

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



Report on operations

Pro forma consolidated financial statements as at December 31, 2004 and 2003

Board of Directors of February 2, 2005

**A limited liability company (*Société Anonyme*) having a Board of Directors
(Conseil d'Administration)
and a share capital of €55,757,922
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TABLE OF CONTENTS

1.1 Overview	3
1.2 Comments on the financial statements as at December 31, 2003 and December 31, 2004.....	6
1.2.1 Pro forma analysis of revenues and operating income of the PagesJaunes in France segment	7
1.2.1.1 Pro forma revenues of the PagesJaunes in France segment.....	8
1.2.1.2 Cost of services and products sold in the PagesJaunes in France segment (pro forma).....	10
1.2.1.3 Commercial, administrative and research and development expenses of the PagesJaunes in France segment (pro forma).....	11
1.2.1.4 Pro forma EBITDA of the PagesJaunes in France segment.....	12
1.2.1.5 Depreciation and amortisation of the PagesJaunes in France segment (pro forma)	12
1.2.1.6 Pro forma operating income of the PagesJaunes in France segment.....	13
1.2.2 Pro forma analysis of revenues and operating income of the International & Subsidiaries segment	13
1.2.2.1 Pro forma revenues of the International & Subsidiaries segment.....	13
1.2.2.2 Cost of services and products sold in the International & Subsidiaries segment (pro forma).....	15
1.2.2.3 Commercial and administrative expenses of the International & Subsidiaries segment (pro forma).....	15
1.2.2.4 Pro forma EBITDA of the International & Subsidiaries segment.....	16
1.2.2.5 Depreciation and amortisation of the International & Subsidiaries segment (pro forma).....	16
1.2.2.6 Pro forma operating income of the International & Subsidiaries segment.....	16
1.2.3 Pro forma analysis of consolidated net income.....	16
1.2.3.1 Pro forma financial income, net.....	17
1.2.3.2 Other non-operating income and expenses (pro forma)	17
1.2.3.3 Corporate income tax (pro forma)	17
1.2.3.4 Employee profit-sharing (pro forma).....	18
1.2.3.5 Share in net income of companies accounted for using the equity method (pro forma).....	18
1.2.3.6 Goodwill amortisation (pro forma)	18
1.2.3.7 Net income (pro forma).....	18
1.3 Comparison of years ended December 31, 2003 and December 31, 2002.....	18
1.3.1 Analysis of the pro forma revenues and operating income of the PagesJaunes in France segment	20
1.3.1.1 Pro forma revenues of the PagesJaunes in France segment.....	21
1.3.1.2 Cost of services and products sold in the PagesJaunes in France segment (pro forma).....	23
1.3.1.3 Commercial, administrative, and research and development costs of the PagesJaunes in France segment (pro forma).....	24
1.3.1.4 Pro forma EBITDA of the PagesJaunes in France segment.....	25
1.3.1.5 Depreciation and amortization for the PagesJaunes in France segment (pro forma)	25
1.3.1.6 Pro forma operating income for the PagesJaunes in France segment.....	25

1.3.2	Analysis of the pro forma sales and operating income of the International & Subsidiaries segment	25
1.3.2.1	Pro forma revenues of the International & Subsidiaries segment.....	26
1.3.2.2	Cost of services and products sold in the International & Subsidiaries segment (pro forma).....	28
1.3.2.3	Commercial and administrative costs of the International & Subsidiaries segment (pro forma).....	28
1.3.2.4	Pro forma EBITDA of the International & Subsidiaries segment.....	29
1.3.2.5	Depreciation and amortization for the International & Subsidiaries segment (pro forma).....	29
1.3.2.6	Pro forma operating income for the International & Subsidiaries segment.....	29
1.3.3	Analysis of pro forma consolidated net income.....	30
1.3.3.1	Interest income (expense), net (pro forma)	30
1.3.3.2	Other non-operating income (expense) (pro forma).....	30
1.3.3.3	Income taxes (pro forma).....	30
1.3.3.4	Employee profit sharing (pro forma).....	31
1.3.3.5	Equity in net income of companies accounted for using the equity method (pro forma).....	31
1.3.3.6	Goodwill amortization (pro forma)	31
1.3.3.7	Net income (pro forma).....	31
1.4	Pro forma consolidated liquidities, capital resources and investment expenses	31
1.5	Use of estimates	33
1.6	Off-balance sheet commitments and risks.....	34
1.7	Implementation of INTERNATIONAL FINANCIAL REPORTING STANDARDS in the Group	35
1.8	Subsequent events	38
1.9	Outlook	38

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 the general public and professionals.

The Group's business is organised in two main segments:

- **PagesJaunes in France.** This comprises the principal activities in France, namely those 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 advertising representation for Europages.
- **International & Subsidiaries.** This comprises 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 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 December 31, 2004 results from a series of internal restructuring operations involving certain companies within the France Telecom Group. These restructurings were effected during the first half of 2004 in the 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, the second-largest directory publisher in Spain, integrated into the Wanadoo directories division in April 2001. This company was sold to the Group by Wanadoo International in April 2004 for a transaction price of €106.7 million and contributes fully to the Group's pro forma consolidated results for the periods ending December 31, 2003 and 2004; and
- Mappy (formerly Wanadoo Maps), which specialises in online geographic services and the creation of city photos. This company was sold to the Group by Wanadoo International in April 2004 for a transaction price of €10.1 million and contributes fully to the Group's pro forma consolidated results as of January 1, 2003.

The pro forma consolidated information prepared for the financial years 2002, 2003 and 2004 commented on in this report was produced in order to present the Consolidated Group's scope of activity, financial situation, results of operations and cash position, as if the Consolidated Group had existed during these periods on the basis of the methods described below. The pro forma figures reflect the consolidation of QDQ Media and Mappy (formerly Wanadoo Maps) from their date of entry into the France Telecom Group. The

pro forma consolidated information also reflects the transaction prices of QDQ Media and Mappy, which were charged to the cash assets of the Company at approximately €117 million in 2001. Nevertheless, the pro forma information does not include certain Group businesses that are considered insignificant due to their size or activity, namely PagesJaunes Outre-Mer (revenues of €3.6 million in 2003 from its advertising representation business, with EBITDA of €0.6 million), PagesJaunes Liban (revenues of approximately €1 million in 2003 with EBITDA at breakeven) and Kompas Belgium (revenues of €3.8 million in 2003 with EBITDA of €0.3 million).

PagesJaunes acquired 50% of the Luxembourg company Eurodirectory for €13.5 million on October 14, 2004. As a result of this transaction, PagesJaunes now controls 100% of this company. Eurodirectory holds 49% of Editus Luxembourg, a publisher of telephone directories in Luxembourg, alongside P&T Luxembourg. Editus Luxembourg employs 96 people and reported 2003 revenues of €17.3 million and EBITDA of €7.3 million, i.e. 42% of revenues. This acquisition is in line with the policy of acquiring complementary companies, as announced at the time of the initial public offering of PagesJaunes. It should be noted that this company is consolidated by the equity method in the pro forma accounts as at December 31, 2004.

The general meeting of shareholders of PagesJaunes held on December 23, 2004 approved changes in the organisational structure of the Group. The purpose of the changes is to place the two operating segments of the Group, "PagesJaunes in France" and "International & Subsidiaries", under a holding company in charge of the management and supervision of the Group as a whole. To this end, the operating activities of PagesJaunes SA are being transferred to a new subsidiary by means of a contribution at market value. This new organisational structure allows:

- a rationalisation of the structure of the Group, by separating Group management responsibilities from operational responsibilities, and better visibility on the operating performance of each of the two segments,
- more effective management and control of the various units within the Group.

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 note entitled "Pro forma information on the income statements", which can be found in the document "Consolidated Accounts as at December 31, 2004, 2003 and 2002".

The comments below are made on the basis of the pro forma consolidated information of the Group for the years ending December 31, 2002, December 31, 2003 and December 31, 2004.

This pro forma consolidated information is not necessarily representative of the financial situation, results of operations and changes in cash position as they would have been presented in the financial statements had the Consolidated Group been constituted prior to January 1, 2001 and had it been operating autonomously. Furthermore, this information is not necessarily indicative of the financial condition, results of operations and cash position of the Consolidated Group in future financial years.

