

Unofficial translation of the French language *Rapport sur la Gestion du Groupe* of PagesJaunes, for informational purposes only.



Report on operations

***Consolidated financial statements as at June 30,
2004 and 2003***

Board of Directors of July 22, 2004

**A Limited Liability Company (French *société anonyme*) with a Board of Directors (Directoire) and a Supervisory Board (Conseil de Surveillance) with a share capital of €54,810,000
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1.1 Overview

The Group's core business activity is the publication of directories in France and abroad, by offering a diversified range of products and services for general public and professionals.

The Group's business is organized into two main segments:

- **PagesJaunes in France.** This concerns the Company's principal activities, namely the activities related to the publication and distribution of directories, the sale of advertising space in printed and online directories, the creation and hosting of websites, the publication of the PagesPro directories, the sale of online access to databases, the reverse directory QuiDonc, and the Europages *régie* (advertising representation).
- **International & Subsidiaries.** This concerns the activities of the Company's various subsidiaries that are principally involved in the publication of consumer directories outside France, developing the Kompass directories in Europe and in developing complementary activities related to the publication of directories (such as the geographic services of Mappy, formerly Wanadoo Maps, and the direct marketing activities of Wanadoo Data).

The Consolidated Group's scope of consolidation as at June 30, 2004, results from a series of internal restructuring transactions involving certain companies within the France Telecom Group. These restructurings were effected during the first half of 2004 in light of the Company's planned initial public offering (IPO) and consisted of the sale to the Company, which already owned Kompass France and Wanadoo Data, of:

- QDQ Media, second largest directories publisher in Spain, integrated into the Wanadoo directories division in April 2001. Wanadoo International sold this company to the Group for a transaction price of 106.7 million euros, which fully contributes to the Group's pro forma consolidated results for the periods ending June 30, 2003 and 2004.
- Mappy (formerly Wanadoo Maps), which specializes in online geographic services and creation of city photos. Wanadoo France sold this Company to the Group in April 2004 for a transaction price of 10.1 million euros, which fully contributes to the Group's pro forma consolidated results as of January 1st, 2003.

The pro forma information prepared for the periods ending June 30, 2003 and June 30, 2004 referred to in this report, was produced in order to present the Consolidated Group's scope of activity, financial condition, results of operations and cash position, as if the Consolidated Group had existed during these periods on the basis of the methods described as follows. The pro forma information reflects the consolidation of QDQ Media and Wanadoo Maps from their date of entry into the France Télécom Group. The pro forma information also reflects the transaction prices of QDQ Media and Wanadoo Maps charged to the cash resources of the Company at approximately 117 million euros in 2001. Nevertheless, the pro forma information does not include certain Group activities that are considered not sufficiently significant due to their size or activity, namely PagesJaunes Outre-Mer (revenues of 3.6 million euros in 2003 from its *régie* (advertising representation), with an EBITDA of 0.6 million euros), PagesJaunes Lebanon (revenues of approximately 1 million euros in 2003 with a break-even EBITDA) and Kompass Belgium (revenues of 3.8 million euros in 2003 with an EBITDA of 0.3 million euros).

The pro forma consolidated information was prepared principally using the individual financial statements of the consolidated companies and adjusted on the basis of the procedures outlined in the “Pro forma information of consolidated accounts” note which is found in document “Consolidated Accounts as at June 30, 2004”.

The following comments are established on the basis of the pro forma consolidated information of the Group for the periods ending June 30, 2003 and June 30, 2004.

This pro forma information is not necessarily representative of the financial condition, results of operations and changes in liquidity and capital resources as they would have been presented in the financial statements had the Consolidated Group been constituted prior to January 1st, 2003 and had it been operating autonomously. Furthermore, these accounts are not necessarily indicative of what the financial condition, results of operations and changes in liquidity and capital resources of the Consolidated Group will be like during future financial years.

The table below presents the transition from the consolidated accounts to the pro forma consolidated information by considering the entry of QDQ Media from April 1st, 2004 and of Mappy (formerly Wanadoo Maps) from May 1st, 2004 into the scope of consolidation.

PagesJaunes Group	Period ending June 30, 2004		
	Consolidated Accounts	Entry into scope of consolidation 2004	Pro forma Information
<i>In millions of euros</i>			
Revenues	424.4	11.0	435.4
EBITDA (Earnings before interest, tax, depreciation and amortisation)	169.9	(2.6)	167.4
Operating income	165.1	(2.8)	162.3
Consolidated net income of the Group	94.0	(5.1)	88.9

