



# Transition to IFRS

April 8<sup>th</sup>, 2005

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# Forward-looking Statement

**This document contains certain “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. These forward-looking statements reflect Havas’ current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause Havas’ actual results to differ significantly from those expressed in any forward-looking statement. Certain factors that could cause actual results to differ materially from expected results include changes in global economic, business, competitive market and regulatory factors. For more information regarding risk factors relevant to Havas, please see Havas’ filings with the U.S. Securities and Exchange Commission. Havas does not intend, and disclaims any duty or obligation, to update or revise any forward-looking statements contained in this document to reflect new information, future events or otherwise.**

- General framework and exemptions elected by Havas
- Main accounting reclassifications of the income statement
- Main accounting adjustments
- Conclusion

# IFRS Standards – General framework

- In view of the release of 2005 financial statements in compliance with IFRS standards and in line with the AMF recommendation on financial communication during the transition period, Havas prepared 2004 financial information according to IFRS standards, providing as a preliminary indication of the impact of switching from French Gaap to IFRS on :
  - Shareholders' equity as of the transition date (January 1<sup>st</sup>, 2004)
  - Income Statement 2004
  - Balance Sheet as of December 31<sup>st</sup>, 2004
- Data disclosed in this presentation has been subject to audit procedures by the Group's statutory and contractual auditors. This information was further validated by the Audit Committee and the Board of Directors of Havas.
- The likelihood of new pronouncements or interpretations of IFRS standards in 2005 could result in changes to the financial information presented today.

# **General framework and exemptions elected by Havas**

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# IFRS Standards – General framework

- IFRS standards are to be applied retrospectively.
- As an exception to this principle, IFRS 1 offers a range of options to first-time adopters as of the transition date (January 1<sup>st</sup>, 2004).

## IFRS 1 – First Time Adoption of IFRS

- **Business combinations** : no restatement of business combinations prior to January 1st, 2004.
- **Unrecognized actuarial losses on pension obligations** : They are fully recognized as a debt against equity at transition date. Negative impact of €15M on shareholders' equity as of January 1st, 2004.

## IFRS 1 – First Time Adoption of IFRS

- **Share-based payments :**
  - For equity settled plans, Havas applies IFRS 2 to all stock-options plans granted on or after November 7<sup>th</sup>, 2002 and not yet vested as of December 31<sup>st</sup>, 2004.
  - For cash settled plans, Havas applies IFRS 2 to plans not yet settled as of December 31<sup>st</sup>, 2004.

# Main accounting reclassifications in the income statement

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# Income statement : differences in presentation

- Exceptional items cannot be disclosed separately on the face of the income statement. Components of the *exceptional items* line (French Gaap format) have been allocated to other lines of the income statement in IFRS format.
- *Other operating items* in IFRS includes capital gains and losses and goodwill impairment.
- From now on, Havas will communicate on *Income from operations*.

# Income statement 2004 in French GAAP

(In € million)	French format	Reclassi- fications	IFRS format
<b>Revenue</b>	<b>1 494</b>		<b>1 494</b>
Compensation	(838)	(7)	(845)
Share-based payments			0
Other expenses and income from operations	(459)	(6)	(465)
<b>Income from operations</b>	<b>197</b>	<b>(13)</b>	<b>184</b>
Other operating items		6	6
<b>Operating income</b>	<b>197</b>	<b>(7)</b>	<b>190</b>
Financial income (loss)	1	(60)	(59)
<b>Profit before tax and exceptional items</b>	<b>198</b>	<b>(67)</b>	<b>131</b>
Exceptional items	(62)	62	
Income tax expense	(36)	5	(31)
<b>Net income of fully consolidated companies</b>	<b>100</b>	<b>0</b>	<b>100</b>
Share of profit of associates	1		1
<b>Net income before goodwill amortization and impairment</b>	<b>101</b>	<b>0</b>	<b>101</b>
<i>Group share</i>	92		92
Goodwill amortization and impairment	(58)		(58)
<b>Consolidated net income</b>	<b>43</b>	<b>0</b>	<b>43</b>
<i>Group share</i>	34	0	34

# Reclassification of Exceptional Items

In €M

<b>Exceptional Items French format</b>	<b>(62)</b>
Reclassified in Income from operations	13
Reclassified in Financial Income (loss)	60
Reclassified in Income Tax Expense	(5)
<b>Other Operating Items IFRS format</b>	<b>6</b>

# **Main Accounting Adjustments**

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# Income statement 2004 French GAAP / IFRS Standards