The table below presents the transition from the 2004 consolidated accounts to the 2004 pro forma consolidated information taking into account the additions of QDQ Media and Mappy (formerly Wanadoo Maps) from January 1, 2004. In the consolidated accounts, these two entities are included with effect from April 1, 2004 and May 1, 2004 respectively.

PagesJaunes Group	Consolidated Accounts 2004	Entry into scope of consolidation 2004	Pro forma accounts 2004
<i>In millions of euros</i>			
Revenues	973,1	11,0	984,1
EBITDA (Earnings before interest, tax, depreciation and amortisation)	416,0	(2,6)	413,4
Operating income	405,9	(2,8)	403,1
Consolidated net income of the Group	233,4	(5,2)	228,2

1.2 Comments on the financial statements as at December 31, 2003 and December 31, 2004

PagesJaunes Group	Years ending December 31		
	2004	2003	Change 2004/2003
<i>In millions of euros</i>			
PagesJaunes in France	908,4	847,5	7,2%
International & Subsidiaries	75,7	69,8	8,4%
Revenues	984,1	917,3	7,3%
Cost of services and products sold	(213,2)	(234,9)	-9,3%
Commercial expenses	(301,1)	(292,4)	3,0%
Administrative expenses	(55,3)	(54,0)	2,4%
Research and development expenses	(1,1)	(1,7)	-37,6%
EBITDA (Earnings before interest, tax, depreciation and amortisation)	413,4	334,2	23,7%
<i>as % of revenues</i>	<i>42,0%</i>	<i>36,4%</i>	
Depreciation and amortisation (excluding goodwill)	(10,3)	(12,6)	-18,1%
Operating income	403,1	321,7	25,3%
<i>as % of revenues</i>	<i>41,0%</i>	<i>35,1%</i>	
Financial income (expenses), net	18,5	19,1	-3,3%
Other non-operating income (expenses), net	(9,6)	(3,1)	ns
Corporate income tax	(148,8)	(123,4)	20,5%
Employee profit-sharing	(29,9)	(26,9)	11,4%
Share in net income of companies accounted for using the equity method	0,8	1,2	NA
Income before goodwill amortisation and minority interests	234,1	188,5	24,2%
Goodwill amortisation	(5,9)	(5,9)	-
Minority interests	-	-	-
Consolidated net income of the Group	228,2	182,6	25,0%

Pro forma revenues of the Consolidated Group rose 7.3% between December 31, 2003 and December 31, 2004 and amounted to €984.1 million in 2004. This growth is due to a fuller range of products in printed directories and online services, increased average revenue per advertiser and the acquisition of new advertisers in France, as well as to an increase in rates.

EBITDA rose 23.7% between the two years, and amounted to €413.4 million as at December 31, 2004. The margin rate of EBITDA as a proportion of revenues rose from 36.4% in 2003 to 42.0% in 2004, reflecting a significant improvement in profitability for the Consolidated Group. This improvement is due to the increase in revenues and effective management of all expenses, in particular the optimisation of publishing costs for printed directories and the reduction in losses at QDQ Media. EBITDA after employee profit-sharing

increased by 24.8% to €383.5 million in 2004, compared to €307.4 million in 2003.

The cost of services and products sold (as defined in section 1.2.1.2 "Cost of services and products sold in the PagesJaunes in France segment (pro forma)" consequently decreased sharply by 9.3% between 2003 and 2004. Commercial costs, which include personnel expenses of the sales force, rose 3.0% between these two periods, even though revenues rose 7.3%. Administrative expenses, which include in particular expenses related to support functions, increased slightly by 2.4% between these two periods to 5.6% of revenues.

Pro forma consolidated net income of the Group amounted to €228.2 million as at December 31, 2004, compared to €182.6 million in 2003, a rise of 25.0%.

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 December 31, 2003 and December 31, 2004:

	Years ending December 31		
	2004	2003	Change 2004/2003
PagesJaunes in France			
<i>In millions of euros</i>			
Printed directories	618,9	595,0	4,0%
Online services	254,5	208,2	22,2%
Other businesses	34,9	44,3	-21,2%
Revenues	908,4	847,5	7,2%
Cost of services and products sold	(188,8)	(207,1)	-8,8%
Commercial expenses	(253,5)	(233,8)	8,4%
Administrative expenses	(40,6)	(37,6)	8,0%
Research and development expenses	(1,1)	(1,7)	-37,6%
EBITDA (Earnings before interest, tax, depreciation and amortisation)	424,3	367,2	15,5%
<i>as % of revenues</i>	<i>46,7%</i>	<i>43,3%</i>	
Depreciation and amortisation (excluding goodwill)	(6,7)	(8,4)	-20,5%
Operating income	417,6	358,8	16,4%
<i>as % of revenues</i>	<i>46,0%</i>	<i>42,3%</i>	

The PagesJaunes in France segment incorporates 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 and other activities (mainly the publication of the PagesPro directories, the sale of online access to databases, the reverse directory QuiDonc and the advertising representation for Europages).

1.2.1.1 Pro forma revenues of the PagesJaunes in France segment

The following table analyses the pro forma consolidated revenues of the PagesJaunes in France segment by product line for the periods ending December 31, 2003 and December 31, 2004 and the percentage changes per product line between these two periods:

PagesJaunes in France	Years ending December 31,		
	2004	2003	Variation 2004/2003
<i>In millions of euros</i>			
Printed directories	618,9	595,0	4,0%
PagesJaunes directory	505,2	482,4	4,7%
The Annuaire	113,8	112,6	1,0%
Online services	254,5	208,2	22,2%
Internet	147,0	94,8	55,1%
Minitel	85,0	92,5	-8,2%
Websites	22,6	20,9	7,7%
Other Businesses	34,9	44,3	-21,2%
QuiDonc	7,3	8,1	-10,4%
Other*	27,6	36,2	-23,6%
* including PagesPro, sale of online access to databases, Europages			
Revenues	908,4	847,5	7,2%

Revenues of the PagesJaunes in France segment rose 7.2% between 2003 and 2004. They amounted to €908.4 million as at December 31, 2004. This was due in particular to an increase in the number of advertisers combined with growth in average revenue per advertiser, which rose from €1,477 in 2003 to €1,533 in 2004. At the same time, in addition to an increase in rates, the advertising offer expanded, not only in online services with the launch of "Totem" posters on pagesjaunes.fr, but also in printed directories with the introduction of new display products, such as the distribution in Paris in May 2004 of two new directory formats (PagesJaunes pocket edition and the full distribution of the "compact" version distributed in May 2003 in the XVth arrondissement in Paris).

In 2004, the PagesJaunes in France segment had 583,836 advertisers, against 561,180 in 2003. Hence the number of new advertisers in 2004 was 98,365, an increase of more than 16,000 compared to 2003, when the figure was 82,080.

Finally, with regard to the various sub-segments, revenue growth was fuelled by the increase in revenues of printed directories and by the dynamism of internet activities, where the additional revenues were seven times greater than the decline in revenues of PagesJaunes 3611.

Pro forma revenues of printed directories

Revenues of printed directories rose 4.0% between December 31, 2003 and December 31, 2004 and amounted to €618.9 million as at December 31, 2004. These revenues are principally generated by the marketing and sales of advertising space in the PagesJaunes directory and the Annuaire. Between 2003 and 2004, revenues of the PagesJaunes directory rose 4.7% to €505.2 million and those of the Annuaire rose 1.0% to €113.8 million. These rises are explained essentially by the increase in the number of advertisers (550,504 as at December 31, 2004 against 532,041 as at December 31, 2003) combined with growth in average revenue per advertiser (from €1,118 in 2003 to €1,124 in 2004) made possible by the twin effect of 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 rose 22.2% between 2003 and 2004 and amounted to €254.5 million as at December 31, 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 number of advertisers on the online services increased from 401,610 in 2003 to 420,941 in 2004.