1.2 June 30, 2004 compared with June 30, 2003

PagesJaunes Group	Periods ending June 30		
	2004	2003	Change 2004/2003
<i>In millions of euros</i>			
PagesJaunes in France	398.7	382.6	4.2%
International & Subsidiaries	36.7	35.4	3.5%
Revenues	435.4	418.0	4.2%
Cost of services and products sold	(96.1)	(110.2)	-12.7%
Commercial costs	(140.8)	(136.9)	2.9%
Administrative costs	(30.3)	(24.3)	24.2%
Research and Development costs	(0.8)	(0.6)	31.9%
EBITDA (Earnings before interest, tax, depreciation and amortisation)	167.4	146.0	14.6%
<i>as % of Revenues</i>	<i>38.4%</i>	<i>34.9%</i>	
Depreciation and amortisation (excluding Goodwill)	(5.1)	(6.4)	-20.1%
Operating income	162.3	139.6	16.2%
<i>as % of Revenues</i>	<i>37.3%</i>	<i>33.4%</i>	
Financial income (expenses), net	5.7	10.5	-46.2%
Other non-operating income (expenses), net	(4.4)	0.5	nm
Corporate income tax	(59.5)	(56.6)	5.2%
Employee profit-sharing	(12.8)	(10.1)	26.9%
Share in net income of companies accounted for using the equity method	0.6	0.6	nm
Income Before Goodwill amortisation and Minority Interests	91.8	84.5	8.6%
Goodwill amortisation	(2.9)	(2.9)	-
Minority interests	-	-	-
Consolidated net income of the Group	88.9	81.6	8.9%

Pro forma revenues for the Consolidated Group were up 4.2% between June 30, 2003 and June 30, 2004, and rose to 435.4 million euros in 2004. On a like-for-like publication basis between the periods ending June 30, 2003 and June 30, 2004, revenue growth was 6.3%. This growth is due to a broader range of products in printed directories and online services, increased average revenue per advertiser and the conquest of new advertisers in France, and an increase in rates.

EBITDA was up 14.6% between the first half periods of 2003 and 2004, and rose to 167.4 million euros at June 30, 2004. The margin rate of EBITDA compared with revenues rose from 34.9% in 2003 to 38.4% in 2004, thereby reflecting a significant improvement in profitability for the Consolidated Group. This improvement is due to the increase in revenues and strong management of all expenses, especially concerning the optimization of publishing costs related to printed directories and the reduction in losses for QDQ Media.

Thus, the cost of services and products sold (as defined in the “1.2.1.2 Cost of services and products sold in the PagesJaunes in France segment (pro forma)” section) decreased by 12.7% between the first half periods of 2003 and 2004. Nevertheless, this significant drop was favourably affected by a change in publication schedule of printed directories in France and

Spain. Commercial costs, which include personnel expenses of the sales force, were up 2.9% between these two periods, even though revenues were up 4.2%. This result proves that a change in publication schedule had a weaker impact on commercial costs. Administrative costs, which especially include costs related to support functions, were favourably affected by the non-recurring items at June 30, 2003 (for details, see comments per segment). In neutralizing these effects, administrative costs remained stable between these two periods at less than 7% of revenues.

Pro forma consolidated net income of the Group rose to 88.9 million euros at June 30, 2004 compared with 81.6 million euros at June 30, 2003, representing an 8.9% increase. However, it was negatively affected by costs related to the initial public offering of the Company and by the time-lag of financial income.

The following discussion presents revenues, operating income and certain pro forma intermediate balances for each of the two segments of the Consolidated Group, namely the PagesJaunes in France segment and the International & Subsidiaries segment.

1.2.1 Pro forma analysis of revenues and operating income of the PagesJaunes in France segment

The following table presents the changes in revenues and operating income of the PagesJaunes in France segment for the periods ending June 30, 2003 and June 30, 2004:

PagesJaunes in France	Periods ending June 30		
	2004	2003	Change 2004/2003
<i>In millions of euros</i>			
Printed directories	266.4	265.2	0.4%
Online services	122.8	101.6	20.9%
Other businesses	9.5	15.7	-39.7%
Revenues	398.7	382.6	4.2%
Cost of services and products sold	(84.8)	(92.1)	-8.0%
Commercial costs	(116.8)	(111.5)	4.8%
Administrative costs	(22.6)	(16.8)	34.6%
Research and Development costs	(0.8)	(0.6)	31.9%
EBITDA (Earnings before interest, tax, depreciation and amortisation)	173.8	161.6	7.6%
<i>as % of Revenues</i>	<i>43.6%</i>	<i>42.2%</i>	
Depreciation and amortisation (excluding goodwill)	(3.2)	(4.3)	-23.6%
Operating income	170.5	157.3	8.4%
<i>as % of Revenues</i>	<i>42.8%</i>	<i>41.1%</i>	

The PagesJaunes in France segment incorporates all Company activities, namely all activities related to the publication and distribution of directories, the sale of advertising space in printed and online directories, the creation and hosting of websites and other activities (principally, the publication of the PagesPro directories, the sale of online access to databases, the reverse directory QuiDonc, and the Europages *régie* (advertising representation)).