**Income from operations : -6%**

**Net income : +51%**

(In €million)	Under French GAAP	IFRS impact	Under IFRS
<b>Revenue</b>	<b>1 494</b>	<b>(3)</b>	<b>1 491</b>
Compensation	(845)	2	(843)
Share-based payments		(7)	(7)
Other expenses and income from operations	(465)	(3)	(468)
<b>Income from operations</b>	<b>184</b>	<b>(11)</b>	<b>173</b>
Other operating items	6	(6)	0
<b>Operating income</b>	<b>190</b>	<b>(17)</b>	<b>173</b>
<b>Financial net income (loss)</b>	<b>(59)</b>	<b>(24)</b>	<b>(83)</b>
<b>Profit before tax of fully consolidated companies</b>	<b>131</b>	<b>(41)</b>	<b>90</b>
Income tax expense	(31)	0	(31)
<b>Net profit (loss) of fully consolidated companies</b>	<b>100</b>	<b>(41)</b>	<b>59</b>
Share of profit of associates	1	0	1
<b>Net income</b>	<b>101</b>	<b>(41)</b>	<b>60</b>
<b>Group share</b>	<b>92</b>	<b>(40)</b>	<b>52</b>
Goodwill amortization	(58)	58	0
<b>Consolidated net income</b>	<b>43</b>	<b>17</b>	<b>60</b>
<b>Group share</b>	<b>34</b>	<b>18</b>	<b>52</b>

## Impairment and Amortization of Goodwill (IAS 36)

- **Accounting Practice in French GAAP**

Goodwill was amortized every year and an impairment test was carried out at operating division level (application of US standard SFAS 142).

- **Accounting Practice in IFRS**

Goodwill is no longer amortized and an impairment test is carried out at least annually. Goodwill is tested at the level of each Cash Generating Unit. Method to determine the potential impairment is unchanged compared to previous practice but it applies to a lower unit level (agencies vs. Divisions).



## Share-based payments (IFRS 2)

### Havas Stock Option Plans

- **Accounting Practice in French GAAP**

Options to purchase Havas shares granted to the employees of the Group were booked as they were exercised and did not flow through the income statement.

- **Accounting Practice in IFRS**

Options are expensed in the income statement. The fair value, computed at grant date using a binomial method, is charged to the income statement over the vesting period.

## Share-based payments (IFRS 2)

### **Subsidiaries' Stock Option Plans**

- **Accounting Practice in French GAAP**

Options to purchase subsidiary shares have been granted to certain employees of the applicable subsidiaries by the Group. The Group committed to repurchase the shares when exercised (cash settled plans). The difference between the exercise price and the repurchase price was in some cases accrued for.

- **Accounting Practice in IFRS**

Any option issued under a cash settled plan is recorded as a compensation expense and as a debt for its fair value. This value is expensed over the vesting period and the debt is adjusted until the repurchase date.

## Share-based payments (IFRS 2)

▪ <b>Global impact (Havas and subsidiaries)</b>	In €M
Decrease in <b>Equity as of the transition date</b> :	1
Impact on <b>net income 2004</b> :	(7)
Estimated <b>On-going</b> impact on net income :	<b>approx. (10) *</b>

\* Based on the current state of these programs

## Convertible Bonds (IAS 32)

- **Accounting Practice in French GAAP**

Convertible Bonds were booked as a debt as long as they were not converted into shares. Redemption premium, if any, was accrued for over the period as a provision for risks.

- **Accounting Practice in IFRS**

Nominal value of convertible bonds is split into two components : debt and option. The value of the debt is determined by discounting all future cash flows of the convertible bond. The value of the option is calculated as the difference between the value of the debt and the nominal value issued.

The option part increases the Shareholders equity for its amount net of income tax.

Financial expense is calculated applying the effective interest rate of the convertible bond to the debt at the end of each period. The excess of financial expense over the interest paid increases the value of the debt in the balance sheet bringing the debt to its redemption value at the maturity date.

## Convertible bonds (IAS 32)

Impact	In €M
Increase in <b>equity as of the transition date</b> :	<b>49</b>
Decrease in <b>net debt</b> at 31/12/04 :	<b>28</b>
Impact on <b>net income 2004</b> (before tax):	<b>(26)</b>
Estimated impact on <b>net income 2005</b> (before tax):approx.	<b>(15) *</b>
Estimated impact on <b>net income 2006</b> (before tax):approx.	<b>(10) *</b>

\* Based on convertible bonds currently outstanding

## Buy Out Agreements (IAS 32)

- **Accounting Practice in French GAAP**

All Buy-Out commitments were off balance sheet.

- **Accounting Practice in IFRS**

Buy Out commitments must be reclassified as financial liability. Minority interests are balanced and the difference between the book value of the minority interests and the financial liability is recorded as goodwill (1).

