibits agencies from buying advertising space for resale to their clients, and, in most countries, regulations which tend to restrict the advertising of alcohol and tobacco. The adoption or changes in such regulations could have a negative impact on our business and earnings.

Our contracts with clients may be terminated on short notice.

Clients may terminate their client-agency contract either on relatively short notice, generally between three and six months, or on the anniversary date of the contract's signing. Some clients also put their advertising and communications contracts up for competitive bidding at regular intervals. In addition, there is a general tendency for advertisers to reduce the number of agencies with which they work in order to concentrate spending on a limited number of leading agencies, which increases competition and the risk of losing a client. Finally, the ongoing consolidation of clients around the world increases the risk of losing a client following a merger.

A significant portion of our revenues comes from large clients.

Our top five and ten clients represented approximately 25% and 35%, respectively, of our consolidated revenue in 2006. One or several of these large clients may decide to switch advertising and communications agencies or to reduce or even stop spending on advertising at any time for any reason. A substantial decline in the advertising and communications spending of our major clients or the loss of any of these accounts could have a negative impact on our business and earnings.

Conflicts of interest between our clients who compete with each other in the same business sector may negatively impact our business development.

The Group has several different agency networks, which tends to limit potential conflicts of interest. However, unless the client's consent is obtained, an agency may not offer its services to a competitor of that client or an advertiser perceived as such. This could negatively impact our growth and have a negative impact on our business and earnings.

We may be exposed to liabilities from allegations that certain of our clients' advertising claims may be false or misleading or that our clients' products may be defective.

We may be, or may be joined as, a defendant in litigation brought against our clients by third parties, our clients' competitors, governmental or regulatory authorities or consumers. These actions could involve claims alleging, among other things, that:

- advertising claims made with respect to our clients' products or services are false, deceptive or misleading;
- our clients' products are defective or injurious and may be harmful to the others; or
- marketing, communications or advertising materials created for our clients infringe on the proprietary rights of third parties since client-agency contracts generally provide that the agency agrees to indemnify the client against claims for infringement of intellectual or industrial property rights.

The damages, costs, expenses or attorneys' fees arising from any of these claims could have an adverse effect on our prospects, business, results of operations and financial condition to the extent that we are not adequately insured against such risks or indemnified by our clients. In any case, the reputation of our agencies may be negatively affected by such allegations.

Our business is highly dependent on the services of our management and our employees.

The advertising and communications industry is known for a high mobility among its professionals. If we lose the services of certain management members and other employees, our business and results could be harmed. Our success is highly dependent upon both the skills of our creators, sales representatives and media personnel, as well as on their relationships with our clients. If we were unable to continue to attract and retain additional key personnel, or if we were unable to retain and motivate our existing key personnel, our prospects, business, results of operations and financial condition could be adversely affected.

Our strategy of development through acquisitions and investments can be risky.

Our business strategy includes, among other things, enhancing the range of our existing advertising and communications services. We have made a number of acquisitions and other investments in furtherance of this strategy and may make additional acquisitions and investments in the future. The identification of acquisition candidates is difficult and we may not correctly assess the risks related to such acquisitions and investments. In addition, acquisitions could be effected on terms less satisfactory to us than expected and the newly acquired companies may not be successfully integrated into our existing operations or in a way that produces the synergies or other benefits we hope to achieve. This could adversely affect our earnings.

Goodwill on acquisitions and intangible assets, including brands and client relationships, accounted for on the balance sheets of acquired companies may be subject to adjustment.

We have a large amount of goodwill on our balance sheet reflecting our acquisitions. Due to the nature of our business, our most important assets are intangible assets. We conduct annual appraisals of goodwill on acquisitions to determine whether value has been impaired. The assumptions used to estimate future earnings and cash flows for the purpose of these valuations may prove to be incorrect and actual results may differ. If we were to recognize such value impairments, the resulting loss in book value could have a negative impact on our earnings and financial condition.

We may not achieve announced numerical targets.

We have publicly announced a number of financial and operating targets related to growth and operating margin rate, among other things. Our targets are used for internal purposes to assess performance, but should not be considered as projections or guidance as to

what we expect actual results to be. Our ability to achieve these targets is subject to a number of risks and other factors, including, among other things, the risks described in this Item 3 "Key Information □ Risk Factors,□ and in Item 5 "Operating and Financial Review and Prospects □ Overview and Outlook.□

We are exposed to a number of risks from operating in developing countries.

We conduct business in a number of developing countries around the world. The risks associated with conducting business in developing countries can include slower payment of invoices, nationalization, social, political and economic instability, increased currency exchange risk and currency repatriation restrictions. We may not be able to insure or hedge against these risks. In addition, commercial laws and regulations, which may apply in many of these countries, can be vague, arbitrary, contradictory, inconsistently administered and retroactively applied. It is, therefore, difficult to determine with certainty at all times the exact requirements of these laws and regulations. Non-compliance, true or alleged, with applicable laws in developing countries could have a negative impact on our prospects, business, results of operations and financial condition.

Downgrades of our credit ratings could adversely affect us.

Since 2005, we have had credit ratings, which are currently BBB+ from Standard & Poor's, and Baa2 from Moody's Investors Service. Any ratings downgrade may adversely affect our ability to access capital on the same terms as we have currently and would likely result in higher interest rates on any future indebtedness.

Some provisions of our statuts (by-laws) may make takeovers more difficult.

Our *statuts* (by-laws) provide double voting rights for shares owned by any shareholder in registered form for at least two years. Our shareholders have also authorized our Management Board to increase our capital in response to a third-party tender offer for our shares. These circumstances could have the effect of discouraging or preventing a change in control of our company without the consent of our current management.

We are subject to corporate disclosure standards that are less demanding than those applicable to some U.S. companies.

As a foreign private issuer, we are not required to comply with the notice and disclosure requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), relating to the solicitation of proxies for shareholders' meetings. Although we are subject to the periodic reporting requirements of the Exchange Act, the periodic disclosure required of non-U.S. issuers under the Exchange Act is more limited than the periodic disclosure required of U.S. issuers. Therefore, there may be less publicly available information about our company than is regularly published by or about other public companies in the U.S.

Item 4. Information on the Company

HISTORY AND DEVELOPMENT OF THE COMPANY

The legal name of our company is Publicis Groupe S.A. and its commercial name is Publicis. Our company is a *société anonyme*, with a Management Board and a Supervisory Board, a form of corporation. It was incorporated in France on October 4, 1938 for a term of 99 years, which will expire on October 3, 2037 unless it is extended. Our registered office is located at 133, avenue des Champs-Élysées, 75008 Paris, France, and the phone number of that office is +33 1 44 43 70 00.

Historical Background

Founded in 1926 by Marcel Bleustein-Blanchet, our company takes its name from the combination of "Public," for "Publicité" or advertising in French, with "six" for 1926. Our founder's object was to turn advertising into a true profession, creating value for society and applying strict codes of ethics and methodology, and in so doing making his business a pioneer for new technologies.

The new agency quickly made its mark, winning widespread recognition. At the beginning of the 1930s Marcel Bleustein-Blanchet was the first to recognize the power of radio broadcasting, a new form of media at the time, to establish brands and became the exclusive representative for sales of advertising time on the French government-owned public broadcasting system. In 1934, following

Edgar Filing: PUBLICIS GROUPE SA - Form 20-F

a government ban on advertising on French government-owned public radio stations, he created *Radio Cité*, the country's first private radio station.

In 1935, he teamed up with the Chairman of Havas in a company named *Cinéma et Publicité*, the first French company specialized in the sale of advertising time in movie theaters, and three years later launched *Régie Presse*, an independent subsidiary dedicated to the sale of advertising space in newspapers and magazines.

Following closure during the Second World War, Marcel Bleustein-Blanchet reopened Publicis in 1946, continuing relationships with pre-war clients and going on to win major new accounts with clients such as Colgate Palmolive, Shell or Sopad-Nestlé. Realizing the importance of qualitative research, he made Publicis the first French marketing agency to conclude, in 1948, an agreement with survey specialist IFOP and followed this up with the creation of an in-house market research unit. In 1959, Publicis set up its *Industrial Information* department, a forerunner of modern corporate communications. At the end of 1957, Publicis moved into the former Hotel Astoria at the top end of the Champs Elysées and in 1958 its first Drugstore, set to become a Paris icon, opened on the first floor.

During the years from 1960 to 1975, Publicis posted rapid growth, benefiting in particular from the beginnings of French TV advertising in 1968, which began with a campaign for Boursin cheese, the first TV-based market launch in France, using the slogan *Du pain, du vin, du Boursin* (bread, wine and Boursin), soon familiar to everyone in France. A few months later, Publicis again demonstrated its capacity for effective innovation, advising Saint Gobain in its successful defense against a hostile takeover bid, the first in France's history, from BSN. Publicis was admitted to the Paris stock exchange in June 1970, 44 years after its foundation.

On September 27, 1972, our headquarters building was destroyed by fire and we had to rebuild it. We began pursuing a strategy of expansion in Europe through acquisitions the same year, with the acquisition of the Intermarco network in the Netherlands, followed by that of Farner in Switzerland in 1973 and the creation of the Intermarco-Farner network to back the expansion of major French advertisers in other parts of Europe. In 1977, Maurice Lévy was appointed Chief Executive Officer of Publicis Conseil, our main French business and in 1987, Marcel Bleustein-Blanchet decided to overhaul our governance structures with a Supervisory Board and Management Board replacing the Board of Directors. He became Chairman of the Supervisory Board and Maurice Lévy was named Chairman of the Management Board.

In 1978, Publicis made a move into the U.K. with the acquisition of McCormick, and by 1984 had 23 operations around the world. In 1988, it formed a worldwide alliance with Foote, Cone & Belding Communications (*FCB*) in the U.S., which merged with Publicis' European network. A growing international presence benefited from the association with FCB to raise our profile with U.S. advertisers. Growth accelerated in the 1990s, when highlights included the acquisition of FCA! in 1993, France's number-four communications network, followed by its merger with BMZ to form its second European network under the name FCA! BMZ. In 1995, Publicis' alliance with FCB was terminated.

On April 11, 1996, Publicis' founder died and his daughter, Elisabeth Badinter, replaced him as the head of the Supervisory Board. Maurice Lévy increased the drive to build an international network and offer clients the fullest possible presence in markets around the world. Publicis accelerated its acquisition program with global expansion that included Latin America and Canada, and subsequently the Asia Pacific region, India, the Middle East and Africa.