1.2.1.1 Pro forma revenues of the PagesJaunes in France segment

The following table presents the pro forma consolidated revenues distribution of the PagesJaunes in France segment by product line for the periods ending June 30, 2003 and June 30, 2004, and the percentage changes per product line between these two periods:

PagesJaunes in France	Periods ending June 30		
	2004	2003	Change 2004/2003
<i>In millions of euros</i>			
Printed directories	266.4	265.2	0.4%
PagesJaunes directory	215.3	214.1	0.6%
<i>L'Annuaire</i>	51.1	51.1	0.0%
Online services	122.8	101.6	20.9%
Internet	68.5	43.6	57.0%
Minitel	43.1	47.3	-8.9%
Websites	11.3	10.8	5.2%
Other Businesses	9.5	15.7	-39.7%
QuiDonc	3.9	4.2	-8.5%
Other*	5.6	11.5	-51.3%
* incl. PagesPro, sale of online access to databases, Europages			
Revenues	398.7	382.6	4.2%

Revenues for the PagesJaunes in France segment were up 4.2% between 2003 and 2004, and rose to 398.7 millions of euros at June 30, 2004, especially due to increased revenues from online Internet services. Similarly, in addition to an increase in rates, the offer for advertising expanded in online services with the launch of “Totem” posters at pagesjaunes.fr, and in printed directories with the introduction of new poster products seeing the Paris distribution in May 2004 of two new directory formats (PagesJaunes pocket edition and spread of the “compact” version distributed in May 2003 in the XVth *arrondissement* in Paris).

The publication schedule of printed directories is not comparable between June 30, 2003 and June 30, 2004 since two *départements* were published at June 30, 2004 (Drôme and Loire) and had been published in the second half of 2003. Conversely, two other more important *départements* were published at June 30, 2003 (Essonne and Haut Rhin) and will appear in the second half of 2004.

Excluding the change in publication schedule effect of printed directories between June 30, 2003 and June 30, 2004 concerning these 4 *départements*, revenues at June 30, 2004 of the PagesJaunes in France segment were up 6.0% on a like-for-like publication basis of printed directories.

Finally, in terms of sub-segments, revenue growth was generated by the increase in revenues of printed directories and by the dynamic Internet activities which compensated over 5 times for the drop in revenues of PagesJaunes 3611.

Pro forma revenues of printed directories

Revenues of printed directories were up 0.4% between June 30, 2003 and June 30, 2004, and rose to 266.4 million euros at June 30, 2004. This revenues are principally generated by the marketing and sales of advertising space in the PagesJaunes directory and *L'Annuaire*. Between June 30, 2003 and June 30, 2004, revenues of the PagesJaunes directory were up 0.6% to 215.3 million

euros and revenues for *L'Annuaire* remained stable at 51.1 million euros. Excluding the impact of the change in publication schedule of printed directories between June 30, 2003 and June 30, 2004 concerning the 4 *départements* referred to above, revenues at June 30, 2004 of printed directories were up 2.9% on a like-for-like publication basis of printed directories. This growth is due to the combined effect of the increase in the number of advertisers, the increase in rates and the development of advertising products comparable to local outdoor advertising.

Pro forma revenues of online services

Revenues of online services were up 20.9% between June 30, 2003 and June 30, 2004, and rose to 122.8 million euros at June 30, 2004. Revenues of online services principally derive from the sale of advertising products on online directories (pagesjaunes.fr and PagesJaunes 3611) and from the design and hosting of websites.

The 20.9% growth in revenues of online services between the periods ending June 30, 2003 and 2004 was principally the result of revenue growth generated by pagesjaunes.fr up 24.8 million euros to 68.5 million euros at June 30, 2004. The 57.0% revenue growth of pagesjaunes.fr was possible specifically because of the 14.0% increase in the number of internet advertisers on pagesjaunes.fr between June 30, 2003 and June 30, 2004 (286,539 advertisers at June 30, 2004 versus 251,298 advertisers June 30, 2003). These increased revenues are especially due to a broader range of products, with the development of multimedia products on pagesjaunes.fr (launch of “Totem” posters at pagesjaunes.fr) and of advertising products comparable to local outdoor advertising, and due to an increase in rates in line with the rise in audience numbers.

Revenues on PagesJaunes 3611 were down 8.9% between the periods ending June 30, 2003 and 2004, resulting in 43.1 million euros at June 30, 2004 compared with 47.3 million euros at June 30, 2003, thereby confirming the downward trend that was already noticed in 2003 and partly reflecting the drop in audience numbers for PagesJaunes 3611 over the 1st half of 2004.

Revenues of the design and hosting of websites were up 5.2% between June 30, 2003 and June 30, 2004, and rose to 11.3 million euros at June 30, 2004. A third of revenues were due to activities related to the design and creation of websites. The remaining two thirds were due to the marketing of package service deals that include the updating, hosting and online assistance services. Furthermore, the introduction of innovative products (such as *e-visit – 360 degree view* – or options to manage the updating of websites or following audience numbers) launched in April 2003 contributed to the continued development of customer loyalty and revenue growth for the 1st half of 2004 in a fragmented and highly competitive market.

Pro forma revenues of other businesses

Revenues of other businesses in the PagesJaunes in France segment dropped 39.7% between the periods ending June 30, 2003 and 2004, resulting in 9.5 million euros in 2004, namely 2.4% of revenues for this segment. Revenues here are principally due to PagesPro activities on the Internet medium, the publication of printed media as of September, revenues of online access to databases to French and foreign operators, the QuiDonc reverse directory being viewed on Internet, Minitel and Audiotel media, and Europages activities on printed and Internet media. The 39.7% fall in revenues of these activities is mainly due, on the one hand, to the drop in revenues for online access to databases (2.9 million euros at June 30, 2004 versus 6.1 million euros at June 30, 2003), and on the other, to decreased revenues of PagesPro activities. The drop in revenues activities of online access to databases is the result of a significant drop in sales prices imposed by a new legal environment due to a court decision rendered in September 2003 on sales prices of data by France

Telecom. The price of these services is now set at a cost price plus a reasonable return on capital invested. Revenues from the QuiDonc reverse directory are down 8.5% resulting in 3.9 million euros at June 30, 2004. This drop is due to the fall in revenues of the reverse directory QuiDonc on Minitel (in combination with the drop in audience numbers of PagesJaunes 3611), which has not been compensated for by a significant growth in revenues of QuiDonc's Internet-based activities.