The 22.2% growth in revenues of online services between the periods ending December 31, 2003 and 2004 was principally the result of revenue growth generated by pagesjaunes.fr, up €52.2 million to €147.0 million as at December 31, 2004. The 55.1% revenue growth of pagesjaunes.fr was achieved specifically as a result of the 15% increase in the number of advertisers on pagesjaunes.fr between December 31, 2003 and December 31, 2004 (307,953 advertisers as at December 31, 2004 against 267,175 as at December 31, 2003) and to an increase in the average revenue per advertiser on pagesjaunes.fr (€511 in 2004 compared to €380 in 2003). These increased revenues are especially due to a fuller range of products, with the development of multimedia impact products on pagesjaunes.fr (launch of "Totem" display products on 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 declined by 8.2% between the periods ending December 31, 2003 and 2004 and amounted to €85.0 million as at December 31, 2004 compared to €92.5 million as at December 31, 2003, thereby confirming the downward trend that was already evident in 2003 and

partly reflecting the drop in audience numbers for PagesJaunes 3611 during 2004.

Revenues from the design and hosting of websites were up 7.7% between December 31, 2003 and December 31, 2004 and amounted to €22.6 million as at December 31, 2004. One-third of revenues were generated by activities related to the design and creation of websites. The remaining two-thirds were generated by the marketing of packages including updating, hosting and online assistance services. Furthermore, the introduction of innovative products (such as *e-visit - 360 degree view* - and options for managing the updating of websites or tracking audience numbers) launched in April 2003 contributed to the continued development of customer retention and revenue growth in 2004 in a fragmented and highly competitive market.

Pro forma revenues of other businesses

Revenues of other businesses in the PagesJaunes in France segment fell 21.2% between 2003 and 2004 and amounted to €34.9 million in 2004, i.e. 3.8% of revenues for this segment. Revenues here are principally generated by PagesPro activities on the Internet and the sale of online access to databases to French and foreign operators, the QuiDonc reverse directory consulted on the Internet, Minitel and Audiotel media and Europages activities on printed and Internet media. The 21.2% fall in revenues of these activities is mainly due to the decline in revenues for online access to databases (€6.0 million in 2004 versus €10.4 million in 2003). The decline in revenues from online access to databases is the result of a significant cut in sales prices imposed by a new legal environment due to a court decision rendered in September 2003 on the prices of data sold by France Telecom. The price of these services is now set at cost price plus a reasonable return on capital employed. Revenues from the QuiDonc reverse directory declined 10.4% to €7.3 million as at December 31, 2004. This decline is due to the fall in revenues of the QuiDonc reverse directory on Minitel (combined with the drop in audience numbers of PagesJaunes 3611), which has not been offset by 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	Years ending December 31		
	2004	2003	Change 2004/2003
<i>In millions of euros</i>			
Cost of services and products sold	(188,8)	(207,1)	-8,8%
<i>as % of revenues</i>	-20,8%	-24,4%	

The cost of services and products sold in the PagesJaunes in France segment was €188.8 million as at December 31, 2004, a decrease of 8.8% compared to December 31, 2003, while revenues of the segment rose 7.2%. The cost of services and products sold essentially covers publishing costs (purchase of

paper, printing and distribution of printed directories), the costs of hosting and distributing online directories and the costs of purchasing, creating and updating databases and producing advertisements. The cost of services and products sold represented 20.8% of revenues as at December 31, 2004 versus 24.4% as at December 31, 2003. The costs of paper, printing and distribution in 2004 amounted to €97.4 million, including €42.7 million for paper, versus €106 million, including €49 million for paper, as at December 31, 2003. This overall drop in the cost of services and products sold is essentially due to better cost management of paper, inventories and printing, resulting mainly from a decrease in the volume of paper due to optimised pagination. These costs also decreased, to the same extent, due to price negotiation with paper suppliers and to the cyclical decline in paper prices.

The costs of purchasing and setting up databases decreased following the renegotiation of the France Telecom agreement at the start of 2004 concerning the annual cost for the provision of data and the decrease in costs for purchasing these databases resulting from a September 2003 court ruling.

Furthermore, up to 2003 inclusive, PagesJaunes had been paying to Havas an annual charge of €9.1 million, which was discontinued as of 2004.

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

PagesJaunes in France	Years ending December 31		
	2004	2003	Change 2004/2003
<i>In millions of euros</i>			
Commercial expenses	(253,5)	(233,8)	8,4%
Administrative expenses	(40,6)	(37,6)	8,0%
Research and development expenses	(1,1)	(1,7)	-37,6%
Commercial, administrative and R&D expenses	(295,2)	(273,2)	8,1%
<i>as % of revenues</i>	<i>-32,5%</i>	<i>-32,2%</i>	

The commercial expenses of the PagesJaunes in France segment totalled €253.5 million as at December 31, 2004, up 8.4% compared to December 31, 2003, an increase similar that of revenues, which rose 7.2% over the same period.

Commercial expenses represented 27.9% of revenues as at December 31, 2004 compared to 27.6% as at December 31, 2003. These commercial expenses include salaries, supervision and administrative expenses related to the sales force, communications, as well as expenses for marketing, commercial premises, management and provisions for bad debts. The remuneration of the sales force and its immediate supervisory personnel represented 13.4% of revenues as at December 31, 2004, compared to 12.7% in 2003. This remuneration of the sales force, which is to a large extent variable, depends principally on the commercial results recorded in

full-year 2004. The improved management of commercial costs reflects the Group's aim of developing the acquisition of new customers by the establishment, particularly in the second half of 2004, of a new dedicated sales force and new telesales offices, the impact of which will be measurable in 2005 revenues.

The costs of premises used by the sales personnel were slightly higher as at December 31, 2004 compared with the period to December 31, 2003 following the creation of new sales offices at the end of 2003 and the beginning of 2004 along with an increase in the numbers of sales personnel and the creation of a new sales channel to recruit new customers. This enhanced sales team represents an investment for future revenue growth.

The administrative expenses of the PagesJaunes in France segment amounted to €40.6 million as at December 31, 2004, an increase of 8.0% compared to December 31, 2003. As a percentage of revenues, administrative expenses remain almost unchanged, representing 4.5% in 2004, compared to 4.4% in 2003. These administrative expenses include the costs of support functions, certain provisions for risks and charges, assistance charges and trademark royalties paid to the France Telecom Group.

Furthermore, €1.1 million was devoted to research and development as at December 31, 2004. Research and development expenses essentially consist of personnel expenses of the teams responsible for developing platforms and related products and external charges for France Telecom R&D services. The purpose of these services is to develop new functionalities, as well as the prototyping of products and offers through new services. Research and development expenses of PagesJaunes in France decreased by €0.6 million as at December 31, 2004 compared to December 31, 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 rose 15.5% between 2003 and 2004 and amounted to €424.3 million at December 31, 2004. The EBITDA margin of this segment rose from 43.3% to 46.7% between 2003 and 2004, representing a 3.4 point increase in the EBITDA margin over the period. This performance is essentially due to revenue growth and cost control, and to a lesser degree to the expense related to the Havas fee paid in 2003 and discontinued as of 2004.

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

Depreciation and amortisation decreased by 20.5% between 2003 and 2004 and amounted to €6.7 million in 2004, i.e. less than 1% of revenues for this segment. This fall is due to the decreased investment level recorded between 2003 and 2004 following the rationalisation and optimisation of IT equipment purchases.

1.2.1.6 Pro forma operating income of the PagesJaunes in France segment

Operating income of the PagesJaunes in France segment rose 16.4% between 2003 and 2004 and amounted to €417.6 million in 2004.

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

The following table shows the movements in pro forma revenues and pro forma operating income of the International & Subsidiaries segment for the periods ending December 31, 2003 and December 31, 2004:

International & Subsidiaries	Years ending December 31		
	2004	2003	Change 2004/2003
<i>In millions of euros</i>			
QDQ Media	36,5	32,0	13,9%
Other subsidiaries	39,3	37,8	3,8%
Revenues	75,7	69,8	8,4%
Cost of services and products sold	(24,3)	(27,8)	-12,6%
Commercial expenses	(47,6)	(58,5)	-18,8%
Administrative expenses	(14,7)	(16,4)	-10,4%
Research and development expenses	-	-	-
EBITDA (Earnings before interest, tax, depreciation and amortisation)	(10,9)	(33,0)	-67,0%
<i>as % of revenues</i>	<i>-14,3%</i>	<i>-47,2%</i>	
Depreciation and amortisation (excluding goodwill)	(3,6)	(4,2)	-13,1%
Operating income	(14,5)	(37,1)	-61,0%
<i>as % of revenues</i>	<i>-19,1%</i>	<i>-53,2%</i>	

1.2.2.1 Pro forma revenues of the International & Subsidiaries segment

The following table shows the breakdown of pro forma consolidated revenues of the International & Subsidiaries segment by product line for the years ending December 31, 2003 and December 31, 2004 and the percentage changes of these lines between these two periods:

International & Subsidiaries	Years ending December 31		
	2004	2003	Change 2004/2003
<i>In millions of euros</i>			
QDQ Media	36,5	32,0	13,9%
Other subsidiaries	39,3	37,8	3,8%
Kompass France	24,7	24,2	2,1%
Wanadoo Data	11,5	11,0	4,9%
Mappy, formerly Wanadoo Maps	3,0	2,6	15,4%
Revenues	75,7	69,8	8,4%

Revenues of the International & Subsidiaries segment rose 8.4% compared to December 31, 2003 and amounted to €75.7 million in 2004.