The U.S. was a prime focus from 1998 on, reflecting a strategic commitment to building our presence in the world's largest advertising market. Acquisitions included Hal Riney, then Evans Group, Frankel & Co (relationship marketing), Fallon McElligott (advertising and new media), DeWitt Media (media buying) Winner & Associates (public relations) and Nelson Communications (healthcare communications).

In 2000, Publicis acquired Saatchi & Saatchi, a business with a worldwide reputation for talent and creativity and a tumultuous history. This was a major milestone in its expansion in both Europe and the U.S. In September 2000, Publicis was listed on the New York Stock Exchange.

In 2001, Publicis Groupe created ZenithOptimedia, a major international contender in media buying and consultancy, by bringing together its Optimedia subsidiary with Zenith Media, which was previously equally owned by Saatchi & Saatchi and the Cordiant group.

In March 2002, Publicis announced its acquisition of the U.S. group Bcom3, which controlled Leo Burnett, D[Arcy Masius Benton & Bowles, Manning Selvage & Lee, Starcom Mediavest Group and Medicus, and held a 49% interest in Bartle Bogle Hegarty. In connection with these transactions, Publicis also established a strategic partnership with Dentsu, the leading communications group in the Japanese market and a founding shareholder of Bcom3. With this acquisition, Publicis Groupe took its place in the top tier of the advertising and communications industry, ranking fourth worldwide based on reported revenues with operations in 104 countries over five continents.

In the years from 2002 to 2006, Publicis successfully completed the integration of the BCom3 and Saatchi & Saatchi acquisitions, reorganized many of its entities, and at the same time made complementary acquisitions to build a coherent offering matching advertisers' needs and expectations. In particular, Publicis acquired agencies offering a variety of marketing services and operating in emerging markets. In late 2005, the group also obtained its first credit ratings (investment grade) from the two major international rating agencies, Standard & Poor's and Moody's.

In 2006, Publicis launched a friendly tender offer for Digitas, Inc., which was successfully completed in 2007. See "Principal Investments and Divestitures."

PRINCIPAL INVESTMENTS AND DIVESTITURES

Principal investments in the past three years

Historically, our principal investments have involved the acquisition of other advertising and communications firms as a result of our strategy of global expansion. In the years following our acquisition of Bcom3 in 2002, we concentrated on acquiring small and mid-sized agencies specialized in different areas of marketing services or operating in emerging markets. At the end of 2006, we initiated an important investment by launching a friendly cash tender offer for Digitas Inc., one of the most important interactive communication agencies in the United States (described further below).

In 2004, we chose a strategy of making smaller and selective acquisitions in order to prioritize debt reduction and the improvement of our financial ratios, to focus on the integration of the Bcom3 acquisition under the best possible conditions. Our main acquisitions were Thompson Murray, a U.S. shopper-marketing agency (marketing at the point of sale) that is now a key component of our Saatchi & Saatchi X marketing services network, and the purchase of a majority interest in United Campaigns, Publicis Worldwide's partner agency in Russia. We also acquired an event communications agency in the U.S. and made earnout payments, and acquired minority interests in various agencies, parts of which had been acquired in the past, such as Triangle Group, Grupo K / Arc, Media Estrategia, and ECA2.

These acquisitions involved investments of approximately \$124 million in total. We also invested an additional \$104 million in other property, plant, equipment and intangible assets (net of disposal).

In 2005, Publicis pursued its strategy of targeted expansion with the acquisition of a 50.1% majority interest in Freud Communications, a leading U.K. public relations agency; the acquisition of eventive, the top event marketing specialist in Germany and Austria; and the acquisition of PharmaConsult, a leader in healthcare communications in Spain. Acquisition outlays totaled \$42 million. Publicis also made earnout and buyout payments for minority interests in various subsidiaries in Europe, Asia and North America amounting to a total of \$29 million. Publicis also sold several equity interests held by its Médias & Régies Europe entity in 2005, for a total amount of \$98 million. These included 50% of the equity of each of JC Decaux Netherlands, VKM, SOPACT and Promométro, and 33% of Métrobus (France). As a result of the foregoing, the net amount of acquisitions and divestitures totaled over \$27 million in 2005. Total investments in tangible and intangible assets, net of divestments, were limited to \$75 million in 2005.

In 2006, we pursued several initiatives in the new technology sector, in particular with the launch of Denuo, a strategic initiative aimed at anticipating and using the interactive and mobile digital communication sector, which is currently undergoing rapid transformation. The Denuo model is based on three main elements: strategy consulting, invention of new solutions and investment in partnerships. Denuo acts in partnership with or as a supplement to networks in order to enhance the solutions proposed to clients. It also serves its own clients independently. In another domain of new technology, Publicis Groupe and Simon Property Group, a leader in the North American commercial real estate sector, launched OnSpot Digital Network. It is a digital cable channel in

high definition, which proposes programs on "the art of living," current events, topics specific to shopping centers and advertising for the general public, aimed at the clientele of the Simon Malls in several major American cities. OnSpot Digital Network broadcasts high definition

content on approximately 2,000 screens in 50 of the largest Simon Malls in 10 major American cities. Also, in a more traditional area of digital communication, we acquired two distinct divisions which were then integrated into the ZenithOptimedia network: Moxie Interactive, based in Atlanta and specialized in interactive media advising and purchasing, and Pôle Nord, based in France, which is among the very best communications agencies for keyword researches on the internet.

Over the course of 2006, we also finalized several projects in a number of major emerging markets or in certain fields of marketing services. We acquired a 60% majority interest in Solutions Integrated Marketing Services, the leading marketing services agency in India. We completed the acquisition of 80% of Betterway Marketing Solutions, one of the largest marketing services agencies in China. We acquired Emotion, one of the main event communication groups in Asia (present in eight countries and especially active in China and Japan). We also acquired Duval Guillaume, the leading independent advertising and marketing services agency in Belgium. We also acquired a majority controlling stake in Capital MS&L in the United Kingdom, a financial communications agency as well as a majority interest in Yorum, Bold and Zone, which is among the most creative and dynamic Turkish communication agencies.

Furthermore, on February 15, 2006, Publicis and Dentsu announced, in the framework of our strategic alliance, a business cooperation agreement covering France and Germany. Under this agreement Paname (France) and BMZ+more (Germany) will play a pivotal role in the relationship with Japanese advertisers in these two markets.

In healthcare communications, the Group acquired BOZ, consolidating its position in France.

On December 20, 2006, we launched a friendly cash tender offer to acquire Digitas Inc. for \$1.3 billion. The acquisition will make Publicis Groupe one of the world leaders in digital and interactive communications. The acquisition was completed in January 2007, with Publicis acquiring 93.7% of the shares of Digitas and subsequently merging Digitas with a Publicis subsidiary. See [Principal current investments](#).

The acquisition cost (excluding transferred cash) of the entities acquired in 2006 was €130 million, €49 million of which was paid in that year. €32 million was committed for earn-out payments and minority interest purchases.

The Group also acquired 3,020,496 of its own shares in 2006 (representing 1.5% of its share capital) for a total amount of €88 million.

Principal current investments

In December 2006, Publicis Groupe launched a friendly cash tender offer to acquire Digitas Inc., a leader in the marketing services field and the digital and interactive communications sector.

At the close of the second offer stage on January 29, 2007, the Group acquired, through one of its American subsidiaries, approximately 93.7% of Digitas' share capital. On January 31, 2007, after a short-form merger, Digitas became a wholly-owned subsidiary of MMS USA Holdings, which is itself wholly-owned by the Group.

Digitas, Inc., created in 1980 and listed on Nasdaq in March 2000, is headquartered in Boston and has 2,050 employees. The Digitas group is an American leader in marketing services and in digital and interactive communication, supported by its talented teams. The group includes three entities:

- *Digitas* is a communications agency that specializes in digital communication and direct marketing services (100% digital). It was created in 1980 and received wide recognition. It successfully created a creative offering combining traditional and interactive media, and received numerous awards at the Cannes festival. Digitas is based in Boston, New York, Chicago and Detroit;
- *Medical Broadcasting (MBC)* is a health communications agency specializing in marketing services in the health sector and benefiting from exceptional scientific and medical expertise, which was created in 1990. It offers its clients that include pharmaceutical and industrial health laboratories a large spectrum of integrated communication programs (100% digital). MBC also developed several online and

web-specific tools. MBC is based in Philadelphia;

- *Modem Media (MM)* is a pioneering agency in interactive communication, which was founded in 1987. It serves its numerous global clients helping them to optimize results from their marketing tools and to generate client loyalty. MM has been

involved in many innovative projects in its sector (100% digital) and believes it was the first to combine offline and online marketing. MM is active in Atlanta, Norwalk, San Francisco and London.

Clients of Digitas Inc. include American Express, AstraZeneca, AARP, Bristol-Myers Squibb, Cingular, Delta Air Lines, General Motors, Heineken, HP, Home Depot, IBM, InterContinental Hotels Group, Kraft Foods, Lloyds TSB, P&G, Pfizer, Sanofi-Aventis, Time Warner, Whirlpool, Wyeth, and Wells Fargo.

This acquisition is a perfect illustration of our strategy with respect to the most dynamic of the marketing services and communication markets -- the market for digital, interactive and mobile services. In joining our global capabilities with Digitas, Inc., we will become one of the world leaders in the domain of digital communication and marketing services. With this additional acquisition, we will be able to serve our clients better by guiding them into the digital future.

In addition, on March 7, 2007, we announced the acquisition of Pharmagistics, a communications agency in the health sector, based in Somerset, New Jersey, and specializing in direct marketing, sales subject to the PDMA (Prescription Drug Marketing Act), and logistical services between pharmaceutical and biotechnology companies and the practitioners. This strategic acquisition marks a new stage for Publicis Healthcare Communications Group (PHCG) and reinforces its position as world network leader in the communication and health sectors. However, the completion of the acquisition is subject to obtaining administrative authorization, which is currently in progress.

On April 2, 2007, we announced the acquisition, subject to regulatory approval, of 51% of Yong Yang, a network specializing in field force logistics and retail and promotional marketing, based in Chengdu, with 29 offices across China. This transaction expands our marketing services operations in the fast-growing Chinese market.

These three acquisitions were, or will be, financed with available cash. Except as described above, we have not undertaken any current material investments since December 31, 2006.

Future capital expenditures and divestitures

The Group intends to focus its future investments on selectively expanding either its service offerings or its geographic scope. The Group also intends to grow in sectors or countries where it already conducts business, taking advantage of any available opportunities for growth.