1.2.1.2 *Cost of services and products sold in the PagesJaunes in France segment (pro forma)*

PagesJaunes in France	Periods ending June 30		
	2004	2003	Change 2004/2003
<i>In millions of euros</i>			
Cost of services and products sold	(84.8)	(92.1)	-8.0%
<i>as % of revenues</i>	-21.3%	-24.1%	

The cost of services and products sold from the PagesJaunes in France segment was 84.8 million euros at June 30, 2004 and dropped 8.0% compared with the period at June 30, 2003, while revenues of the segment were up 4.2%. The cost of services and products sold essentially covers publishing costs (purchase of paper, printing and distribution of printed directories), the costs for hosting and distributing online directories, and the costs for purchasing, creating and updating databases and producing advertisements. The cost of services and products sold represented 21.3% of revenues at June 30, 2004 versus 24.1% at June 30, 2003. The costs of paper, printing and distribution represented 40.1 million euros, including 17.5 million euros for paper at June 30, 2004, versus 45.7 million euros, including 21.4 million euros for paper at June 30, 2003. This overall drop in the cost of services and products sold is essentially due to better cost management of paper, inventories and printing, which is mainly the result of a drop in the volume of paper stemming from optimized pagination. These costs also decreased, to the same extent, due to price negotiation with paper suppliers and to the cyclical drop in paper prices.

The costs for purchasing and setting-up databases dropped following the renegotiation of the France Télécom agreement at the start of 2004 concerning the annual cost for making data available, and the drop in costs for buying these databases (resulting from a September 2003 Court Decision discussed above).

Furthermore, until 2003 inclusive, PagesJaunes had been paying Havas an annual charge of 9.1 million euros, namely an expense of 4.6 million euros at June 30, 2003 which was discontinued as of 2004.

Excluding the effect of, on the one hand, the change in publication schedule of printed directories between June 30, 2003 and June 30, 2004 concerning 4 *départements* discussed above, and on the other, the Havas charge paid in 2003 and discontinued in 2004, the cost of services and products sold remains down for revenues that are up 6.0% on a like-for-like publication basis of printed directories at June 30, 2004.

1.2.1.3 *Commercial, administrative and research and development costs of the PagesJaunes in France segment (pro forma)*

PagesJaunes in France	Periods ending June 30		
	2004	2003	Change 2004/2003
<i>In millions of euros</i>			
Commercial costs	(116.8)	(111.5)	4.8%
Administrative costs	(22.6)	(16.8)	34.6%
Research and development costs	(0.8)	(0.6)	31.9%
Commercial, Administrative and R&D Costs	(140.2)	(128.9)	8.8%
<i>as % of Revenues</i>	<i>-35.2%</i>	<i>-33.7%</i>	

Commercial costs of the PagesJaunes in France segment were 116.8 million euros at June 30, 2004, up 4.8% compared with the period at June 30, 2003.

Excluding the effect of the change in publication schedule of printed directories between June 30, 2003 and June 30, 2004 concerning 4 *départements* (discussed above), the increase in commercial costs have been rising at a rate slower than that of revenues, which were up 6.0% on a like-for-like publication basis.

Furthermore, commercial costs represented 29.3% of revenues at June 30, 2004 compared with 29.1% at June 30, 2003. Commercial costs include salaries, supervision and administrative expenses related to the sales force, communications, as well as marketing expenses, management expenses and provisions for doubtful client receivables. Compensation of the sales force and its immediate support represented 13.8% of revenues at June 30, 2004. Compensation of the sales force, which is, to a large extent, variable, depends principally on the commercial results observed over the 1st half of 2004.

Furthermore, the costs of sites used by the sales people are slightly up at June 30, 2004 compared with the period at June 30, 2003 following the creation of new sales agencies at end 2003 and start 2004 along with an increase in the numbers of sales people. This enhanced sales team represents an investment for future revenue growth.

The administrative costs of the PagesJaunes in France segment were 22.6 million euros at June 30, 2004, representing a 34.6% increase compared with the period at June 30, 2003. Administrative costs represent 5.7% of revenues at June 30, 2004 compared with 4.4% at June 30, 2003. These administrative costs include the costs of support functions, certain provisions for certain risks and expenses, assistance charges and trademark royalties paid to the France Télécom Group. At June 30, 2003, administrative costs were timely and favourably affected by contractual renegotiations. Excluding the effect of these non-recurring items in 2003, administrative costs as a percentage of revenues remained nearly stable between June 30, 2003 and June 30, 2004.