QDQ Media

Revenues of QDQ Media rose 13.9% in 2004 compared to 2003, amounting to €36.5 million. These revenues are generated by the sale of advertising space in the printed and online directories (QDQ.com) of QDQ Media.

The revenue growth was due to the increase in the average revenue per advertiser in 2004 in comparison to 2003, and to a significant reduction in credit notes on published directories due to improved media quality.

The share of revenues generated by online activities doubled to 9.6% of 2004 revenues compared to 5.5% in 2003. The number of online advertisers on QDQ.com rose from 11,200 as at December 31, 2003 to 24,685 as at December 31, 2004.

Other subsidiaries

- Kompass France

Revenues of Kompass France rose 2.1% compared to 2003, amounting to €24.7 million in 2004. These revenues are derived from the marketing of the Kompass information system, which includes the sale of advertising space and data on printed media, CD-Rom, Minitel and the Internet. The increase in revenues in 2004 is due to a rise in the number of advertisers. Visitor numbers to the Kompass.com website rose sharply during the period.

- Wanadoo Data

Revenues of Wanadoo Data rose 4.9% in 2004 compared to 2003 to reach €11.5 million. They mainly comprise the marketing of prospection files and IT services involving the restructuring and enriching of files from multiple bases.

- Mappy (formerly Wanadoo Maps)

Revenues of Mappy rose 15.4% compared to 2003, amounting to €3.0 million in 2004. Mappy's revenues are generated essentially from royalties received for the use of its geographic services platform, from the licensing of distribution rights for photographs and their updating and from the sale of advertising space on its website mappy.com.

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

International & Subsidiaries	Years ending December 31		
	2004	2003	Change 2004/2003
<i>In millions of euros</i>			
Cost of services and products sold	(24,3)	(27,8)	-12,6%
<i>as % of revenues</i>	<i>-32,1%</i>	<i>-39,9%</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 expenses related to purchasing, setting up and updating databases and creating advertisements.

The cost of services and products sold fell very sharply by 12.6% in 2004 compared to 2003. This substantial decrease is due to the major economies achieved on purchases of paper and printing costs at QDQ Media, as a result of obtaining pricing terms similar to those of PagesJaunes France. These cost savings were reinforced by productivity gains achieved partly through the partial insourcing of the creation of advertisements, changes of format for printed directories, optimisation of the layout of printed directories of QDQ Media and the cyclical decline in the price of paper.

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

International & Subsidiaries	Years ending December 31		
	2004	2003	Change 2004/2003
<i>In millions of euros</i>			
Commercial expenses	(47,6)	(58,5)	-18,8%
Administrative expenses	(14,7)	(16,4)	-10,4%
Commercial and administrative expenses	(62,3)	(74,9)	-16,9%
<i>as % of revenues</i>	<i>-82,2%</i>	<i>-107,3%</i>	

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

Commercial expenses decreased by 18.8% between 2003 and 2004 and amounted to €47.6 million in 2004. This decrease is mainly due the overhaul of trade receivables in 2003 at QDQ Media, which led to a write-off of a substantial volume of old receivables, and to a decrease in communication costs at QDQ Media.

Administrative expenses fell by 10.4% in 2004 compared to 2003 and amounted to €14.7 million in 2004. This decrease was due essentially to a reduction in the payroll as a result of the restructuring carried out at QDQ Media and completed at the beginning of 2004.

1.2.2.4 Pro forma EBITDA of the International & Subsidiaries segment

EBITDA shows a loss of €10.9 million in 2004 versus a loss of €33 million in 2003. This loss was cut by two-thirds between the two periods, or by half after stripping out the effects of exceptional write-downs of trade receivables at QDQ Media in 2003. The improvement in EBITDA results from an increase in revenues across all companies in the International & Subsidiaries segment, combined with the significant recovery in profitability at QDQ Media made possible by its restructuring plan. The other subsidiaries in the segment had an overall positive EBITDA.

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

Depreciation and amortisation fell between 2003 and 2004 and amounted to €3.6 million in 2004.

1.2.2.6 Pro forma operating income of the International & Subsidiaries segment

The operating income of the International & Subsidiaries segment presents a loss of €14.5 million in 2004, compared to a loss of €37.1 million in 2003. This improvement is due essentially to the recovery in profitability at QDQ Media.

1.2.3 Pro forma analysis of consolidated net income

The table below shows the consolidated net income of the Consolidated Group generated by all activities during the years ending December 31, 2003 and December 31, 2004:

**PRO FORMA CONSOLIDATED STATEMENT OF INCOME
PAGESJAUNES GROUP**

In millions of euros

	Years ending December 31		
	2004	2003	Change 2004/2003
Operating income	403,1	321,7	25,3%
Financial income (expenses), net	18,5	19,1	-3,3%
Other non-operating income (expenses), net	(9,6)	(3,1)	ns
Corporate income tax	(148,8)	(123,4)	20,5%
Employee profit-sharing	(29,9)	(26,9)	11,4%
Share in net income of companies accounted for using the equity method	0,8	1,2	NA
Income before goodwill amortisation and minority interests	234,1	188,5	24,2%
Goodwill amortisation	(5,9)	(5,9)	-
Minority interests	-	-	-
Consolidated net income of the Group	228,2	182,6	25,0%

1.2.3.1 Pro forma financial income, net

Net financial income decreased slightly by 3.3% between 2003 and 2004, amounting to €18.5 million in 2004. This decrease is principally due to a fall in interest rates. Financial income mainly comprises interest income from investments with France Telecom at market rates (see paragraph 4.5.5 "Cash management agreements" in the "Document de Base").

1.2.3.2 Other non-operating income and expenses (pro forma)

As at December 31, 2004, the other non-operating income and expenses amounted to -€9.6 million, versus -€3.1 million in 2003. This line includes in particular the expenses related to the Company's initial public offering, amounting to €8.1 million, recorded as at December 31, 2004 and consists of advertising and communication fees and expenses related to this operation. In 2003, the other non-operating income and expenses amounted to -€3.1 million and included in particular a provision of €2.4 million in respect of securities of the Lebanese subsidiary and restructuring expenses of €1.1 million at QDQ Media.

1.2.3.3 Corporate income tax (pro forma)

As at December 31, 2004 the Consolidated Group reported a corporate tax charge of €148.8 million, up 20,5% compared to 2003.

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

In 2004 the Company adopted the tax consolidation regime provided for in articles 223A ff. of the French General Tax Code. The aim is to establish a group with an integrated tax system including the Company and all its French

subsidiaries that fulfil the membership conditions. This option will take effect from January 1, 2005 for a period of five fiscal years.

1.2.3.4 *Employee profit-sharing (pro forma)*

The employee profit-sharing operated by the French consolidated entities on a mutual basis within the France Telecom Group and set up in accordance with applicable regulations resulted in a charge of €29.9 million in 2004, compared to €26.9 million in 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 comprises the contribution from Eurodirectory, the share of which was 0.8 million in 2004. Eurodirectory, which in turn owns 49% of Editus in Luxembourg, was 50% owned by the company until October 14, 2004 and 100% thereafter.

1.2.3.6 *Goodwill amortisation (pro forma)*

Goodwill amortisation amounted to €5.9 million in 2004, the same as the amount recorded in 2003. It consists essentially of goodwill amortisation relating to QDQ Media and Mappy.

1.2.3.7 *Net income (pro forma)*

Consolidated net income of the Group amounted to €228.2 million as at December 31, 2004, compared to €182.6 million as at December 31, 2003.