The main priorities in expanding business are specialized communications, in particular in direct marketing, public relations, event marketing, Customer Relationship Management, interactive communication and health communication. Such acquisitions on the primary global markets should allow the Group to generalize a holistic offer for its clients. In addition, in terms of geography, the Group will seek selective acquisitions in the rapidly developing regions such as China, India or other Asian countries, Latin America or Russia.

As of December 31, 2006, the Group also has commitments with respect to earnout payments of €140 million and minority interest acquisitions of €176 million, for a total of €316 million, €116 of which could be payable within less than one year.

BUSINESS OVERVIEW

Since its acquisition of Bcom3 in 2002, Publicis Groupe has ranked fourth in communications worldwide, behind Omnicom, WPP and Interpublic based on reported revenues. We currently have operations in more than 200 cities in 104 countries on five continents, and we had almost 40,000 employees as of December 31, 2006.

Publicis is not only the number four group worldwide, but also holds a leading position in each of the world's 15 largest advertising markets, except Japan, and is one of the top communications groups in Europe, North America, the Middle East, Latin America and Asia. In Japan, Publicis has access to the Japanese market through our strategic partnership with Dentsu, which we established in 2002.

Business lines

While internal management, reporting and compensation systems are not organized by activity, Publicis Groupe does provide the financial markets with information concerning the relative weight of different lines of business solely for the purpose of allowing sector comparisons. The Group's principal lines of business consist of traditional advertising, specialized agencies and marketing services (SAMS), and media services, which represented 44%, 30% and 26% of 2006 revenues, respectively, and 46%, 28% and 26% of our 2005 revenues, respectively. These percentages will change significantly in 2007 after the integration of Digitas, Inc. According to preliminary indications, the distribution of our revenues after the integration of Digitas will be 42% from traditional advertising, 34% from SAMS and 24% from media, based on our 2006 revenues. Digital and interactive communication sector should represent approximately 15% of our revenues.

These lines of business include the following:

- *Traditional advertising services.* We provide traditional advertising services primarily through the Publicis, Saatchi & Saatchi and Leo Burnett networks. We also conduct our traditional advertising operations through smaller, local units that respond to specific needs of particular clients, such as Fallon, a Bartle Bogle Hegarty agency based in the U.K., in which we have a 49% interest, as well as Marcel and the Kaplan Thaler Group.
- *Specialized Agencies and Marketing Services (SAMS).* To complete or replace our traditional advertising services, we provide a variety of specialized communications services such as public relations, corporate and financial communication, healthcare communication (aimed at answering the specific needs of the pharmaceutical industry), direct marketing, sales promotion, CRM (Customer Relationship Management), interactive communications, events communications and design. A number of subsidiaries, including mainly Publicis Dialog, Arc Worldwide, Publicis Healthcare Communications Group (PHCG), Publicis Public Relations and Corporate Communications Group (PRCC), and Publicis Events Worldwide provide SAMS. These specialized communications services are generally provided in conjunction with traditional advertising services. Digitas, Inc., one of the leaders in interactive communication in the United States acquired in early 2007, will be an important SAMS provider.
- *Media services.* We offer media planning and consulting services, as well as media and advertising space purchasing services, through PGM Publicis Groupe Media, Starcom MediaVest Group, ZenithOptimedia and Denuo. (Denuo was recently formed to advise on new media). In addition, the Group owns, primarily in France, an advertising space sales business called Médias & Régies Europe for advertising in the press, cinema, billboards and on the radio.

Strategy

With our acquisition of Saatchi & Saatchi in 2000, and our acquisition of Bcom3 and formation of a partnership with Dentsu in 2002, we chose to become a top tier global advertising and communications group, rather than a small and specialized company. Today, considering the size we have reached, our overall priority is to build and maintain a "holistic relationship" with our clients and to increase our geographical presence and the scope of services we provide on a country-by-country basis through both acquisitions and the creation of new teams.

Following our major external growth transactions from 2000 to 2002, we focused on consolidating the acquired entities and simplifying our financial structure beginning in 2003. This focus led us to successfully integrate acquired companies, to benefit from significant synergies and to strengthen and simplify our balance sheet. Our strategy of increasing liquidity and decreasing leverage allowed us to receive investment grade ratings from Moody's and Standard & Poor's in 2005. At the same time, we implemented a number of initiatives with the goal of reducing general and operating expenses, including the Horizon Program, which involves sharing resources between operating units, centralizing back office functions for our smaller operations in emerging market countries and introducing a policy of centralized travel-related purchases.

Following the implementation of these strategic initiatives, we benefit from a number of important advantages. These include the presence of our teams in 104 countries, a diverse client portfolio that includes industry leaders, and financial stability, which should allow us to implement significant strategic initiatives in a market that is in the process of profound transformation, reflecting:

- the penetration of digital technology into daily life;

- the growth of media offerings;
- the explosion of mobile telephony;
- the growth of internet business; and
- remarkable growth in demand in emerging markets.

Our goal in this new business environment is to realize a significant share of our revenues from rapidly growing segments by 2010. To achieve our goal, the main components of our strategy are the following:

- *Expand our SAMS operations* □ *Specialized Agencies and Marketing Services*. We intend to expand our existing SAMS operations on a global scale, in particular by making selective acquisitions and by providing direct marketing, sales promotion, CRM (Customer Relationship Management), corporate, financial, interactive and special events, communications and public relations services. We believe that providing these services will help us to build and maintain a □holisticrelationship□ with our clients and to take advantage of these trends.
- *Develop our offerings of digital, interactive and mobile communication services*. We are currently implementing a major strategic movement focused on developing digital services offerings in all of our divisions (advertising networks, media networks and specialized agencies). This policy is reflected in our January 2007 acquisition of Digitas, Inc., which represents an essential step in the development of our digital services offerings, which we intend to expand to other parts of the world. Our goal is to generate 25% of our revenues from digital, interactive and mobile communication by approximately 2010.
- *Accelerate our growth in targeted emerging markets*. We intend to develop our presence in emerging markets largely through acquisitions. We believe that these markets are experiencing faster growth and have potential that is superior to the world's average. Benefiting from our leading position in China, Russia, Turkey, Mexico and Brazil, we hope to accelerate our development in ten priority markets, which include these five countries and India. We intend to pursue acquisition opportunities, mainly in the marketing services, health communication and interactive communication sectors. Our goal is to generate 25% of our revenues from emerging markets by 2010.
- *Pursue growth supported by sound financial framework*. Our acquisitions must satisfy profitability and financial stability criteria. We intend to seek targets with significant potential for synergies or improvement in operating margin, which also present a good fit for our corporate culture and values. Our efforts over the past several years to improve our cash flow should allow us to finance our targeted external growth, while preserving the structural soundness of our balance sheet. See Item 5 □Operating and Financial Review and Prospects.□

SERVICES AND BUSINESS STRUCTURE

We provide a full range of advertising and communications services, designing a customized package of services to meet each client's particular needs. These services generally fall into three major categories: traditional advertising, SAMS and media consulting and purchase services.

Traditional Advertising

Services

Traditional advertising services principally involve the creation of advertising for products, services and brands. They may also include strategic planning involving analysis of a product, service or brand compared to its competitors through market research, consumer behavior studies, sociological and psychological studies and creative insight. When a concept has been approved by a client, we supervise the production, whether internal or

by a third party, of materials necessary to implement it, including film, video, radio, advertising in newspapers, internet or interactive media, as well as cell phones and all electronic materials.

Business Structure

Our primary networks are Publicis, Saatchi & Saatchi and Leo Burnett, each boasting a unique cultural background, methods and creative styles. Each network offers broad advertising services but also includes some SAMS operations.

- *Publicis*: This network, headquartered in Paris, operates in 80 countries around the world, including Europe and the United States, and includes the agencies Publicis & Hal Riney, Burrell Communications and Bromley Communications, as well as Publicis Dialog, which has operations in 44 countries, in order to provide a comprehensive services offering.
- *Saatchi & Saatchi*: This network headquartered in New York operates in 83 countries around the world and consists principally of Saatchi & Saatchi agencies, as well as Saatchi & Saatchi X, a worldwide marketing services network organization (shopper's marketing), which operates mostly in the U.S. It also includes The Facilities Group, a U.K.-based group that provides a range of technical and creative services in the areas of design, audiovisual production and print.
- *Leo Burnett*: Headquartered in Chicago, the Leo Burnett network operates full service advertising agencies in 84 countries around the world. It also possesses the international network Arc Worldwide for SAMS marketing services units which primarily focus on direct and interactive marketing and sales promotion.

The Group also includes multihub creative networks and regional advertising agencies (each with different structures and creative styles), in order to satisfy specific client requirements.

- *Fallon*: This network is headquartered in Minneapolis and has regional offices in London, Sao Paulo, Hong Kong, Tokyo and Singapore.
- *Bartle Bogle Hegarty (BBH)*: This U.K.-based network, in which we have a 49% interest, is located in London and has regional offices in Singapore, Tokyo, New York and Sao Paulo.
- *Others*: Other units in this category include the Kaplan Thaler Group in New York, Marcel in Paris, and Beacon Communications in Tokyo.

SAMS

Services

The full range of specialized communications services we offer complements or replaces our traditional advertising activities within a given communications campaign, or provides a mean of communication for specific targets or products (in particular, healthcare communication and multicultural communication). Services provided by our SAMS operations include:

- *Direct marketing and Customer Relationship Management (CRM)*: CRM focuses on building clients' relationships with individual customers, with the goal of developing customer loyalty through the use of different communication channels and of direct marketing techniques (such as mail, internet, telephone), as opposed to traditional mass communication-style advertising, which resort to mass communication. Through our CRM operations, we assist clients in creating programs to reach individual customers and enhance brand loyalty. In addition, we provide the appropriate tools and database support to maximize the efficiency of those programs.
- *Sales promotion and point-of-sale marketing*: Our sales promotion operations seek to determine the most effective means for communicating with consumers at the location of sale, and to increase sales either

directly through point-of-sale promotions, or through coupon programs and similar means.

- *Healthcare communications:* We have a network of agencies that work mainly with clients in the healthcare industry to allow them to reach professional customers such as doctors and other medical professionals, in contrast to mass communications for drugs, which are often managed by [generalist] advertising agencies. We provide marketing services that cover the entire life cycle of a drug from consulting prior to the release on the market, to advertising, to medical conferences and symposia, to public relations, to sales personnel recruitment and training.