Furthermore, 0.8 million euros at June 30, 2004 were dedicated to research and development. Research and development costs essentially consist of personnel charges of the teams responsible for developing platforms and related products, and external charges of France Télécom R&D services. The goal of these services is to develop new functionalities, as well as the prototyping of products and offers through new services. Research and development costs of PagesJaunes in France were up 0.2 million euros at June 30, 2004 compared with the period at June 30, 2003. It should be noted that innovation efforts were also undertaken by the operational services, without being recorded under research and development.

1.2.1.4 Pro forma EBITDA of the PagesJaunes in France segment

EBITDA of the PagesJaunes in France segment was up 7.6% between the periods ending June 30, 2003 and 2004, and rose to 173.8 million euros at June 30, 2004. The EBITDA margin of this segment rose from 42.2% to 43.6% between June 30, 2003 and June 30, 2004, representing a 1.4 point increase of the EBITDA margin rate over the period. This performance is essentially due to the revenue growth and cost management. The expense related to the Havas charge paid in 2003 (discontinued as of 2004, see above) is compensated for by the presence of non-recurring items included in the 2003 administrative costs.

1.2.1.5 Depreciation and amortisation of the PagesJaunes in France segment (pro forma)

Depreciation and amortisation was down 23.6% between June 30, 2003 and June 30, 2004, resulting in 3.2 million euros at June 30, 2004, namely less than 1% of revenues for this segment. This drop is due to the decreased investment level observed between June 30, 2003 and June 30, 2004 following the rationalization and optimization of purchases of information technology equipment.

1.2.1.6 Pro forma operating income of the PagesJaunes in France segment

Operating income of the PagesJaunes in France segment was up 8.4% between June 30, 2003 and June 30, 2004, and rose to 170.5 million euros at June 30, 2004.

1.2.2 Pro forma analysis of revenues and operating income of the International & Subsidiaries segment

The following table presents the changes in pro forma revenues and pro forma operating income of the International & Subsidiaries segment for the periods ending June 30, 2003 and June 30, 2004:

	Periods ending June 30		
	2004	2003	Change 2004/2003
International & Subsidiaries			
<i>In millions of euros</i>			
QDQ Media	18.1	17.0	6.6%
Other subsidiaries	18.5	18.4	0.6%
Revenues	36.7	35.4	3.5%
Cost of services and products sold	(11.4)	(18.0)	-36.8%
Commercial costs	(24.0)	(25.4)	-5.4%
Administrative costs	(7.7)	(7.6)	1.3%
Research and development costs	-	-	-
EBITDA (Earnings before interest, tax, depreciation and amortisation)	(6.4)	(15.5)	-58.8%
<i>as % of Revenues</i>	<i>-17.4%</i>	<i>-43.8%</i>	
Depreciation and amortisation (excluding Goodwill)	(1.9)	(2.1)	-13.1%
Operating income	(8.3)	(17.7)	-53.3%
<i>as % of Revenues</i>	<i>-22.5%</i>	<i>-49.8%</i>	

1.2.2.1 Pro forma revenues of the International & Subsidiaries segment

The following Table presents the distribution of pro forma consolidated revenues of the International & Subsidiaries segment by product line for the periods ending June 30, 2003 and June 30, 2004, and the percentage changes of these lines between these two periods:

International & Subsidiaries	Periods ending June 30		
	2004	2003	Change 2004/2003
<i>In millions of euros</i>			
QDQ Media	18.1	17.0	6.6%
Other Subsidiaries	18.5	18.4	0.6%
Kompass France	12.2	12.1	0.9%
Wanadoo Data	5.1	5.2	-1.2%
Mappy, formerly Wanadoo Maps	1.2	1.2	4.6%
Revenues	36.7	35.4	3.5%

Revenues of the International & Subsidiaries segment were up 3.5% compared with the first half of 2003 and rose to 36.7 million euros over the first half of 2004.

Revenues of QDQ Media for the period ending June 30, 2004 do not include sales from the Barcelona directory, which was published in June 2003 and is planned this September. On a like-for-like publication basis, revenues of the International & Subsidiaries segment were up 10.4% in 2004.

QDQ Media

Revenues of QDQ Media were up 6.6% over the first half of 2004 compared with the first half of 2003, and by 22.7% on a like-for-like publication basis, resulting in 18.1 million euros at June 30, 2004. The Barcelona directory will actually be published in September 2004 even though it had been previously published in June 2003. These revenues are generated by the sale of advertising space in the printed and online directories (QDQ.com) of QDQ Media.

Revenue growth was principally due to the increase of the average revenue per advertiser during the first half of 2004 in comparison to the first half of 2003, and to a noticeable reduction in credit notes on published directories helped by the improved media quality. By cancelling out the effect of credit notes on published directories and on a like-for-like publication basis, revenue growth between the two half periods is 13.9% in particular due to the product reformatting which has increased its appeal and to the success of QDQ.com.

The portion of revenues generated by online activities was noticeably up 8.0% of revenues for the first half of 2004 versus 5.1% of revenues at June 30, 2003. The number of advertisers on QDQ.com increased from 10,300 at June 30, 2003 to 15,900 at June 30, 2004.