1.3 **Comparison of years ended December 31, 2003 and December 31, 2002**

The table below shows the change in the Group's pro forma revenues and pro forma operating income between the periods ending on December 31, 2002 and 2003:

PagesJaunes Group	2003	2002	Change 2003/2002
<i>In millions of euros</i>			
PagesJaunes in France	847.5	797.6	6.3 %
International & Subsidiaries	69.8	73.5	-5.0 %
Revenues	917.3	871.1	5.3 %
Cost of services and products sold	(234.9)	(239.4)	-1.9 %

Commercial costs	(292.4)	(289.7)	0.9 %
Administrative costs	(54.0)	(61.6)	-12.3 %
Research and development costs	(1.7)	(2.4)	-28.2 %
EBITDA (Earnings before interest, tax, depreciation and amortization and before employee profit-sharing)	334.2	278.0	20.2 %
<i>as % of revenues</i>	36.4 %	31.9 %	
Depreciation and amortization (excluding goodwill)	(12.6)	(14.9)	-15.8 %
Operating income	321.7	263.0	22.3 %
<i>as % of revenues</i>	35.1 %	30.2 %	
Interest income (expense), net	19.1	15.8	21.3 %
Other non-operating income(expense), net	(3.1)	39.6	-107.9 %
Corporate income taxes	(123.4)	(121.5)	1.6 %
Employee profit-sharing	(26.9)	(24.6)	9.2 %
Equity in net income of companies accounted for using the equity method	1.2	1.0	17.2 %
Income before goodwill amortization and minority interests	188.5	173.3	8.7 %
Goodwill amortization	(5.9)	(4.1)	42.9 %
Minority interests	-	-	-
Consolidated net income of the Group	182.6	169.2	7.9 %

The Group's pro forma revenues increased by 5.3% between 2002 and 2003, and amounts to €917.3 million in 2003. This increase is principally the result of the increase in the average revenue per advertiser in France, which was achieved in part due to the commercial development plan, launched in the beginning of 2002, which yielded results on the 2003 edition, for which marketing began in April 2002.

EBITDA increased by 20.2% between 2002 and 2003 and amounts to €334.2 million in 2003. The margin of EBITDA to revenues increased from 31.9% in 2002 to 36.4% in 2003, reflecting a significant improvement in the Consolidated Group's profitability. This improvement results from the increase in revenues and the effective control of costs, particularly the optimization of publishing costs related to printed directories. Thus, the costs of services and products sold (as defined in Section 5.1.3.1.1.2 "Cost of services and products sold of the PagesJaunes in France segment (pro forma)") decreased by 1.9% between 2002 and 2003. Commercial costs, which include, notably, personnel costs of the sales force, remained stable during that period, while revenues increased by 5.3%. Administrative costs in 2002, including, in particular, the cost of support functions, included an exceptional provision of €7.3 million for litigation in connection with the Company's commercial development plan (see Sections 4.2.1.1 "General presentation of PagesJaunes activities in France – Commercial organization", 5.1.3.1.1.3 "Commercial, administrative and research and development costs of the PagesJaunes in France segment (pro forma)" as well as Note 24 of Section 5.2.1.2 "Notes to the pro forma consolidated financial statements"). Excluding this provision, administrative costs remained stable.

The Group's pro forma consolidated net income amounts to €182.6 million at the end of 2003, compared to €169.2 million at the end of 2002. The 2002 results include the sale of the Company's buildings in Sèvres to a consortium of real estate investors for a purchase price of approximately €86 million, which yielded, after exercise of the lease option, an after-tax gain of nearly €24.7 million. Income before amortization of goodwill and minority interests was €188.5 million in 2003, which is an increase of 26.8% between 2002 and 2003 when excluding the sale of buildings in Sèvres.

The following section discusses pro forma revenues and operating income as well as certain pro forma intermediate balances for each of the two segments of the Consolidated Group: the PagesJaunes in France segment, on the one hand, and the International & Subsidiaries segment, on the other.

1.3.1 Analysis of the pro forma revenues and operating income of the PagesJaunes in France segment

The following table shows evolution in revenues and operating income of the PagesJaunes in France segment between the period ended on December 31, 2003 and the period ended December 31, 2002:

PagesJaunes in France	2003	2002	Change 2003/2002
<i>In millions of euros</i>			
Printed directories	595.0	564.7	5.4 %
On-line services	208.2	185.3	12.4 %
Other businesses	44.3	47.6	-6.9 %
Revenues	847.5	797.6	6.3 %
Cost of services and products sold	(207.1)	(211.7)	-2.2 %
Commercial costs	(233.8)	(227.3)	2.9 %
Administrative costs	(37.6)	(45.1)	-16.6 %
Research and development costs	(1.7)	(2.4)	-28.2 %
EBITDA (Earnings before interest, tax, depreciation and amortization and before employee profit-sharing)	367.2	311.1	18.0 %
<i>as % of revenues</i>	<i>43.3 %</i>	<i>39.0 %</i>	
Depreciation and amortization (excluding goodwill)	(8.4)	(9.4)	-10.2 %
Operating Income	358.8	301.7	18.9 %
<i>as % of revenues</i>	<i>42.3 %</i>	<i>37.8 %</i>	

The PagesJaunes in France segment encompasses all the activities of the Company, which include the activities relating to the publication of directories and their distribution, the sale of advertising space in paper and online directories, the creation and hosting of Internet sites as well as other activities (primarily the publication of PagesPro directories, the sale of online access to databases, the QuiDonc reverse search, and the Europages *régie* (advertising representation)).

1.3.1.1 Pro forma revenues of the PagesJaunes in France segment

The table below shows the distribution of the pro forma consolidated revenues for the PagesJaunes in France segment per product line for the periods ending on December 31, 2003 and 2002 and the changes in percentage of these lines between these two periods:

PagesJaunes in France	2003	2002	Change 2003/2002
<i>In millions of euros</i>			
Printed Directories	595.0	564.7	5.4 %
<i>PagesJaunes directory</i>	482.4	455.4	5.9 %
<i>l'Annuaire</i>	112.6	109.2	3.1 %
On-line services	208.2	185.3	12.4 %
Internet	94.8	64.6	46.6 %
Minitel	92.5	100.1	-7.6 %
Websites	20.9	20.6	1.9 %
Other businesses	44.3	47.6	-6.9 %
QuiDonc	8.1	8.3	-1.5 %
Others*	36.2	39.3	-8.0 %
* including <i>PagesPro</i> , sale of online access to databases, Europages			
Revenues	847.5	797.6	6.3 %

The revenues of the PagesJaunes in France segment increased by 6.3% between 2002 and 2003 and amounted to €847.5 million in 2003, due to an increase in the average revenue per advertiser from €1,384 in 2002 to €1,477 in 2003. Steps aimed at increasing commercial efficiency were undertaken in 2002 in conjunction with the commercial development plan, including a new distribution of existing advertisers among the sales channels, which led to an increase in the average revenue per advertiser. At the same time, apart from the increase in prices, the range of advertising options was extended, not only with respect to online services, but also for printed directories with the introduction of new display products (see Section 4.2.1.1 "General presentation of PagesJaunes activities in France – Advertising products").

In 2003, the PagesJaunes in France segment had 561,180 advertisers, remaining virtually stable as compared to the 560,453 advertisers in 2002, due to a lower number of new advertising clients acquired in 2003 compared to 2002. This decrease is explained by the fact that the commercial development plan affected the balance among the various sales channels with respect to the 2003 edition, to the detriment of the new client telesales channel, *Télévente Prospects*. Thus, the number of new advertisers acquired in 2003 was 82,080, compared to 89,083 in 2002.

Finally, in terms of sub-segments, the growth in revenues was driven both by the increase in directories revenues and the growth of the Internet business, which more than offset the decrease of revenues generated by PagesJaunes 3611.

Pro forma revenues of printed directories

Printed directories revenues increased by 5.4% between 2002 and 2003, reaching to €595.0 million in 2003. This revenue is generated primarily from the sale of advertising space in the *PagesJaunes* directory and *l'Annuaire*. Between 2002 and 2003, revenues of the *PagesJaunes* directory increased by 5.9% and that of the *l'Annuaire* by 3.1%, mainly due to the increase in the average revenue per advertiser (from €1,063 in 2002 to €1,118 in 2003), which resulted from the combined effect of price increases and the introduction of new local display advertising products.