- *Multicultural and ethnic communications:* Some of our agencies, mainly based in the U.S. market, have developed expertise in creating advertising and communications services aimed at specific ethnic groups, particularly African-Americans and Hispanics in the U.S.
- *Corporate and financial communications:* We provide corporate and financial communications services designed to help clients build a company's image and deliver their message to investors, employees and public authorities and, in particular, to help clients achieve their goals in connection with mergers and acquisitions, initial public offerings, spin-offs, proxy contests and similar matters. We also provide services aimed at helping clients address the communications and public relations aspects of publicized crises and other major events.
- *Human resources communications:* Through our human resources operations, we create employee recruitment-related advertising, including classified advertising and campaigns in particular, in the press or on the internet, to improve a client's overall image to attract the talent of prospective applicants for companies seeking job applicants and recruiting firms. We also assist clients in developing internal communications programs, which aim to mobilize and develop loyalty with employees.
- *Public relations:* Our public relations services are designed to assist clients with the management of their ongoing relations with the press, specialized audiences and the general public on commercial or institutional topics, client identity or products or services and to develop an image that is consistent with the strategy. These services include: (i) strategic message and identity development to help clients position themselves in their markets and differentiate themselves from their competitors, (ii) product and company launch or re-launch services, which aim to create awareness of and position a product or company with customers, (iii) media relations services, which help clients enhance their brand recognition and image, (iv) composing messages, organization of contacts or events, and (v) creating documents or objects illustrating this strategy and these messages.
- *Design:* Our design services are intended to enhance the visual symbols that affect a client's image and to ensure that the design and packaging of products are consistent with the means used to market them.
- *Interactive communications:* Our interactive communications services consist primarily of corporate and commercial websites and intranet design, Internet-related direct marketing consulting and related services, optimization of keyword search capacities on search engines and Internet-based advertising, including banner advertisement design.
- *Events marketing:* We organize events for our clients, such as sales force conventions and business events (trade shows, meetings, exhibitions and opening ceremonies) in order to promote a corporate image consistent with the client's strategic objectives.
- *Production and pre-press:* Technologies used for the execution of advertising and communications programs including photography studios, printing and audio and video facilities, as well as digital signage and digital asset management services.

Business Structure

We provide SAMS both through independent entities within the Group and through entities which are part of our traditional advertising networks. Such entities work either for their own clients or for clients of other Group entities. Our SAMS business units include the following:

- *Direct marketing / CRM / sales promotion / interactive communications:* Arc Worldwide, Publicis Dialog and Saatchi & Saatchi X., Digitas Inc.

Edgar Filing: PUBLICIS GROUPE SA - Form 20-F

- *Healthcare communications*: Publicis Healthcare Communications Group.
- *Corporate and financial communications, public relations, human resources communications, design*: PRCC (Publicis Consultants, Manning Selvage & Lee and Freud Communications).
- *Multicultural and ethnic communications*: Bromley Communications, Burrell Communications, Vigilante and Lápiz.
- *Events communications*: Publicis Events Worldwide.

- *Production, prepress:* Capps, Mundocom, WAM, MarketForward.

Media Operations

Services

Our media operations services include the use of media planning analysis to ensure the use of the most effective forms of media and the purchasing of the best suited advertising space for our clients. We also run a separate media sales service for specific advertising media. Such services are described in more detail below.

- *Media planning:* Our media planning operations use computer software and data analysis related to consumer behavior and audience analysis of different media to build the most effective plan to conduct an advertising or communications strategy, tailored to the marketing objectives, the target audience and the budget of our clients.
- *Media buying:* Our media buying operations purchase media space for our clients (including television, print, radio, Internet, and cell-phones) necessary to implement clients' strategies, using our experience and buying power to obtain favorable rates and terms and conditions for our clients.
- *Media sales:* Our media sales operations provide advice regarding advertising space and products (outdoor media, print, radio and movie theaters) to advertising and media buying firms on behalf of media companies. In some instances, they sell space to advertising and media buying operations that are part of our group. They do so, however, on an arm's length basis, dealing with those businesses on the same terms as other customers.

Business Structure

- *Media planning and buying:* Publicis Groupe Media (PGM) is comprised of ZenithOptimedia Group and Starcom MediaVest Group, two independent entities. ZenithOptimedia, based in London, conducts media services operations in 68 countries around the world. It has a strong presence in the U.K., the U.S., Germany, France and Spain. Starcom MediaVest Group, based in Chicago, conducts media services operations in 67 countries around the world, with a particularly strong presence in the U.S. In 2006, PGM launched Denuo, an agency specialized in consulting on and monitoring of new technologies (such as internet, video games, mobile phones, iPod).
- *Media sales:* We conduct media sales activities through Médias & Régies Europe and its subsidiaries, including Métrobus (poster and billboard advertising in France), Régie 1 (radio in France), Médiavision (movie theater advertising internationally, though mainly in France), and Médiavista (screens located in shopping centers in France and the U.S.). In 2006, M&RE launched in the United States a television channel and a network of plasma screens located exclusively in shopping centers in partnership with Simon Malls, OnSpot Digital.

Headquarters

Publicis Groupe S.A. is our holding company whose main purpose is to provide advisory services to Group companies. The total cost of such services rendered by the Company and certain of its subsidiaries amounted to approximately \$50 million in 2006, which was allocated to the operating entities of the Group on the basis of their relative cost of services received. In addition, the holding company holds the medium- and long-term debt of the Group.

Geographical Markets

Edgar Filing: PUBLICIS GROUPE SA - Form 20-F

We conduct operations in 104 countries and more than 200 cities around the world. Our primary markets are the U.S., Europe and the Asia Pacific region. Below, we show the contribution of selected geographical markets to our revenue for the years ended December 31, 2004, 2005 and 2006 (in millions of euros):

<i>Year</i>	Europe	North America	Rest of the World	Total
2006.....	1,747	1,842	797	4,386
2005.....	1,647	1,763	717	4,127
2004.....	1,584	1,633	615	3,832

The information by geographical area is presented in note 27 to the consolidated financial statements in this Annual Report.

Clients

We provide advertising and communications services to a large number of prestigious clients that include both national and global leaders in their industries, with approximately half of our revenues stemming from international clients, meaning clients whose accounts are managed in more than five countries. Our largest single client, Procter & Gamble, accounted for approximately 10% of our consolidated revenues in 2006, our five largest clients accounted for approximately 25%, and our ten largest clients accounted for approximately 35% of our consolidated revenues in 2006.

Payment terms are in accordance with general practice and, where applicable, regulations in the various countries where we operate.

Revenues from, and contracts with, different clients vary from year to year. Nevertheless, longstanding clients account for a particularly high proportion of Publicis Groupe's revenues. On average, our retention rate of the ten biggest clients is 45 years.

Our largest clients in 2006 were as follows:

Publicis

Cadbury-Schweppes
The Coca-Cola Company
Hewlett-Packard
L'Oréal
Nestlé
Pernod Ricard
Procter & Gamble
Renault
Sanofi-Aventis
Siemens
Telefonica
UBS
Whirlpool
Zurich Financial

Leo Burnett

The Coca-Cola Company
Diageo
Disney
Fiat
General Motors
Heinz
Kellogg
McDonald's
Philip Morris
Procter & Gamble
Samsung
Visa

Wrigley

22

Saatchi & Saatchi

Ameriprise
Avaya
Bel
Bristol-Myers Squibb/Mead Johnson
Carlsberg
Deutsche Telekom/T-Mobile
Diageo/Guinness
Emirates Airline
General Mills
JC Penney
Novartis
Procter & Gamble
Sony Ericsson
Toyota/Lexus
Visa Europe
Wal-Mart

Starcom MediaVest Group

The Coca-Cola Company
Disney
General Motors
Kellogg
Kraft
Masterfoods
Miller Beer
Philip Morris
Procter & Gamble
Sara Lee

ZenithOptimedia

20th Century Fox
British Airways
Hewlett-Packard
JP Morgan Chase
Lloyds TSB
L'Oréal
LVMH
Nestlé
Puma
Richemont Group
Sanofi-Aventis
Toyota/Lexus
Verizon
Whirlpool
Zurich Financial

Research Programs

The various entities making up the Publicis Groupe have developed different methodologies of analysis and research, in particular concerning consumer behavior and sociological developments. They have also developed software and other tools to assist them in serving clients. Most of these tools concern the media-planning businesses of ZenithOptimedia and Starcom MediaVest and the identification of the most effective channels to reach their clients' target groups. Others are integrated into agencies' strategic

planning, playing a key role in the unique brand positioning of each advertising agency and agency network, while still others are used for computerized processing of clients' marketing data, an activity conducted through our MarketForward entity. Several of these tools required significant investment in development or cooperation with outside suppliers.

The main tools used in advertising are Context Analysis and The Holistic Difference in the case of the Publicis network; Brand Stock in the case of Leo Burnett; and The Strategic Toolkit, the Story Brief, Inside Lovemarks (in association with QiQ) and Saatchi & Saatchi Ideas Superstore in the case of Saatchi & Saatchi and the Publicis Ideas IQ Protocol (developed by Saatchi & Saatchi and Publicis Groupe). In media consultancy, ZenithOptimedia uses Zoom and Touchpoints tool sets, and Starcom MediaVest uses, among others, Tardiis, Innovest, Media Pathways, BattleField, Market Contact Audit (under license from Integration), Passion Groups, Contact Destinations, Intent Tracker/Modeler, Captivation Blueprint, IPXact and Map. Finally, MarketForward offers clients Siren and BrandGuard systems.

Patents and licenses

The Company does not believe that it is materially dependent on patents, licenses and/or manufacturing processes.

Competition

Since 2002, following the acquisition of Bcom3, Publicis Groupe has been the fourth largest global advertising and communications group based on reported revenues, behind its three larger competitors: Omnicom Group, Inc., WPP Group plc and the Interpublic Group. We also compete with a number of independent local advertising agencies in markets around the world and SAMS businesses that focus on specialized areas of communications services.

Advertising and communications markets are generally highly competitive, and we continuously compete with national and international agencies for business. We expect that competition will continue to increase as a result of multinational clients' increasing consolidation of their advertising accounts with an increasingly limited number of agencies.

Governmental Regulation

Our business is subject to government regulation in France, the U.S. and elsewhere. As the owner of advertising agencies operating in the U.S. which create and place print, television, radio and Internet advertisements, we are subject to the U.S. Federal Trade Commission Act. This statute regulates advertising in all media and requires advertisers and advertising agencies to have substantiation for advertising claims before disseminating advertisements. In the event that any advertising we create is found to be false, deceptive or misleading, the U.S. Federal Trade Commission Act could potentially subject us to liability.

In France, media buying activities are subject to the *Loi Sapin*, a law intended to require transparency in media buying transactions. Pursuant to the *Loi Sapin*, an advertising agency may not purchase advertising space from media companies and then resell the space on different terms to clients. Instead, the agency must act exclusively as the agent of its clients when purchasing advertising space. The *Loi Sapin* applies to advertising activities in France when both the media company and the client or the advertising agency are French or located in France.