Other Subsidiaries

- Kompass France

Revenues of Kompass France at end June 2004 were stable compared with the first half of 2003, and were 12.2 million euros at June 30, 2004. Revenues of Kompass France are derived from marketing the Kompass information system, which gathers together the sale of advertising space and data on printed media, CD-Rom, Minitel and Internet (Kompass.com, the worldwide online directory of Kompass dealers). The sale of media is complemented by direct marketing services. Audience numbers to the Kompass.com website, calculated on the basis of the number of visits, were significantly up in 2004.

- Wanadoo Data

Revenues of Wanadoo Data at end June 2004 were slightly down compared with the first half of 2003, and were 5.1 million euros over the first half of 2004. This drop was principally the result of a decline in rental/sales activity of mail addresses (of internet users) and decrease of marketing database processing revenues.

- Mappy (formerly Wanadoo Maps)

Revenues of Mappy are essentially the result of perceived royalties for the use of its geographic services platform, and the licensing of distribution rights of photos and their updating. Revenues of Mappy at end June 2004 were slightly up compared with the first half of 2003, and rose to 1.2 million euros over the first half of 2004.

1.2.2.2 Cost of services and products sold in the International & Subsidiaries segment (pro forma)

International & Subsidiaries	Periods ending June 30		
	2004	2003	Change 2004/2003
<i>In millions of euros</i>			
Cost of services and products sold	(11.4)	(18.0)	-36.8%
<i>as % of Revenues</i>	<i>-31.1%</i>	<i>-50.8%</i>	

The cost of services and products sold essentially covers publishing expenses (purchase of paper, printing and distribution of printed directories), the costs of hosting and distributing online directories and the expenses related to purchasing, setting-up and updating databases and creating advertisements.

The cost of services and products sold was significantly down (-36.8%) between the first half of 2003 and the first half of 2004, principally due to significant savings in paper which was the outcome of negotiations which were initiated in 2003. This downward effect is all the more emphasized by the publication delay of the Barcelona directory from June in 2003 to September in 2004. Furthermore, changes in printers at QDQ Media, and the productivity gains obtained due partly to the in-house creation of advertisements and to the optimized layout of printed directories were felt in their entirety over the first half of 2004. QDQ Media was also able to enjoy pricing conditions similar to those granted to PagesJaunes by its paper suppliers and printers.

1.2.2.3 Commercial and administrative costs of the International & Subsidiaries segment (pro forma)

International & Subsidiaries	Periods ending June 30		
	2004	2003	Change 2004/2003
<i>In millions of euros</i>			
Commercial costs	(24.0)	(25.4)	-5.4%
Administrative costs	(7.7)	(7.6)	1.3%
Commercial and Administrative costs	(31.7)	(32.9)	-3.9%
<i>as % of Revenues</i>	<i>-86.4%</i>	<i>-93.0%</i>	

Commercial costs include salaries, supervision and administration expenses related to the sales force, communication and marketing expenses, as well as costs of management and provisions for the risk of bad debts.

Commercial costs were down 5.4% between the first half of 2003 and the first half of 2004 resulting in 24.0 million euros at June 30, 2004. This drop was principally the result of a strong reduction in the sale of advertising space to the “major account” media clients with whom the business volume has been reduced. To a lesser extent, the delayed publication of the Barcelona directory also contributed to the drop in this category.

Administrative costs remained stable between June 30, 2003 and June 30, 2004, while the outcome of actions to reduce structure costs led at end 2003 were partially offset by the capital increase expenses of the Spanish subsidiary.

1.2.2.4 Pro forma EBITDA of the International & Subsidiaries segment

EBITDA over the first half of 2004 resulted in a loss of 6.4 million euros versus a loss of 15.5 million euros observed at June 30, 2003. This loss was decreased by just over half over the two financial periods. The improvement of the EBITDA results from an increase in revenues of QDQ Media combined with the restructuring programme enabling the financial recovery of the company. Furthermore, the other subsidiaries in the segment had an overall positive EBITDA over the half of 2004.

1.2.2.5 Depreciation and amortisation of the International & Subsidiaries segment (pro forma)

Depreciation and amortisation remained nearly stable between the two periods, and was 1.9 million euros at June 30, 2004.

1.2.2.6 Pro forma operating income of the International & Subsidiaries segment

Operating income of the International & Subsidiaries segment at June 30, 2004 presents a loss of 8.3 million euros versus a loss of 17.7 million euros observed in 2003. Its improvement is due to the initiated recovery of QDQ Media.

1.2.3 Pro forma analysis of consolidated net income

The table below presents the consolidated net income of the Consolidated Group generated by all activities during the periods ending June 30, 2003 and June 30, 2004:

**PRO FORMA CONSOLIDATE PROFIT & LOSS ACCOUNT
PAGESJAUNES GROUP**

In millions of euros

	Periods ending June 30		
	2004	2003	Change 2004/2003
Operating income	162.3	139.6	16.2%
Financial income (expenses), net	5.7	10.5	-46.2%
Other non-operating income (expenses), net	(4.4)	0.5	nm
Corporate income tax	(59.5)	(56.6)	5.2%
Employee profit-sharing	(12.8)	(10.1)	26.9%
Share in net income of companies accounted for using the equity method	0.6	0.6	nm
Income Before Goodwill amortisation and Minority Interests	91.8	84.5	8.6%
Goodwill amortisation	(2.9)	(2.9)	-
Minority interests	-	-	-
Consolidated net income of the Group	88.9	81.6	8.9%

1.2.3.1 Pro forma financial income, net

Net financial income was down by 46.2% between June 30, 2003 and June 30, 2004, resulting in 5.7 million euros at June 30, 2004. This drop is principally due to a fall in interest rates. Financial income principally includes interest income from investments with France Télécom according to the conditions outlined in the “4.5.5 Cash management agreements” paragraph found in the “*Document de Base*”.