In 2003, the printed directories sub-segment had 532,041 advertisers, remaining virtually stable as compared with the 531,270 advertisers in 2002. This stability is due to the fact that the number of new advertising clients acquired in 2003 was lower than the new client additions in 2002, which is explained by the fact that, with respect to the 2003 edition, the commercial development plan affected the balance among the various sales channels to the detriment of the new client telesales channel, *Télévente Prospects*.

Pro forma revenues of online services

Online services revenues increased by 12.4% between 2002 and 2003, amounting to €208.2 million in 2003. Online services revenues are generated primarily from the sale of online services advertising products (*pagesjaunes.fr* and *PagesJaunes 3611*), as well as activities related to designing and hosting websites.

The number of online services advertisers increased from 391,842 in 2002 to 401,610 in 2003.

The 12.4% increase in online services revenues between 2002 and 2003 is primarily due to the growth in revenues generated by *pagesjaunes.fr*. The growth of 46.6% in *pagesjaunes.fr* revenues was achieved through a 15.3% increase in the number of advertisers on *pagesjaunes.fr* between 2002 and 2003 (267,175 advertisers at December 31, 2003 compared to 231,806 advertisers at December 31, 2002) and an increase in the average revenue per advertiser on *pagesjaunes.fr* (€380 in 2003 compared to €297 in 2002). This increase in the average revenue per advertiser is the result primarily of an enhanced product range with the development of multimedia products on *pagesjaunes.fr* (audio spots, videos), the development of local display advertising products, and price increases in line with an increased audience.

PagesJaunes 3611 revenues decreased by 7.6% between 2002 and 2003 and amounted to €92.5 million in 2003 compared with €100.1 million in 2002, confirming the downward trend between 2001 and 2002, and reflecting the drop in the *PagesJaunes 3611* audience.

Revenues from the design and hosting of Internet sites increased by 1.9% between 2002 and 2003 and amounted to €20.9 million at December 31, 2003. One-third of these revenues were generated by activities relating to

the design and creation of Internet sites. The other two-thirds by the sale of service packages, including updates, hosting and an online assistance service. In addition, the roll-out of innovative products (such as e-visit (360 degree vision), site update management and audience monitoring options) has contributed to building client loyalty and maintaining revenues in 2003 in a fragmented and highly competitive market.

Pro forma revenues of other businesses

Revenues of other businesses in the PagesJaunes in France segment fell by 6.9% between 2002 and 2003, amounting to €44.3 million in 2003, or 5.2% of segment revenues. These revenues were generated primarily from the PagesPro activities on printed and Internet platforms, the sale of online access to databases to French and foreign operators, the QuiDonc reverse search consulted on the Internet, Minitel and Audiotel, and the Europages activities on the printed and Internet platforms. The 6.9% decrease in the revenues of these activities is primarily due to the drop in revenues from the sale of online to databases (€10.4 million in 2003 compared to €13.6 million in 2002). The decrease in the sale of online access revenues was caused by the significant decrease in sales prices imposed by a court decision rendered in September 2003, which fixed the price of these services at cost plus a reasonable return on capital invested (see Section 4.2.1.4 "Other activities – Sale of online access to databases"). Other than the sale of online access to databases business, the revenues of PagesPro, QuiDonc and Europages remained stable in 2003 compared to 2002.

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

PagesJaunes in France	2003	2002	Change 2003/2002
<i>In millions of euros</i>			
Cost of services and products sold	(207.1)	(211.7)	-2.2 %
<i>as % of revenues</i>	<i>- 24.4 %</i>	<i>- 26.5 %</i>	

The cost of services and products sold in the PagesJaunes in France segment was €207.1 million in 2003, a decrease of 2.2% compared to 2002, while segment revenues increased by 6.3%. The cost of services and products sold is comprised primarily of publishing costs (purchase of paper, printing and distribution of printed directories), costs of hosting and distributing online directories as well as the costs of purchasing, creating and updating databases and producing advertisements. The cost of services and products sold represented 24.4% of revenues in 2003 compared with 26.5% in 2002. The cost of paper, printing and distribution totalled €106.0 million in 2003, of which €49.0 million were for paper, compared to €119.2 million in 2002, of which €54.7 million were for paper. This overall decrease in the cost of services and products sold is essentially due to better management of paper, printing and distribution costs, resulting from the application of new software

optimizing pagination, and from negotiating prices with paper suppliers and directory distributors. These costs also dropped due to the cyclical fall in the price of paper. In addition, it should be noted that through 2003, PagesJaunes paid Havas an annual fee of €9.1 million; this expense will no longer be incurred from 2004 onwards.

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

PagesJaunes in France	2003	2002	Change 2003/2002
<i>In millions of euros</i>			
Commercial costs	(233.8)	(227.3)	2.9 %
Administrative costs	(37.6)	(45.1)	-16.6 %
Research and development costs	(1.7)	(2.4)	-28.2 %
Commercial, administrative, and R&D costs	(273.2)	(274.8)	-0.6 %
<i>as % of revenues</i>	<i>-32.2 %</i>	<i>-34.5 %</i>	

Commercial costs of the PagesJaunes in France segment are €233.8 million in 2003, an increase of 2.9% compared to 2002, a less rapid increase than the increase in revenues, which increased by 6.3% during the same period. Commercial costs represented 27.6% of revenues in 2003 compared to 28.5% in 2002. 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 12.7% of revenues in 2003, compared to 13.5% in 2002. Compensation of the sales force, which is, to a large extent, variable, depends primarily on commercial results. The positive trend in the management of commercial costs reflects the Group's determination to optimize its commercial and marketing expenses, without, however, compromising its goal of increasing the number of new advertiser additions. This was demonstrated particularly at the beginning of 2002 by the implementation of the new organization of field sales teams and the amendment of sales representatives' contracts as part of the commercial development plan, the effect of which was felt on the 2003 edition.

Administrative costs of the PagesJaunes in France segment were equal to €37.6 million in 2003, a decrease of 16.6% compared to 2002. Administrative expenses, which include the costs of support functions and certain provisions for certain risks and expenses, represented 4.4% of revenues in 2003, compared to 5.7% in 2002. The financial statements for the period ending on December 31, 2002 include a provision of €7.3 million for litigation relating to the implementation of the commercial development plan. Excluding this provision, administrative expenses as a percentage of revenues decreased in 2003, from 4.7% in 2002 to 4.4% of revenues. These costs also include assistance charges and trademark royalties paid to the France Telecom Group, which totaled €8.5 million in 2003. Due to the

upcoming integration of a certain number of support functions into PagesJaunes, these expenses will be reduced beginning in 2005, to approximately €6 million (see Section 4.5.8 "Assistance agreements").

Moreover, €1.7 million was used for research and development in 2003. Research and development expenses mainly include personnel costs for teams in charge of developing media and related products, as well as external costs for research services from France Telecom R&D. The goal of these services is to develop new functionalities, as well as the prototyping of products and offers through new services. Excluding purchases of editorial content, recorded in 2002 under research and development expenses for €0.8 million, research and development expenses for PagesJaunes in France increased by €0.1 million in 2003. It should be noted that innovation efforts are also undertaken by operational services, without being classified under research and development.

1.3.1.4 Pro forma EBITDA of the PagesJaunes in France segment

The EBITDA of the PagesJaunes in France segment increased by 18.0% between 2002 and 2003 and amounted to €367.2 million in 2003. The EBITDA margin of this segment rose from 39.0% to 43.3% between 2002 and 2003. This performance results from the growth in revenues and control over costs, as well as to a lesser extent, the exceptional provision taken in 2002 for litigation relating to the commercial development plan.

1.3.1.5 Depreciation and amortization for the PagesJaunes in France segment (pro forma)

Depreciation and amortization (excluding goodwill) decreased by 10.2% between 2002 and 2003 and amounted to €8.4 million in 2003, or less than 1% of segment revenues.

1.3.1.6 Pro forma operating income for the PagesJaunes in France segment

The operating income of the PagesJaunes in France segment increased by 18.9% between 2002 and 2003 and amounted to €358.8 million in 2003. The increase of nearly €57.1 million when compared to 2002 resulted from growth in sales and control over costs, as well as, to a lesser extent, the exceptional provision taken in 2002 for litigation relating to the commercial development plan.