In many countries, the advertisement and marketing of certain products is subject to strict government regulations and self-regulatory standards, including tobacco, alcohol, pharmaceutical products and food products. New regulations or standards imposed on such products could have an adverse impact on our operations.

Seasonality

Clients' advertising and communications expenditures fluctuate, often in response to actual or expected changes in consumer spending. Because consumer spending in many of our markets is typically lower in the beginning of the year, following the holiday season, and in July and August, the most popular vacation months in

Europe and North America, than at other times of the year, advertising and communications expenditures are typically lower during these times as well. Accordingly, our results of operations are often stronger in the second and fourth quarters of the year than they are in the first and third quarters.

Insurance and Risk Coverage

Our policy regarding insurance is structured so as to insure all subsidiaries and all companies in which we hold interests or control 50% or more, directly or indirectly, or for which we assume the management or administrative control or the responsibility for insurance coverage without holding 50% or more of the voting rights.

Insurance coverage is achieved through the complementary natures of centralized and local insurance programs. The insurance programs cover the totality of insurable risks, and no risk is assumed internally.

Centralized Programs

These are programs of an international nature, such as third-party professional liability, personal liability of management, and those related to corporate relations. A worldwide [umbrella] coverage also exists, coming into effect in the case of differences in conditions or limits of local programs, particularly for property damage insurance and operating loss insurance, as well as automobile and employer's third-party liability insurance.

Local Programs

These are insurance contracts for general and employer's third-party liability, property damage and operating loss, automobile contracts, and other general risks. These contracts are concluded locally so as to be in conformity with local practices and regulations and to respond to applicable risks.

The coverage generally includes the following:

- Property damage and loss from operations: up to [160 million;
- Civil liability: from \$20 to \$80 million, depending on risks.

Terrorism risks are covered in the United States, France, and the United Kingdom, in accordance with the legal constraints in each country.

These contracts are established through brokers from large international insurance companies, such as, among others, AIG, Chubb, Zurich and Generali.

The premiums paid worldwide amounted to approximately [15 million in 2006.

Organizational Structure

Information concerning our principal consolidated subsidiaries as of December 31, 2006 is provided in note 32 in the notes to our consolidated financial statements. None of our subsidiaries accounts for more than 10% of our consolidated income.

Property, Plants and Equipment

We conduct operations in over 200 cities around the world. Except as stated below, we lease, rather than own, the office properties we use. As of December 31, 2006, we owned real property assets with a net book value of [191 million.

Our principal real property asset is the building we own and use as our headquarters at 133 avenue des Champs-Élysées in Paris. We use approximately 12,000 square meters of office space in the building for advertising and communications activities and approximately 1,500 square meters of commercial property are occupied by the Publicis Drugstore and two public cinemas.

We own four floors of the building occupied by Leo Burnett at 15 rue du Dôme in Boulogne, a suburb of Paris.

We also have a capital lease contract, which expires in 2007, on two other floors in this building. In addition, we have a capital lease contract for the Leo Burnett office building located at 35 West Wacker Drive in Chicago, Illinois, United States (assets valued at

€81 million (gross value) at December 31, 2006, depreciable over 30 years). Net value of assets under these two capital leases recorded in our consolidated financial statements is €72 million as of December 31, 2006.

After our acquisition of Saatchi & Saatchi, we owned a six-floor building located at 30 rue Vital Bouhot in Neuilly-sur-Seine, a suburb of Paris, comprising approximately 5,660 square meters of office space which was for the most part occupied by us. This building was sold on December 29, 2006 for € 33 million. This transaction resulted in a capital gain of €27 million.

We have significant information systems equipment dedicated to the creation and production of advertising, management of media buying and administrative functions.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

The following discussion should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report. The following discussion contains forward-looking statements that involve risks and uncertainties, including, but not limited to, those described under Item 3 [Key Information] Risk Factors.

OVERVIEW AND OUTLOOK

Overview

Our earnings in 2006 were solid and confirm the soundness of the strategy that we have been pursuing in recent years. In 2006, we recorded an increase in revenue of 6.3% (5.6% of which was from organic growth), an operating margin rate which improved by 60 basis points at 16.3%, and growth in net income of 15%. This strong performance reflects in particular:

- A strong volume of new business (net of accounts lost) in advertising and SAMS, as well as the media sector;
- Significant growth in all geographic regions, particularly in the emerging markets targeted by the Group's strategy. See Item 4 "Information on the Company" Strategy;
- Acquisition in SAMS and emerging markets; and
- An improvement in profitability due to decreased operating costs resulting from improvements in the Group's structure and decreased levels of depreciation.

Financially, average net debt (a term defined under [Capital Resources and Indebtedness] below) reached its lowest level since the acquisition of Bcom3 in 2002, and was €636 million in 2006. The Group generated €544 million of free cash flow before working capital requirements (as defined in [Liquidity]) in 2006.

In January 2006, Publicis made a public offer to purchase all outstanding equity warrants, which were issued in connection with the Bcom3 acquisition in 2002 (27,709,748 were outstanding at the time of the offer). The offer, which closed on February 14, 2006, was very successful. 22,107,049 warrants, representing 79.78% of all warrants, were purchased at €9 per warrant, amounting to a total of €200 million, and were subsequently cancelled. At the closing date for the 2006 accounts, the number of warrants outstanding was 5,602,699.

Also in January, the holders of the OCEANE 2018 (convertible bonds) exercised their put option contained in the terms of the bonds, which eliminated 6.5% of the supplementary bonds or 1.1 million potential shares. This concluded the balance sheet simplification process initiated in September 2004, which allowed us to eliminate 35 million potential shares.

New Business

In terms of new business, the Group's performance in 2006 was strong. The principal new business in 2006 included the following:

- in traditional advertising and SAMS: Renault (contract extended to cover Latin America and the Baltic states); Sanofi Aventis/Vaccins Pasteur (worldwide); Orange (Europe); Marriott (Asia); Kraft (marketing services Europe); JC Penney (USA); Wal-Mart (in-store marketing, USA); Sony Ericsson (worldwide); Crowne Plaza Hotel & Resorts (USA);
- in media: Washington Mutual (USA), Oracle (worldwide); Avaya (worldwide); Del Monte (Europe); Beam Global Spirits & Wine (worldwide).

The main accounts lost included, in advertising: Cadillac (USA), Heineken (USA), SFR (France), and in media: Sprint (USA) and Nokia (Asia). We also experienced certain decreases in business, including the PSG division of Hewlett Packard with respect to advertising in North America, Latin America and Europe.

The competition for new business returned to normal levels in 2006, which was a significantly less propitious year than 2004 and 2005, in which an exceptional number of new awards were open for bids. So far, 2007 appears to be once again a promising year for new business. In January alone, the Group already won a large number of new accounts, such as Wal-Mart and Fox Entertainment in the media sector, Wendy's in publicity and media sectors, and a significant part of Coca Cola budgeted spending in China.

Outlook

2007 has started well in the communications business in most geographical regions, including Europe, where growth is consolidating. Publicis Groupe should benefit from these trends, as well as from its clients' expansion and the volume of new business booked in 2006 and especially in early 2007. Organic growth should benefit from business levels in Europe and North America comparable to 2006, as well as improved performance in emerging markets. The Group's operating margin rate, excluding Digitas, should increase over the course of the year, while efforts to reduce average net debt will continue. Cash generated by operations will be used to accelerate the pace of our targeted acquisitions, particularly in the SAMS sector and in emerging markets, or to raise dividends. The integration of Digitas will involve some administrative reorganization, although we hope that the cost will be offset by expected positive results.

While pursuing targeted external growth, our goal is to maintain the structure of the balance sheet by targeting the following financial ratios:

- average net debt to operating margin before depreciation and amortization at less than 1.5; and
- net debt at the end of the year to shareholders' equity at less than 0.5, and operating margin before depreciation and amortization of at least seven times interest expense.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with IFRS for the years ended December 31, 2004, 2005 and 2006. The reported financial condition and results of operations are sensitive to accounting methods, assumptions, estimates and judgments that underlie the preparation of our consolidated financial statements. We base our estimates on our experience and on various other assumptions deemed reasonable, the result of which form the basis for making judgments about the carrying values of our assets and liabilities. Actual results may differ significantly from these estimates.

The nature of the critical accounting policies, judgments and other uncertainties that affect the application of these policies, as well as the effect of changes in the conditions and assumptions on results, should be considered together with the detailed reading of the consolidated financial statements and the discussion in this Item 5. The actual results of the Group are likely to differ from its estimates and future assumptions. The estimates and

assumptions about future events and other uncertainties related to end-of-period estimates that we believe have the greatest risk of impacting the carrying amounts of assets and liabilities in a future financial year are described below.

27

Allowance for Doubtful Accounts

The risk of uncollectibility of accounts receivable is primarily estimated on a case-by-case basis and is based on prior experience with the client and the past due status and other factors such as litigation and the condition of the debtor. Should the outcome differ from the assumptions and estimates, revisions to the estimated valuation allowances would be required.

Business Combination, Goodwill and Other Long Term Intangible Assets

Under IFRS all of our business combinations are accounted for as purchases. The cost of an acquired company is assigned to the contingent liabilities and the liabilities assumed and the assets purchased on the basis of their fair values at the date of acquisition. The determination of the fair value of assets and contingent and assumed liabilities requires us to make estimates and use valuation techniques when market value is not readily available. Any excess of purchase price over the fair value of the tangible and intangible assets acquired, minus the fair value of contingent and assumed liabilities, is allocated to goodwill.

Under IFRS we evaluate our goodwill for impairment at least annually and more frequently if specific events indicate that impairment in value may have occurred. The level we identify for impairment testing and the criteria we use to determine which groups should be aggregated require judgment. The choice of the levels at which to test could affect whether an impairment is recorded and the extent of impairment loss.

Changes in our business activities or structure may result in changes to the level at which testing in future periods will be performed. To determine whether goodwill is impaired, we use valuation techniques that involve estimating cash flows for future periods and discounting these cash flows to determine value in use. The use of different assumptions for our cash flow estimates could affect the amount of any impairment losses recognized. We also use significant judgment to determine the discount rate.

Intangible assets include principally customer relationships and trade names. Intangible assets with indefinite lives not subject to amortization (mainly trade names) are tested for impairment in the same manner as goodwill as described above. Intangible assets with definitive lives subject to amortization (mainly customer relationship) are amortized on a straight line basis with estimated useful lives generally ranging from 13 to 40 years and are tested for impairment whenever events or circumstances indicate that a carrying amount of an intangible asset may not be recoverable.