1.2.3.2 Other non-operating income (pro forma), net

At June 30, 2004, the non-operating income (expenses) were -4.4 million euros versus +0.5 million euros at June 30, 2003. This category specifically includes the costs related to the Company’s initial public offering for 7.1 million euros observed at June 30, 2004, and consists of advertising and communication fees and expenses related to this operation.

1.2.3.3 Corporate income tax (pro forma)

At June 30, 2004, the Consolidated Group reported a corporate tax related charge of 59.5 million euros, up 2.9 million euros compared with the period ending June 30, 2003.

Prior to its initial public offering, and due to the Company’s distribution of a total of 236.0 million euros, of which 24.9 million euros came from the special long-term gain reserve, and therefore added to the fiscal result 2004, the Company reported an additional corporate income tax of 4.6 million euros at June 30, 2004.

The Company intends to opt for the tax consolidation regime provided for in articles 223A and following of the French General Tax Code by March 31, 2005, at the very latest. This option aims to establish a tax group with an integrated tax system including the Company and all its French subsidiaries that fulfil the conditions required to become members. This option would take effect from the January 1st, 2005 for a period of five fiscal years.

1.2.3.4 Employee profit-sharing (pro forma)

The result of the employee profit-sharing from the French consolidated entities, under the mutual system within the France Télécom Group and set up in accordance with applicable regulations,

has resulted in a charge of 12.8 million euros at June 30, 2004 compared with 10.1 million euros at June 30, 2003.

1.2.3.5 Share in net income of companies accounted for using the equity method (pro forma)

Income from companies accounted for using the equity method includes the contribution from the Eurodirectory, which is 50% owned by the Company and whose share amounted to 0.6 million euros at June 30, 2004, stable compared with June 30, 2003.

1.2.3.6 Goodwill amortisation (pro forma)

Goodwill amortisation was 2.9 million euros at June 30, 2004, which was identical to the total observed at June 30, 2003. It consists essentially of the goodwill amortisation concerning the QDQ Media and Mappy companies.

1.2.3.7 Consolidated net income of the Group (pro forma)

Group share of consolidated net income of the Group was 88.9 million euros at June 30, 2004 compared with 81.6 million euros at June 30, 2003.

1.3 Pro forma consolidated liquidity, capital resources and investments expenses

The following table presents the changes to the pro forma cash position of the Consolidated Group for the periods ending June 30, 2004, December 31, 2003 and June 30, 2003:

PRO FORMA CONSOLIDATED NET CASH POSITION	Periods ending		
	06/30/2004	12/31/2003	03/30/2003
<i>In millions of euros</i>			
Marketable securities	1.2	11.6	11.5
Cash and cash equivalents	470.0	461.1	380.4
Total Marketable securities and Cash and cash equivalents	471.2	472.7	391.9
Current accounts	3.3	3.3	3.3
Other financial debt	53.3	12.9	21.7
Gross financial debt	56.6	16.2	25.1
Due in less than one year	56.6	16.2	25.1
Due in more than one year	-	-	-
Net cash position	414.6	456.5	366.9

Pro forma net cash of the Consolidated Group at June 30, 2004 was 414.6 million euros versus 456.5 million euros at December 31, 2004 and 366.9 million euros at June 30, 2003.

Since 1999, the Group has invested nearly all available cash of the Consolidated Group with France Télécom in accordance with the annually renegotiated agreement.

The table below presents the pro forma consolidated cash flow for the periods ending June 30, 2003 and June 30, 2004:

TABLE OF PRO FORM CONSOLIDATED CASH FLOW	Periods ending June 30	
	2004	2003
<i>In millions of euros</i>		
Net cash from operations	199.2	157.2
Net cash used in investing activities	5.3	(16.4)
Net cash used in financing activities	(195.5)	(258.2)
Net increase (decrease) in cash and cash equivalents	9.0	(117.4)
Effect of changes in exchange rates on cash and cash equivalents	-	(0.3)
Cash and cash equivalents – beginning of period	461.1	498.1
Cash and cash equivalents – end of period	470.0	380.4

Cash and cash equivalents at June 30, 2004 was up 470.0 million euros versus 380.4 million euros at June 30, 2003.

Net cash generated from operations increased 26.7% between the first half of 2003 and the first half of 2004. This growth is related to the improved EBITDA, which rose from 146.0 million euros at June 30, 2003 to 167.4 million euros at June 30, 2004, and to the improved working capital requirement, which is the outcome of continuous focus on trade accounts receivables of the PagesJaunes in France segment.

At June 30, 2004, the net cash used in investing activities included current investments (running, network, office automation and equipment) for 3.5 million euros and the acquisition of the Kompass Belgium company for 1.8 million euros. The maturing, in May 2004, of marketable securities enabled to generate an income on this intermediate balance. At June 30, 2003, this category essentially included the acquisition of Wanadoo Maps for 10.1 million euros and current investments.