1.3.2 Analysis of the pro forma sales and operating income of the International & Subsidiaries segment

The table below shows the evolution of pro forma sales and operating income for the International & Subsidiaries segment between the periods ending on December 31, 2003 and December 31, 2002:

International & Subsidiaries	2003	2002	Change 2003/2002
<i>In millions of euros</i>			
QDQ Media	32.0	38.8	-17.4 %
Other subsidiaries	37.8	34.8	8.8 %
Revenues	69.8	73.5	-5.0 %
Cost of services and products sold	(27.8)	(27.7)	0.4 %
Commercial costs	(58.5)	(62.5)	-6.3 %
Administrative costs	(16.4)	(16.5)	-0.6 %
Research and development costs	-	-	-
EBITDA (Earnings before interest, tax, depreciation and amortization and before employee profit-sharing)	(33.0)	(33.1)	-0.5 %
<i>as % of revenues</i>	<i>-47.2 %</i>	<i>-45.0 %</i>	
Depreciation and amortization (excluding goodwill)	(4.2)	(5.6)	-25.1 %
Operating income	(37.1)	(38.7)	-4.1 %
<i>as % of revenues</i>	<i>-53.2 %</i>	<i>-52.6 %</i>	

1.3.2.1 Pro forma revenues of the International & Subsidiaries segment

The table below shows the distribution of the pro forma consolidated revenues of the International & Subsidiaries segment per product line for the periods ending on December 31, 2003 and December 31, 2002 and the change in percentage of these lines between these two periods:

International & Subsidiaries	2003	2002	Change 2003/2002
<i>In millions of euros</i>			
QDQ Media	32.0	38.8	-17.4 %
Other subsidiaries	37.8	34.8	8.8 %
Kompass France	24.2	23.7	2.3 %
Wanadoo Data	11.0	11.1	-1.0 %
Wanadoo Maps	2.6	-	-
Revenues	69.8	73.5	-5.0 %

Revenues for the International & Subsidiaries segment decreased by 5.0% between 2002 and 2003, amounting to €69.8 million in 2003.

Excluding Wanadoo Maps, segment revenues decreased 8.6%, resulting primarily from the drop in revenues at QDQ Media.

QDQ Media

QDQ Media revenues, which amounted to €32.0 million in 2003, fell by 17.4% between 2002 and 2003. These revenues were generated by the sale of advertising space in QDQ Media's printed and online directories (QDQ.com).

The fall in QDQ Media revenues between 2002 and 2003 is primarily due to the completion of the efforts to improve QDQ Media's revenue quality, which lead to the non-prospection of a number of clients with a history of non-payment or of doubtful solvency. In particular, contracts with a certain number of "major accounts" advertisers were not renewed in 2003 following difficulties in collection or non-payment. Following these non-renewals, "major account" revenues decreased from approximately €11 million in 2002 (28% of revenues) to approximately €2 million in 2003 (6% of revenues), this decrease being partially offset by an 8% increase in revenues from other categories of advertisers. These decisions resulted in a significant increase in the provisions for receivables for the year (see Section 5.1.3.1.2.3 "Commercial and administrative costs of the International & Subsidiaries segment (pro forma)" for the comparison between 2002 and 2003, Section 5.1.3.2.2.3 "Commercial and administrative costs of the International & Subsidiaries segment (pro forma)" for the comparison between 2001 and 2002, and Note 18 to Section 5.2.1.2 "Notes to the pro forma consolidated financial statements").

The number of QDQ Media advertisers increased slightly from 81,355 in 2002 to 82,517 in 2003. The average revenue per advertiser fell between 2002 and 2003, essentially due to the non-renewal of certain "major account" advertisers.

The portion of revenues generated by online activities rose to 5.5% of revenues in 2003, compared with 1.8% in 2002. This percentage continues to grow due to increased commercial and marketing efforts.

Other Subsidiaries

Kompass France

Kompass France revenues increased by 2.3% between 2002 and 2003, and amounted to €24.2 million in 2003. Kompass France revenues are derived from marketing the Kompass information system, which includes the sale of advertising space and data on multiple platforms, including printed, CD-Rom, Minitel and the Internet (Kompass.com, the global online directory of Kompass dealers). Platform sales are complemented by direct marketing services. The traffic on the Kompass.com Internet site, calculated on the basis of the number of visits to the site, increased sharply in 2003.

Wanadoo Data

Wanadoo Data revenues remained stable between 2002 and 2003, and amounted to €11.0 million in 2003. Wanadoo Data revenues are derived primarily from direct marketing of customer data and multi-based data enhancement and restructuring services. In 2003, marketing database processing revenues, which increased by €1.0 million compared with 2002, offset the decline in marketing customer data, which has been subject to competitive price pressure.

Wanadoo Maps

Wanadoo Maps was consolidated in the Consolidated Group as of January 1, 2003. Wanadoo Maps' revenues are mainly derived from royalties received for the use of its geographic services platform, from the licensing of distribution rights for photos and from updating these photos. In 2003, the revenues of Wanadoo Maps amounted to €2.6 million, of which nearly one-third was earned from Wanadoo.

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

International & Subsidiaries	2003	2002	Change 2003/2002
<i>In millions of euros</i>			
Cost of services and products sold	(27.8)	(27.7)	0.4 %
<i>as % of revenues</i>	-39.9 %	-37.7 %	

Despite the entry of Wanadoo Maps into the Consolidated Group as of January 1, 2003, which contributed €2.3 million to costs for services and products sold, the segment's cost of services and products sold remained stable between 2002 and 2003. Excluding this entry into consolidation, the cost of services and products sold dropped by 7.9% between 2002 and 2003, due notably to cost decreases at QDQ Media. This decrease in costs at QDQ Media is the result of negotiations by QDQ Media with all of its suppliers, the reduction in the weight of paper, productivity gains from the partial internalization of production processes for advertisements and the optimization of page layout in printed directories. QDQ Media was also able to benefit from pricing terms similar to those granted to PagesJaunes by its paper suppliers and printers.

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

International & Subsidiaries	2003	2002	Change 2003/2002
<i>In millions of euros</i>			
Commercial costs	(58.5)	(62.5)	-6.3 %

Administrative costs	(16.4)	(16.5)	-0.6 %
Commercial and administrative costs	(74.9)	(78.9)	-5.1 %
<i>as % of revenues</i>	<i>-107.3 %</i>	<i>-107.3 %</i>	

Commercial costs decreased by 6.3% between 2002 and 2003, and amounted to €58.5 million in 2003. However, the amount of commercial costs for 2002 reflects an additional cost estimated at €6 million arising from the depreciation of an asset recorded in 2001 for salary advances paid during this period. Commercial costs in 2003 also include an €11.5 million provision for receivables depreciation (compared to a €1.9 million provision in 2002). The €11.5 million provision is due to the effort to rectify receivables not only for 2003 but particularly for previous years. Apart from these elements, commercial costs fell by 13.9% between 2002 and 2003. This decline results primarily from a sharp decrease in the purchase of advertising space from "major accounts" media clients, with whom business volume decreased.

In 2003, administrative costs remained stable. Excluding the entry of Wanadoo Maps into the Consolidated Group as of January 1, 2003, they dropped by 4.6% compared with 2002. This decrease results from steps taken to reduce structural costs in the entire France Telecom Group.

1.3.2.4 *Pro forma EBITDA of the International & Subsidiaries segment*

The segment's EBITDA shows a loss of €33.0 million in 2003, which is stable when compared to the €33.1 million loss recorded in 2002. This loss is principally due to the non-renewal of the revenue of certain "major account" advertisers at QDQ Media. The other subsidiaries in the segment maintained positive EBITDA in 2003.

1.3.2.5 *Depreciation and amortization for the International & Subsidiaries segment (pro forma)*

Depreciation and amortization decreased by 25.1% between 2002 and 2003, amounting to €4.2 million in 2003. There was no significant accelerated depreciation in 2003. The depreciation provision of €5.6 million in 2002 included the accelerated depreciation of the market place section of the merchant portal of Kompass.fr, which amounted to a charge of €1.4 million. This depreciation was accelerated following the assessment and analysis of the outlook for of this asset.