Under U.S. GAAP there is a two-step impairment test for goodwill and intangible assets with indefinite lives. In the first step, we are required to make estimates regarding the fair values of reporting units (assets and liabilities, including recorded and unrecorded intangible assets) in determining whether goodwill impairment might exist. To the extent the first step indicates a possible impairment of goodwill, the second test is performed and consists of comparing the fair values with the carrying amount of the reporting unit's goodwill in determining the amount of the impairment charge. We use valuation techniques to determine some of the fair values, which involve the same judgments as mentioned above regarding cash flows and discount rates.

Deferred Taxes

We currently have deferred tax assets resulting from net operating loss carry forwards and deductible temporary differences, which we recognize to the extent that it is more probable than not that future taxable profits will allow the deferred tax asset to be recovered. This is based on estimates of taxable income by jurisdiction in which we operate and the period over which deferred tax assets are recoverable. In the event that actual results differ from these estimates in future periods, and depending on the tax strategies that we may be able to implement, changes to the recognition of deferred tax assets could be required, which could impact our financial position and net income.

Stock-Based Compensation

A fair value approach is used in determining the award value of stock-based employee compensation in accordance with IFRS 2. We currently utilize the Black-Scholes option valuation model to determine the fair value of option awards. This valuation model utilizes several assumptions and estimates such as expected life, rate of risk free interest, historical volatility and dividend yield. If different assumptions and estimates were utilized to determine the fair value, our actual results of operations related to stock options would likely differ from the

estimates used and it is possible that differences and changes could be material. Additional information about these assumptions and estimates appears in note 28 to our consolidated financial statements.

28

For U.S. GAAP purposes, prior to January 1, 2006, stock options are valued using the intrinsic value method as prescribed by APB Opinion No. 25. Effective January 1, 2006, the Company adopted SFAS 123R using the modified prospective approach and accordingly prior periods have not been restated to reflect the impact of SFAS 123R. Under SFAS 123R, compensation expense associated with stock-based compensation awards granted prior to the adoption of SFAS 123R is recognized over the remaining vesting period (post-adoption) as if SFAS 123R had always been applied based on the fair value measurements previously used to calculate pro forma stock-based compensation expense under SFAS 123. For stock-based awards granted on or after January 1, 2006, the Company will amortize stock-based compensation expense, measured at fair value of the instrument granted, on a straight-line basis over the requisite service period.

Pension

Inherent to the valuation of our pension liabilities and the determination of our pension cost are key assumptions, which include employee turnover, mortality and retirement ages, discount rates, expected long term returns on plan assets, and future wage increases, which are usually updated on an annual basis at the beginning of each financial year. Actual circumstances may vary from these assumptions, giving rise to a different pension liability, which would directly affect shareholders' equity, in accordance with IAS 19. Additional information on the assumptions used in calculating our pension costs is presented in note 21 of the notes to our consolidated financial statements.

Organic Growth

When comparing our performance between years, we estimate the impact that foreign currency exchange rate changes, acquisitions and dispositions, and organic growth have on reported revenue. Organic growth represents the increase in revenue excluding the effects of currency exchange rates due to acquisitions and dispositions and the effects of foreign exchange rate changes, and is computed as follows:

We apply current year foreign exchange rates to prior year local currency revenue figures, excluding the effects of changes due to acquisitions and dispositions in the following manner:

- for entities acquired in the current fiscal year, we include current year revenue figures in the prior year's comparative revenue figures, in order to exclude the effect of acquisitions; and
- for entities sold in the current fiscal year, we exclude prior year revenue in order to show a comparable scope of consolidation in both fiscal years.

When, the organic growth rate is the ratio of current year revenue to adjusted prior year revenue. See the following table for more detail.

Our management believes that discussing organic growth provides a better understanding of our revenue performance and trends than reported revenue because it allows for more meaningful comparisons of current period revenue to that of prior periods. In addition, revenues excluding the effects of currency exchange rates is a key performance indicator generally used in the industry.

Organic growth is unaudited and is not a measurement of performance under U.S. GAAP or IFRS and may not be comparable to similarly titled measures of other companies.

	Total
	<i>(Millions of euros)</i>
2004	3,832
Components of revenue changes (excluding organic growth):	
Impact of exchange rate changes	27
Other changes in scope of consolidation	5
2004 Revenue at comparable exchange rates and scope of consolidation	3,864
Organic growth	263
2005	4,127

Components of revenue changes (excluding organic growth):

29

Impact of exchange rate changes	(7)
Other changes in scope of consolidation	32
2005 Revenue at comparable exchange rates and scope of consolidation	4,152
Organic growth	234
2006	4,386

Organic growth was 5.6% in 2006. It is calculated by dividing $\square 234$ million by $\square 4,152$ million (2005 revenues at comparable exchange rates and scope of consolidation). Organic growth was 6.8% in 2005 ($\square 263$ million divided by $\square 3,864$, which is 2004 revenue at comparable exchange rates and scope of consolidation).

CONSOLIDATED OPERATIONS \square 2006 COMPARED TO 2005

Statement of Income

Revenues

Consolidated revenues of Publicis for the year ended December 31, 2006 were $\square 4,386$ million, an increase of 6.3% from $\square 4,127$ million for the year ended December 31, 2005. The principal reason for this increase was organic growth (5.6%), with changes in the scope of consolidation (notably in revenues generated by specialized agencies and agencies in emerging countries) also accounting for an increase of $\square 32$ million. The impact of converting revenues of companies outside the euro zone into euros was slightly negative (a decrease of $\square 7$ million over this period). The average dollar exchange rate against the euro decreased by 1% from 2005 to 2006, but this trend reversed itself in the third quarter.

Organic growth was 6.3% in the first quarter, 7.3% in the second quarter, 2.6% in the third quarter and 6.3% in the fourth quarter. Weak growth in the third quarter reflects mainly the impact of business losses incurred at the end of 2005 and the beginning of 2006 in North America, and a policy of commercial selectivity in Asia. Decreased revenue growth in the third quarter was temporary, as the growth rates returned to higher levels in the fourth quarter.

Revenues by business line

The distribution of the Group's revenue by business line reflects the Group's strategy of concentrating on its businesses with strong growth potential, and in particular SAMS. The share of SAMS in the Group's overall revenues increased in 2006, in particular due to the acquisition of specialized agencies. The following table shows the percentage of the Group's revenues in 2005 and 2006 realized in each of the three main business lines:

	Year ended December 31,	
	2006	2005
Traditional Advertising	44%	46%
SAMS	30%	28%
Media	26%	26%

Revenues by region

Revenues in 2006 increased across all regions, and especially in emerging countries (Africa, the Middle East, Latin America, Asia Pacific and Eastern Europe), which represented 21.0% of revenues in 2006, compared to 20.1% in 2005. The following table shows the allocation of the Group's revenue by region in 2005 and 2006:

	Year ended December 31,	
	2006	2005

	<i>(Millions of euros)</i>		Change	
			<i>Total</i>	<i>Organic</i>
North America	1,842	1,763	4.5%	5.1%
Europe	1,747	1,647	6.1%	5.0%
Asia Pacific	471	435	8.3%	5.3%
Latin America	214	191	12.0%	9.3%

Edgar Filing: PUBLICIS GROUPE SA - Form 20-F

Africa and the Middle East	112	91	23.1%	20.0%
Total	4,386	4,127	6.3%	5.6%

All regions benefited from increased spending on advertising in 2005, while North America and, to a lesser degree, Europe benefited from sizable growth in the media business and healthcare communications. Although more moderate than in 2005, growth in North America remained sound in 2006, despite the impact of budget losses in late 2005 and early 2006. Business in Europe remained strong throughout 2006. Growth in other parts of the world was lower than expected, principally because of slower growth in China, Korea and Brazil in 2006.

Europe

Organic growth in Europe as a whole was 5.0% in 2006, as the Group recorded European revenues of €1,747 million. Most networks contributed to the growth, with the exception of Leo Burnett, which was impacted by losses or decreases in accounts, an insufficient level of new business bookings and changes in management teams that affected several markets in continental Europe. The strongest performances were from Starcom MediaVest, ZenithOptimedia and PHCG, which was stimulated by increased spending by and growth of some existing clients. Growth was most robust in Great Britain, Germany, Switzerland and Northern and Eastern Europe, particularly in Russia, while France and Italy showed average growth. Spain was the most difficult market in 2006, as revenues in Spain decreased compared to 2005.

North America

Organic growth was 5.1% in 2006, with North American revenues of €1,842 million recorded by the Group. The increase was primarily due to increased media buying and consultancy business (Publicis Groupe Media), healthcare communication of Saatchi & Saatchi and of the Kaplan Thaler Group, which benefited from large new accounts booked in 2005, and increased spending by some existing clients. Leo Burnett's performance improved but still failed to add significant new business bookings. Fallon suffered a decline in revenues following the loss of significant customers, including BMW, Dyson and Lee Jeans, as well as changes in management teams. Publicis North America also suffered a decline in revenues due to the loss of some clients (HP, Zales) and because of spending cuts by other clients.

Rest of the World

Organic growth in other parts of the world was 8.2% in 2006, including 5.3% in the Asia-Pacific region, 9.3% in Latin America and 20.0% in Africa and the Middle East. Revenues in the rest of the world totaled €797 million in 2006, with positive contributions from the Group's three main media buying and consultancy networks driven by new business booked locally and a strong demand, in particular from international clients. Highest growth rates were recorded in India, Mexico, Venezuela and Argentina. Growth in Asia in 2006 was relatively disappointing due to decreased business in Korea and also due to the Group's decision to be more selective in its commercial policies in China.

Operating Margin

Group operating margin before amortization and depreciation was €820 million in the year ended December 31, 2006, compared to €765 million in the year ended December 31, 2005, representing an increase of 7.2%. Personnel expenses amounted to €2,630 million, or 60% of revenues, in the year ended December 31, 2006, which represented a 50 basis points increase compared to 2005. This increase is mainly due to a necessary recruitment of personnel to service new accounts, the improvement of level of expertise on some teams and the cost of restructuring. The Group's workforce increased by 3.4% over 12 months, totaling 39,939 employees at year-end. On the other hand, other operating expenses as a percentage of revenue fell by 70 basis points (from 22.0% of revenues in 2005 to 21.3% in 2006) increasing modestly in absolute terms from €908 million in 2005 to €936 million in 2006. Total operating expenses (personnel expenses and other expenses) as a percentage of revenues was 20 basis points lower in 2006 compared to 2005.