Some Buy Out commitments (qualified as « compensatory ») are linked to the continued employment of the beneficiaries. Havas takes the position (in the absence of precise guidance under IFRS standards) to account for these employment linked commitments accordingly with US Gaap, which results in the payments being considered as compensation.

(1) Interpretation under discussion with IFRIC

## Buy Out Agreements (IAS 32)

Impact	In €M
Decrease in <b>equity as of the transition date</b> :	<b>6</b>
Increase in <b>net debt</b> at 31/12/04:	<b>60</b>
Impact on <b>net income 2004</b> :	<b>(3)</b>
Estimated impact on <b>net income 2005</b> :	<b>approx. same as 2004 *</b>

\* Based on current Buy Out commitments

## Treasury Shares (IAS 32)

- **Accounting Practice in French GAAP**

Treasury shares acquired with the objective to stabilize the share price or to deliver shares for stock purchase option plans were booked as Marketable Securities and could be subject to depreciation.

- **Accounting Practice in IFRS**

All treasury shares are netted against equity.

## Treasury Shares (IAS 32)

- **Impact**

In €M

Decrease in <b>equity as of the transition date</b> :	<b>28</b>
Increase in <b>net debt</b> at 31/12/04:	<b>25</b>
Impact on <b>net income 2004</b> :	<b>0</b>

# Income statement 2004 French GAAP / IFRS Standards

**Income from operations : -6%**

**Net income : +51%**

(In €million)	Under French GAAP	IFRS impact	Under IFRS
<b>Revenue</b>	<b>1 494</b>	<b>(3)</b>	<b>1 491</b>
Compensation	(845)	2	(843)
Share-based payments		(7)	(7)
Other expenses and income from operations	(465)	(3)	(468)
<b>Income from operations</b>	<b>184</b>	<b>(11)</b>	<b>173</b>
Other operating items	6	(6)	0
<b>Operating income</b>	<b>190</b>	<b>(17)</b>	<b>173</b>
<b>Financial net income (loss)</b>	<b>(59)</b>	<b>(24)</b>	<b>(83)</b>
<b>Profit before tax of fully consolidated companies</b>	<b>131</b>	<b>(41)</b>	<b>90</b>
Income tax expense	(31)	0	(31)
<b>Net profit (loss) of fully consolidated companies</b>	<b>100</b>	<b>(41)</b>	<b>59</b>
Share of profit of associates	1	0	1
<b>Net income</b>	<b>101</b>	<b>(41)</b>	<b>60</b>
<b>Group share</b>	<b>92</b>	<b>(40)</b>	<b>52</b>
Goodwill amortization	(58)	58	0
<b>Consolidated net income</b>	<b>43</b>	<b>17</b>	<b>60</b>
<b>Group share</b>	<b>34</b>	<b>18</b>	<b>52</b>

# Income statement 2004 French GAAP / IFRS Standards

In €M

<b>Operating Income French GAAP</b>	<b>184</b>
Revenue recognition	(3)
Pension obligations	5
Stock-Options Plans	(7)
"Compensatory" Buy-out	(3)
Other	(3)
<b>Income from operations IFRS</b>	<b>173</b>

# Income statement 2004 French GAAP / IFRS Standards

In €M

<b>Financial net income (loss) French GAAP</b>	<b>(59)</b>
Additional expense OCEANE	(26)
Other	2
<b>Financial net income (loss) IFRS</b>	<b>(83)</b>

# Income statement 2004 French GAAP / IFRS Standards

## Change in Effective Tax Rate 2004

- French GAAP : 26.4%
- IFRS Standards : 34.4%

	Fr. GAAP	Conv. Bond	Other*	Reclassification	IFRS
Income before Tax	136	(26)	(19)		91
Income Tax	(36)			5	(31)
Effective Tax Rate	26.4%				34.4%

\* Goodwill impairment / Stock Options / Earn out and Buy Out

# Earnings Per Share 2004

	French GAAP	IFRS
Earnings Per Share (in €)		
On net income before GW		
Basic	0.27	N/A
Diluted	0.27	N/A
On net income		
Basic	0.11	0.15
Diluted	0.10	0.15
	French GAAP	IFRS
Average number of shares		
Basic	340 534 449	340 534 449
Diluted	388 843 323	341 703 231 *

\* The difference in the number of fully diluted shares results from the treatment of the 2009 convertible bond