Net cash used in financing activities included the distributions in 2004 for 236.0 million euros versus 248.1 million euros in 2003, the drop between the two periods is explained by the retained earnings distribution in 2003. The balance corresponds to the temporary increase of the current account with France Telecom (see “4.5.5 Cash management agreements” paragraph found in the “*Document de Base*”).

1.4 Use of estimates

Financial statements prepared in accordance with generally accepted accounting principles require the Company’s management to make estimates and to formulate assumptions that affect the amounts shown in the financial statements and the accompanying notes, particularly in respect of provisions for risks, deferred taxes and goodwill. The actual amounts could therefore be different from the estimates made.

Provisions for contingencies and depreciation

Receivables are valued at their nominal value. A provision for depreciation is made on the basis of a review of individual and collective risks, with a special focus on delays in payment of receivables. The provisions made thus far are therefore based on prior experience. However, the Group could be forced in the future to modify these provisions either upward or downward.

However, an increase by a fifth of the value of doubtful receivables would not have a material effect on the Group’s results.

Goodwill

Goodwill is considered a long-term asset and is depreciated according to its estimated lifespan at the time of the acquisition. This lifespan is estimated by management based on the length of time during which these assets are estimated to generate economic benefits. The depreciation of this goodwill may be adjusted according to the differences observed between the business plans initially provided and the actual plans of the period.

Deferred tax assets

The determination of the Consolidated Group's obligations and costs with respect to taxes requires an interpretation of tax laws. Deferred tax assets are primarily comprised of costs that are non-deductible in the year of their filing, becoming taxable in the year in which they are actually paid. As a result, PagesJaunes Group recalculates the items making up these deferred tax assets annually.

1.5 Implementation of IFRS standards in the Group

The France Telecom Group has launched a project for conversion to international standards (IAS/IFRS) from July 2003 onwards, with the goal of identifying the main differences in accounting methods during the first half of 2004 and preparing the opening balance sheet as of January 1, 2004 according to these new standards following publication by IASB of its latest standards. This publication is expected during the 2004 year.

This project is implemented as part of a larger program aimed at enhancing management reporting and setting up a new consolidation/restitution method shared by the entire France Telecom Group, including the PagesJaunes Group.

In order to ensure uniformity of the new accounting policies and their implementation within the France Telecom Group, the entire IFRS conversion project is managed by a central team for the France Telecom Group.

The first phase of the project, called "diagnosis", currently underway, seeks to measure the differences between the new standards and the current practice in use within the France Telecom Group, and will be followed by implementation of procedures, training and information systems, particularly for the new consolidation tool, so as to be operational in 2005.

The PagesJaunes Group is a member of the main monitoring bodies set up to ensure the success of the project and assess its progress. These bodies function at three levels:

- A Program Steering Committee with the major players from the France Telecom Group and sub-groups;
- Technical Committee in charge of pre-validation of major IFRS technical points and options;
- A Program Strategy Committee, common to the IFRS/new consolidation and reporting projects, bringing together the Executive Directors of the France Telecom Group and subgroups.

The main standards identified by the France Telecom Group likely to have an impact on the financial statements of the PagesJaunes Group in 2005 as well as on the 2004 comparison are:

- Presentation of financial statements and sector information: international standards can modify significantly the presentation of the income statement, particularly by eliminating the notion of non-operating income and costs and by incorporating the depreciation of consolidated goodwill in the operating income, and the balance sheet, by imposing a classification of assets and liabilities by maturity. It requires the presentation of detailed information per business sector and/or per geographic zone. The preparation of this information according to the IAS 14 standard is currently under examination;
- Evaluation of intangible assets: in view of the discussions underway within the IASB on the proposed standards for the definition, evaluation and depreciation of intangible assets (IFRS 3 and revisions of the IAS 36 and IAS 38), the Company is currently unable to assess the differences from the rules currently applied by the France Telecom Group for the preparation of financial statements according to French standards;
- Deferred taxes: contrary to the provisions of the regulation on consolidated financial statements, the IAS 12 standard requires the recognition of deferred tax liability relative to intangible fixed assets recognized during corporate mergers and acquisitions; it prohibits the capitalization of deferred taxes;
- Finally, the standard relative to the initial adoption of IAS/IFRS provides specific provisions and options currently being studied by the France Telecom Group; these affect in particular whether or not to restate corporate mergers or acquisitions that occurred before January 1, 2004, the evaluation of tangible fixed assets, the zero setting of actuarial variances arising from retirement commitments and that of translation adjustments recorded under shareholders' equity.

1.6 Subsequent events to half-year closing

At the date of drafting this report, there was no significant event to declare subsequent to the half-year closing. Nevertheless, it should be noted that following the admission of the Company to the listing market of the Premier Marché Euronext Paris S.A., a maximum of 9,591,750 shares could be newly issued within the context of an offering reserved for employees at end of July 2004.

1.7 Outlook

In the light of results at June 30, 2004, PagesJaunes confirms its objectives for 2004 namely a revenue growth between 4% and 6% and an EBITDA for the PagesJaunes in France segment of 400 million euros.