Depreciation and amortization declined in comparison to the previous year, amounting to €107 million in the year ended December 31, 2006, and declined as a proportion of revenue from 2.8% in 2005 to 2.4% in 2006. This decrease is due to better management of investments over previous years.

Operating margin increased by 9.9% from $\square 649$ million in 2005 to $\square 713$ million in 2006. During the same period, the operating margin rate (defined as operating margin divided by total revenues) rose by 60 basis points from 15.7% to 16.3% . This improvement

is due to the decrease in depreciation and the reduction in other operational expenses which was partially offset by the increase in personnel expenses. The Group's expenses also increased in 2006 due to changes necessary to comply with the Sarbanes-Oxley Act, which amounted to €28 million in 2006 (approximately half of which was non-recurring).

Operating Margin by Region

In 2006, the Group's operating margin increased across all regions:

- Operating margin in Europe increased by more than 60 basis points in 2006, from €250 million in 2005 (15.2% of revenues) to €277 million in 2006 (15.9% of revenues). Increased operating margin resulted from programs to reduce direct operating costs (in particular, the Horizon Program, described in Item 4 "Information on the Company" Business Overview) as well as a reduction in depreciation and amortization as percentage of revenues.
- An increase in operating margin was recorded in North America in 2006, resulting from the same factors that drove the increase in Europe. Operating margin was €307 million in 2005 (17.4% of revenues) and €332 million in 2006 (18.0% of revenues).
- Operating margin improved significantly in other parts of the world, increasing from €92 million in 2005 (12.8% of revenues) to €104 million in 2006 (13.0% of revenues). This slower increase as compared with other regions is due to the necessary investment in improving operating resources (such as recruiting and office space).

Operating Income

Operating income was €689 million in 2006, compared with €652 million in the previous year (which represented an increase of 5.7%). The 2006 figure reflected amortization of acquisition-related intangibles in the amount of €22 million, an impairment charge of €31 million relating to the Johnston & Associates agency in the United States and the events agency in Austria and other income of €29 million (mostly representing capital gains from the sale of the Saatchi & Saatchi building in the Paris region). In 2005, operating income included €87 million in capital gains from the sale of various assets of Médias & Régies Europe.

Other Income Statement Items

Net interest expense and other financial expense

The Group's net financial result, consisting of the net interest expense and other financial expense, was €50 million in 2006, compared with €92 million in 2005. This significant reduction in net financial expense is primarily due to an increase in financial income resulting from increases in interest rates in the U.S. and to an increase in cash and cash equivalents. The cost of the OCEANE 2018 was also reduced following the exercise of the put option in January 2006.

Income Tax

The tax rate was 30.2% in 2006 (compared to 32.0% in 2005). This rate, which places the Group one year ahead of its objectives for 2007, reflects the continuation of efforts by the Group to optimize its tax positions and simplify legal structures. The tax charge for the year was €192 million in 2006, compared to €157 million in 2005. This increase of 22.3% is due to the significant growth in consolidated results before tax, and to certain non-taxable capital gains, which were higher in 2005 than in 2006.

Net Income

The Group's share of income from companies accounted for by the equity method reached the exceptional level of €22 million in 2006, compared with €11 million in 2005, which was a result largely attributable to contributions by iSe, which registered (during the first quarter) the results of the marketing for the hospitality programs for the 2006 Football World Cup. In early January 2007, the Group announced, together with Dentsu, the dissolution of their subsidiary iSe. Minority interests totaled €26 million, a slight decrease compared with

2005. Net income attributable to Pulicis Groupe was \square 443 million in 2006, representing an increase of 14.8% from \square 386 million in 2005.

Earnings per share

Earnings per share were $\square 2.11$ in 2006, or $\square 1.97$ on a fully diluted basis, which reflected increases from the previous year of 28.6% and 24.1%, respectively. Earnings per share were $\square 1.83$ and diluted earnings per share $\square 1.76$ in 2005.

CONSOLIDATED OPERATIONS \square 2005 COMPARED TO 2004**Statement of Income****Revenues**

Consolidated revenues for the year ended December 31, 2005 were $\square 4,127$ million, an increase of 7.7% from $\square 3,832$ million for the year ended December 31, 2004. The principal reason for this increase was organic growth (6.8%), with revenue growth attributable to acquisitions net of disposals amounting to approximately $\square 5$ million. The impact of converting revenues of companies outside the euro zone into euros was slightly positive for the first time since the first half of 2002 (a gain of $\square 27$ million over this period). The dollar average exchange rate against the euro remained stable from 2004 to 2005.

Organic growth was 3.9% in the first quarter, 8.0% in the second quarter, 6.2% in the third quarter and 8.6% in the fourth quarter.

Revenue by region

Revenues showed increases in organic growth in all parts of the world where the Group operates, including a 3.8% increase in Europe, an 8.0% increase in North America, and an 11.2% increase in the rest of the world. Accounts booked in 2004 and early 2005 fueled organic growth in a number of countries, while growth in North America benefited from vigorous increases in media business and healthcare communications in 2005. The following table shows the allocation of the Group's revenue by region in 2004 and 2005:

	At December 31,			
	2005	2004	Change	
	<i>(Millions of euros)</i>		<i>Total</i>	<i>Organic</i>
North America	1,763	1,633	8.0%	8.0%
Europe	1,647	1,584	4.0%	3.8%
Asia Pacific	435	379	14.8%	10.3%
Latin America	191	159	20.1%	9.7%
Africa and the Middle East	91	77	18.2%	17.7%
Total	4,127	3,832	7.7%	6.8%

Europe

Organic growth in Europe as a whole reached 3.8% in 2005, resulting in revenues of $\square 1,647$ million in 2005. Most networks made positive contributions, other than Leo Burnett, which was impacted by deep cuts in Fiat's spending on a number of markets and management changes that affected business in a number of countries in continental Europe. Strongest performances were from Saatchi & Saatchi, Starcom MediaVest, ZenithOptimedia and, to a lesser extent, Publicis, which benefited from new accounts and increased spending by some existing clients. Growth was quickest in Eastern Europe, particularly in Russia, and Southern Europe, but countries in the north, including France, Germany and the U.K. also showed healthy rises compared to previous years. The only decline in 2005 was in the Netherlands.

North America

Organic growth reached a robust 8.0% in 2005, with revenue increasing to €1,763 million in 2005. The increase was primarily due to increased media buying and consultancy (ZenithOptimedia and Starcom MediaVest) and healthcare communications, which benefited from large new accounts booked in 2004 and early 2005. These included Nestlé, Sanofi-Aventis, JP Morgan Chase, Mattel and General Motors (in the fourth quarter of 2005) in media and Sanofi-Aventis, Takeda, AstraZeneca and Schering Plough in healthcare. Advertising agencies also had an excellent year, with particularly good showings from Saatchi & Saatchi, benefiting from accounts with Toyota, Ameriprise and Novartis, Publicis and Kaplan Thaler Group, which won the Revlon account. Leo Burnett, where a new

management team took over at the beginning of 2005, won a number of new accounts, including Samsung, Western Union, Turner Classic Movies, American Girl, Diageo and ConAgra, but these were still not on a scale to offset the residual effects of accounts lost in 2004, which included Lexmark, Gateway and Toys "R" Us, as well as fluctuations in spending by existing clients. Fallon suffered a steep decline in revenues following the loss of the Subway account in 2004 and, more recently, BMW, Dyson and Lee Jeans, as well as major shifts in management teams. In Canada, Publicis booked the Rogers Communications account, but this was partly offset by cuts in spending by other clients

Rest of the World

Organic growth in the remainder of the world reached 11.2% overall, including 10.3% in the Asia-Pacific region, 9.7% in Latin America and 17.7% in Africa and the Middle East taken together. Revenues totaled €717 million in 2005, with positive growth contributions from the Group's three main networks driven by new business booked locally and strong demand, in particular from international clients. Advertising agency networks and media buying and consultancy networks both did well. Highest growth rates were recorded in China, India, Mexico and Argentina.

Operating Margin

Group operating margin before amortization and depreciation was €765 million in the year ended December 31, 2005, compared to €699 million in the year ended December 31, 2004, showing a rise of 9.4%. Personnel expenses amounted to €2,454 million, or 59.5% of revenues, in the year ended December 31, 2005. This figure (both in relative and absolute terms), which includes the cost of stock options as required under IFRS, was slightly higher than 2004, when the percentage of revenues was 59.3%, due primarily to the recruitment of personnel to service new accounts as well as a raise in the level of expertise on some teams. On the other hand, other operating charges as a percentage of revenue fell 50 basis points (from 22.5% of revenues in 2004 to 22% of revenue in 2005), rising from €862 million in 2004 to €908 million in 2005, due in large part to cost-cutting measures undertaken by the Group during previous periods. Shared resource centers were in operation in eleven countries at the end of 2005, which countries together represented 78% of consolidated revenues, and several agencies in Latin America and Asia have pooled resources to eliminate redundancies, particularly with respect to office space. Total operating expense (personnel expenses and other expenses) as a percentage of revenues was down 30 basis points in 2005.

Depreciation and amortization was little changed from the previous year, standing at €116 million in the year ended December 31, 2005, but declined as a proportion of revenues, easing from 3.1% to 2.8%, a figure reflecting the limited capital intensity of the sector.

Operating margin rose 11.9% from €580 million in 2004 to €649 million in 2005. During the same period, operating margin rate (defined as operating margin divided by total revenues) rose 60 basis points from 15.1% to 15.7%. This improvement in the operating margin rate reflects satisfactory conversion to profit of additional revenues in the year, improved margins on some businesses such as Healthcare Communications (Publicis Healthcare Communications Group) and progress towards optimization of operations and organization.

In 2005, the Group's operating margin increased across all regions. The operating margin rate on business in Europe increased 50 basis points primarily due to reduced operational costs and optimization of organization. The operating margin rate in North America rose 30 basis points, benefiting in particular from more efficient use of office space. In the rest of the world, the operating margin rate improved 170 basis points as a result of effective leveraging of additional revenues and optimization of administration.

Operating Income

After amortization of acquisition-related intangibles, which was slightly lower in the 2005 financial year, the statement of income for the 2005 financial year shows a €33 million charge for impairment and €59 million in non-current income, of which the bulk came from €80 million capital gains (which included the sale of JC Decaux, VKM, SOPACT, and certain interests in Métrobus) and a capital loss of €22 million recognized in connection with the early redemption of 62% of the OCEANE 2018 convertible bond issue.