# Balance Sheet as of December 31<sup>st</sup>, 2004 – From French GAAP to IFRS

In €M

	Under French GAAP - 31.12.04	IFRS Impact	Under IFRS - 31.12.2004
<b>Current assets</b>			
Cash and cash equivalents	573	(35)	538
Clients	1 010	1	1 011
Other current assets	378	1	379
<b>Total Current assets</b>	<b>1 961</b>	<b>(33)</b>	<b>1 928</b>
<b>Non-current assets</b>			
Goodwill	1 523	(140)	1 383
Tangible and intangible assets	132	5	137
Deferred taxes	165	29	194
Other non-current assets	29	(1)	28
<b>Total Non-current assets</b>	<b>1 849</b>	<b>(107)</b>	<b>1 742</b>
<b>Total Assets</b>	<b>3 810</b>	<b>(140)</b>	<b>3 670</b>

# Balance Sheet as of December 31<sup>st</sup>, 2004 – From French GAAP to IFRS

In €M	Under French GAAP - 31.12.04	IFRS Impact	Under IFRS 31.12.2004
<b>Current liabilities</b>			
Short-term borrowings and financial liabilities	144	(4)	140
Short-term buy-outs	31	3	34
Suppliers	1 016	19	1 035
Provisions (portion maturing in less than one year)	47	(30)	17
Other current liabilities	734	20	754
<b>Total Current liabilities</b>	<b>1 972</b>	<b>8</b>	<b>1 980</b>
<b>Non-current liabilities</b>			
Long-term borrowings and financial liabilities	655	(37)	618
Long-term buy-outs		54	54
Deferred taxes	10	19	29
Other long-term provisions	124	17	141
Other long-term liabilities		9	9
<b>Total Non-current liabilities</b>	<b>789</b>	<b>62</b>	<b>851</b>
<b>Minority interests</b>	<b>20</b>	<b>(18)</b>	<b>2</b>
Share capital	172		172
Share premium account	1 527		1 527
Retained earnings	-704	(210)	-914
Consolidated net income	34	18	52
<b>Total Shareholders' equity</b>	<b>1 029</b>	<b>(192)</b>	<b>837</b>
<b>Total Shareholders' equity and liabilities</b>	<b>3 810</b>	<b>(140)</b>	<b>3 670</b>

# Bridge for 31/12/2004 shareholders equity from French GAAP standard to IFRS

In €M

<b>Shareholders Equity under French GAAP</b>	<b>1 049</b>
Goodwill impairment	(230)
Goodwill Amortization	56
Pension obligations	(17)
Convertible bonds	50
Treasury shares	(25)
Buy outs and Earn-Outs "compensatory"	(8)
Buy outs agreements	(19)
Stock options	(6)
Others	(19)
<i>Total IFRS adjustments</i>	<i>(218)</i>
Total tax on IFRS adjustments	8
<b>Shareholders equity under IFRS standards</b>	<b>839</b>

# Bridge for 31/12/2004 net debt from French GAAP standard to IFRS

In €M

<b>Net debt under French GAAP</b>	<b>(226)</b>
Convertible bonds	28
Treasury shares	(25)
Buy Outs	(60)
Earn-Outs	(28)
Others	3
<b>Net debt under IFRS</b>	<b>(308)</b>

# IFRS Standard – Summary

	Accounting Standard		
	French GAAP	French GAAP	IFRS
	Format		IFRS
French	IFRS		
In € millions except EPS			
<b>Revenue</b>	<b>1 494</b>	<b>1 494</b>	<b>1 491</b>
<b>Op income / Income from operations</b>	<b>197</b>	<b>184</b>	<b>173</b>
Exceptional items	(62)	6	0
Financial net income	1	(59)	(83)
Tax €M	(36)	(31)	(31)
<b>Net consolidated income</b>	<b>34</b>	<b>34</b>	<b>52</b>
EPS fully diluted	0.10	0.10	0.15
<b>Shareholders equity 31/12/2004</b>	<b>1 049</b>		<b>839</b>
<b>Net debt 31/12/2004</b>	<b>226</b>		<b>308</b>

# Appendix

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## Regulatory framework

- These standards have been settled by the IASB (International Accounting Standard Board)
- As of January 1st 2005 and in accordance with regulation n°1606/02 of July 19 2002, all European listed companies are required to present their consolidated accounts under IFRS.
- IFRS are composed of IAS 1 to IAS 41 and IFRS rules 1 to 5 rules
- Compared with current standards, changes resulting from the implementation of IFRS standards will affect 2 aspects :
  - Financial statement presentation
  - Valuation

## Timetable

- IFRS transition date : January 1st 2004
- 2005 accounts released in compliance with IFRS, with 2004 pro forma IFRS financial information
- The AMF recommendation is to communicate IFRS impacts progressively:
  - From a qualitative point of view in 2004,
  - With quantitative impacts when releasing 2004 accounts and a pro forma IFRS financial information for 2004 when 2005 datas will be released.

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