Operating income thus came to €652 million in the 2005 financial year, nearly doubling from €326 million in 2004. In 2004, operating income included an impairment charge of €215 million, comprising €123 million for brands, mainly concerning Fallon, Frankel and Nelson, and €92 million for goodwill on various acquisitions made

at the end of the 1990s, and other non-current charges amounting to \square 10 million.

34

Other Income Statement Items*Net Interest and Other Financial Expense*

Net financial expenses, consisting of net interest expense and other financial expense, totaled (€92) million in 2005, showing a €22 million decline from (€114) million in 2004, primarily as a result of a decline in charges for net financial debt over the year.

Income Tax

The tax rate was 32% in the 2005 financial year (compared to 36.5% in 2004). This reflects the continuation of the efforts to optimize tax positions and simplify legal structures that began in the wake of the Bcom3 acquisition. The tax charge for the year was €157 million in the 2005 financial year compared with €112 million in 2004 (excluding a positive net deferred tax impact from the OBSA and CLN transactions, and excluding net deferred tax assets recorded upon transition to IFRS).

Net Income

Contributions of companies accounted for by the equity method doubled in 2005 from the previous year to reach €11 million, a result largely attributable to improved contributions from iSe and BBH, while minority interests remained practically unchanged at €28 million. Consolidated net income, excluding minority interests, thus came to €386 million in 2005, showing a rise of 38.8% from €278 million in 2004. In 2004, the consolidated net income included €198 million of positive impact related to the OBSA and CLN transactions, as well as to the transition to IFRS.

Earnings per share

Net earnings per share came to €1.83, or €1.76 on a fully-diluted basis, which reflected increases from the previous year of 38.6% and 36.4%, respectively.

LIQUIDITY**Cash flow**

Net cash flow from operating activities was €593 million in 2006, compared to €620 million in 2005. Working capital requirements hardly changed in 2006 as compared to the previous year, experiencing only a slight increase of €3 million. Following two years of significant improvement, the stabilization of working capital requirements at a satisfying level is the result of the Group's continuing efforts since 2003 in the framework of its Focus on Cash program. We created the Focus on Cash program in 2003 in order to reduce our working capital requirements.

In addition, we incurred expenditures of €18 million for restructuring in 2006, down from €30 million in 2005. Income taxes rose from €167 million in 2005 to €229 million in 2006, largely as a result of higher income. Interest paid amounted to €85 million in 2006 compared to €93 million in 2005. This decrease was mainly due to a prepayment premium in 2005 in respect of the OCEANE 2018, the effect of which was partially offset by increased interest rates. Interest income saw a notable increase, rising to €74 million in 2006 from €44 million in 2005, due to an increase in interest rates and average available cash, as well as the optimization of our financial management.

Net cash flow from investments includes purchases and sales of tangible and intangible assets, net acquisitions of financial assets and acquisitions and sales of subsidiaries. We used a net amount of cash in investment activities of €99 million in 2006, compared to €41 million in 2005. However, net investments in tangible assets were only €52 million in 2006, compared to €68 million 2005, partly due to the sale of the Saatchi & Saatchi building in Neuilly, France, for €33 million.

Acquisitions of subsidiaries, net of sales, resulted in a net cash outflow of €47 million in 2006, compared to a net cash inflow of €27 million in 2005, due to the 2005 sale of interests in JC Decaux Netherlands, VKM, Sopact, Promomètre and 33% of Métrobus, which were entities held by Médias & Régies Europe. In 2006, we acquired Solutions in India, Duval Guillaume in Belgium, Pôle Nord in France, Yorum in Turkey (Yorum, Bold and Zone), Moxie Interactive in the United States, Emotion in Asia and Geller Nessim in Israel. We also increased our interest

and repayment of debt incurred in connection with acquisitions of interests (earn-out

35

payments) and debt incurred in connection with commitments to acquire minority interests (buy-out payments) in a number of agencies. The income from the sale of subsidiaries came from Bensimon Byrne in Canada and Sopact in France.

Net cash flow from financing activities includes dividends paid, changes in debt position, share repurchase transactions and warrants issued. Financing activities resulted in the net use of €350 million of cash in 2006, compared to a cash inflow of €220 million in 2005. This is largely the result of the repurchase of warrants for €200 million, the partial repayment of the OCEANE 2018 following a partial exercise of the put option in January 2006 for €51 million, including interest, and share repurchases (net of sales under the stock option plan) for €64 million.

The share repurchase program concerned 3 million shares in 2006, or 1.5% of our capital. This program aims to create a reserve for a new long-term stock option plan (LTIP) 2006 - 2008, which was launched in August 2006. Dividends paid in 2006 amounted to €89 million compared to €74 million in 2005. In total, our cash position net of bank overdrafts remained stable, at €1,890 million at December 31, 2006, compared with €1,885 million at December 31, 2005.

Free cash flow

Our free cash flow (excluding changes in working capital requirement) increased 14%, rising from €478 million in 2005 to €544 million in 2006. Free cash flow (excluding changes in working capital requirement) is equal to cash flow from operating activities, minus net investments in fixed assets and excluding the effect of changes in working capital requirement. Free cash flow (excluding changes in working capital requirement) is a non-GAAP indicator that we use to measure our liquidity from operating activities after accounting for investments in fixed assets, but before acquisitions or sales of equity participations, and before financing activities (including financing the working capital requirement). We believe this indicator is useful to show our cash flow (or requirements) before acquisitions, divestitures and financing. Investors should not place undue reliance on free cash flow (excluding changes in working capital), particularly given that some companies define free cash flow differently. The Group's free cash flow (excluding changes in working capital requirement) in 2005 and 2006 is presented below:

	At December 31,	
	2006	2005
	<i>(Millions of euros)</i>	
Cash flow from operating activities	593	620
Investments in fixed assets (net)	(52)	(68)
Free cash flow	541	552
Effect of changes in the working capital requirement	3	(74)
Free cash flow before changes in working capital requirement	544	478

CAPITAL RESOURCES AND INDEBTEDNESS

Consolidated shareholder's equity rose from €2,056 million at December 31, 2005 to €2,080 million at December 31, 2006, and minority interests amounted to €27 million in 2006, compared to €20 million in 2005.

Net financial debt rose from €207 million at December 31, 2005 to €221 million at December 31, 2006. We use net financial debt, a non-GAAP indicator, to evaluate our overall debt burden net of cash resources and equivalents, which is important to our overall financial strength and borrowing capacity. We set internal financial ratio targets by reference to net debt at year end and its average level for each year (as described below). Investors should not place undue reliance on this indicator, particularly because some companies define net financial debt differently than we do. Net financial debt at December 31, 2005 and December 31, 2006 is presented in the following table:

	At December 31,	
	2006	2005
	<i>(Millions of euros)</i>	
Financial debt (long- and short-term)	2,114	2,137
Fair value of derivatives covering exposure on net investments (1)	25	59
Fair value of derivatives covering exposure on intragroup loans/ borrowings (1)	2	(9)
Cash and cash equivalents	(1,920)	(1,980)
Net financial indebtedness	221	207

(1) See note 17 and note 23 to the consolidated financial statements.

Debt remained stable compared to its position at the end of 2005, despite payments of €200 million for the warrant repurchase in February 2006 and €64 million for share repurchases (net of amounts received in connection with option grants as part of the current plan). Such stability was due to the availability of operating cash flow, which was sufficient to compensate for the significant cash outflows. Average net debt also showed positive results, dropping from €925 million in 2005 to €636 million in 2006, which represents a significant decrease of €289 million. The ratio of net debt to shareholder's equity remained at 0.10, the same as at December 31, 2005.

Gross consolidated debt was at €2,114 million at December 31, 2006, compared to €2,137 million at December 31, 2005. Over 90% of gross consolidated debt at the end of 2006 was due in more than one year, and over 52% was due in over five years. See note 22 of the consolidated accounts for a detailed payment schedule of the Group's debt.

The financial debt is comprised of fixed-rate loans (55% of gross consolidated debt, excluding debt relating to buyout obligations in respect of equity participations, and minority purchase commitments at December 31, 2006) for which the average rate for 2006 was 5.66% (this rate includes additional interest linked to the split of the Oceane and Orane obligations between debt and equity capital). The average rate of the floating interest rate debt (45% of debt at December 31, 2006) was 5.58% in 2006.

The majority of gross financial debt is in euros and in US dollars. Taking into consideration the swap on the Eurobond, the debt breakdown by currency at December 31, 2006 is as follows: €1,024 million in euros, €913 million in US dollars, and €177 million in other currencies.

In December 2005, we put into place financial ratio targets meant to guide the Group's financial policy, including decisions relating to external growth and dividends. These ratios were respected by a large margin at the close of the year, as the table below shows:

	Financial ratio targets	At December 31, 2006	At December 31, 2005
Net average debt/ operating margin before depreciation	< 1.50	0.78	1.21
Net debt / consolidated shareholder's equity	< 0.5	0.1	0.1
Interest coverage (operating margin before depreciation/ cost of net financial debt)	> 7	22.8	9.81

In addition to our cash and cash equivalents, which were €1,920 million at December 31, 2006, we have access to lines of credit in the total amount of €1,546 million as of the same date. The credit lines include a multi-currency syndicated facility in the amount of €1,035 million, which expires in December 2009.

Cash management was optimized through creating domestic cash-pooling structures in the countries of our main operations. We made yet another improvement in 2006 when we created international cash pooling with the goal of centralizing all cash for the Group as a whole.

Cash resources are for the most part held by subsidiaries in countries where funds can be freely transferred and centralized.

Since December 2005, we have been rated by the two leading international agencies – Standard & Poor's and Moody's. Following the announcement of the acquisition of Digitas on December 20, 2006, on the date of the signing of the agreement, the ratings were: BBB+ from Standard & Poor's, with a negative outlook; and Baa2 from Moody's, with a stable outlook.

We believe that we have the resources sufficient for our operating requirements and investment plan for the next 12 months. The first stage is the Digitas acquisition, paid at the end of January 2007 using available cash, for \$1.3 billion.

COMMITMENTS FOR CAPITAL EXPENDITURES AND INVESTMENTS

As of December 31, 2006, we had no material commitments for capital expenditures, other than those relating to earn-out provisions and commitments to purchase minority interests. Commitments to purchase minority interests, as well as earn-out clauses, are identified on a centralized basis and are valued on the basis of contractual clauses and the most recent available data as well as on projections for the relevant figures over the period. Under the earn-out provisions and the commitments to purchase minority interests, we may be required to pay former owners of acquired companies and minority shareholders maximum amounts of \$140 million and \$176 million, respectively. We intend to finance these expenditures