1.3.2.6 *Pro forma operating income for the International & Subsidiaries segment*

The operating income of the International & Subsidiaries business in 2003 shows a loss of €37.1 million, compared to a loss of €38.7 million recorded in 2002. These losses are primarily due to the losses at QDQ Media.

1.3.3 Analysis of pro forma consolidated net income

The table below shows the Consolidated Group's net income generated by all activities during the periods ended on December 31, 2003, and December 31, 2002:

PRO FORMA CONSOLIDATED STATEMENT OF INCOME FOR THE PAGESJAUNES GROUP	Year ended December 31,		
	2003	2002	
<i>In millions of euros</i>			
Operating income	321.7	263.0	22.3%
Interest income (expense), net	19.1	15.8	21.3%
Other non-operating income (expense), net	(3.1)	39.6	-
Corporate income taxes	(123.4)	(121.5)	1.6%
Employee profit-sharing	(26.9)	(24.6)	9.2%
Equity in net income of companies accounted for using the equity method	1.2	1.0	17.2%
Income before goodwill amortization and minority interests	188.5	173.3	8.7%
Goodwill amortization	(5.9)	(4.1)	42.9%
Minority interests	-	-	
Consolidated net income of the Group	182.6	169.2	7.9%

1.3.3.1 Interest income (expense), net (pro forma)

Interest income increased by 21.3% between 2002 and 2003, and amounted to €19.1 million in 2003. This increase is primarily due to the improvement in rates of return. This financial income is constituted principally of income from investments with France Telecom earning market rates.

1.3.3.2 Other non-operating income (expense) (pro forma)

In 2003, other non-operating income (expense) amounted to -€3.1 million (including an allowance on securities held for €2.4 million related to the shares of the Lebanese subsidiary as well as restructuring costs of €1.1 million at QDQ media) compared to €39.6 million in 2002. In 2002, other non-operating income included the proceeds from the sale of buildings belonging to the Company in Sèvres for a price of €86 million, which yielded a gain after exercise of the lease option of nearly €39.0 million before tax, or €24.7 million after tax.

1.3.3.3 Income taxes (pro forma)

In 2003, the Consolidated Group recorded €123.4 million income tax expense, an increase of €1.9 million compared to 2002. It should be noted that the income tax in 2002 included €14.3 million related to the capital gain from the sale of buildings in Sèvres.

Due to the Company's planned distribution of €236 million prior to its listing on the stock market, of which €24.9 million should be drawn from the special long-term gain reserve, and therefore carried forward to its 2004 taxable income, the Company expects to have to pay additional income tax in 2004 of €4.6 million.

The Company foresees opting, no later than March 31, 2005, for the tax consolidation regime provided for in Articles 223A *et seq.* of the French General Tax Code. This option aims to create a consolidated tax group, consisting of, other than the Company, all its French subsidiaries that meet the conditions required for membership. This option would take effect on January 1, 2005, for a period of five fiscal years.

1.3.3.4 Employee profit sharing (pro forma)

Profit-sharing by employees of the French consolidated companies, implemented in accordance with applicable regulations, results in an expense of €26.9 million in 2003, compared with €24.6 million in 2002.

1.3.3.5 Equity in net income of companies accounted for using the equity method (pro forma)

Income of companies accounted for using the equity method is comprised of the contribution of Eurodirectory, which is 50% owned by the Company and whose share thus amounted to €1.2 million in 2003, compared to €1.0 million in 2002.

1.3.3.6 Goodwill amortization (pro forma)

Goodwill amortization amounted to €5.9 million in 2003 compared with €4.1 million in 2002.

This increase of €1.8 million between 2002 and 2003 results from the amortization over five years of €8.8 million of goodwill related to the acquisition of Wanadoo Maps by the Company in 2003.

1.3.3.7 Net income (pro forma)

The Group's net income amounted to €182.6 million in 2003 compared with €169.2 million in 2002.

1.4 Pro forma consolidated liquidities, capital resources and investment expenses

The table below shows the movements in the pro forma cash position of the Consolidated Group for the periods ending December 31, 2004, December 31, 2003 and December 31, 2002:

**PRO FORMA CONSOLIDATED
NET CASH POSITION**

	Periods ending		
	31/12/2004	31/12/2003	31/12/2002
<i>In millions of euros</i>			
Marketable securities	0,3	11,6	11,4
Cash and cash equivalents	627,8	461,1	498,1
Total marketable securities and cash and cash equivalents	628,0	472,7	509,5
Shareholder advances	3,3	3,3	3,3
Leasing liabilities	-	-	0,3
Other financial debt	11,3	12,9	31,9
Gross financial debt	14,6	16,2	35,5
Due in less than one year	14,6	16,2	35,4
Due in more than one year	-	-	0,1
Net cash position	613,5	456,5	474,0

The pro forma net cash position of the Consolidated Group as at December 31, 2004 amounted to €613.5 million, compared to €456.5 million as at December 31, 2003 and €474.0 million as at December 31, 2002.

Since 1999 the Group has invested nearly all available cash and cash equivalents of the Consolidated Group with France Telecom under annually renegotiated agreements.

The table below shows the pro forma consolidated cash flows for the periods ending December 31, 2003 and December 31, 2004:

**PRO FORMA STATEMENT OF CONSOLIDATED
CASH FLOW**

	Periods ending December 31,		
	2004	2003	2002
<i>In millions of euros</i>			
Net cash from operations	358,3	252,3	175,1
Net cash used in investing activities	(12,6)	(21,9)	29,6
Net cash used in financing activities	(179,0)	(267,1)	(139,1)
Net increase (decrease) in cash and cash equivalents	166,7	(36,7)	65,6
Effect of changes in exchange rates on cash and cash equivalents	-	(0,3)	(0,8)
Cash and cash equivalents – beginning of period	461,1	498,1	433,2
Cash and cash equivalents – end of period	627,8	461,1	498,1

The pro forma cash and cash equivalents as at December 31, 2004 amounted to €627.8 million, compared to €461.1 million as at December 31, 2003 and €498.1 million as at December 31, 2002.

Net cash from operations increased by 42.0% between 2003 and 2004. This growth is linked to the improvement in EBITDA, which rose from €334.2 million in 2003 to €413.4 million in 2004, and to the improvement in the working capital requirement. The major release of resources in the working capital requirement in 2004 is explained largely by lower payments of corporate income tax in 2004 compared to 2003.

In 2004 the net cash used in investing activities included current investments (operations, network, office automation and equipment) for €8.8 million, the acquisition of Kompass Belgium for €1.8 million and the acquisition of 50% of the shares of Eurodirectory for €13.5 million. These investments are in part offset by the maturity of marketable securities in May 2004. In 2003 this item essentially included the acquisition of Mappy (formerly Wanadoo Maps) for €10.1 million and current investments amounting to €11.5 million.

Net cash used in financing activities included the distributions in 2004 amounting to €236.0 million, versus €248.1 million in 2003, the decrease between the two periods being explained by the distribution of retained earnings in 2003. This item also includes the capital increase reserved for employees, which was subscribed in July 2004 for €53.6 million.

1.5 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 differ 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, a one-fifth increase in the value of doubtful receivables would not have a material effect on the Group's results.

Goodwill

Goodwill is considered to be a long-term asset and is amortised according to its estimated life at the time of the acquisition. This life is estimated by management based on the length of time during which these assets are

estimated to generate economic benefits. The amortisation of 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 primarily comprise 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, the PagesJaunes Group recalculates the items making up these deferred tax assets annually.

1.6 Off-balance sheet commitments and risks

The following is a summary of the significant off-balance sheet commitments as at December 31, 2004:

Contractual obligations	Total	Payments due by period		
		Less than one year	One to five years	More than five years
<i>In millions of euros</i>				
Operating Leases	44,4	13,4	30,8	0,2
Purchase obligations for goods and services	64,2	59,1	5,1	-
Total	108,6	72,5	35,9	0,2

Contingent commitments	Total	Payments due by period		
		Less than one year	One to five years	More than five years
<i>In millions of euros</i>				
Guarantees	0,9	0,9	-	-
Total	0,9	0,9	-	-

Leasing contracts

The rental charge entered in the statement of income for the period ending December 31, 2004 in respect of leases amounts to €14.4 million, the same amount as in the period ending December 31, 2003. Of this €14.4 million, €9.5 million was billed by France Telecom. France Telecom's share of future commitments amounts to €10.1 million for 2005 and €24.2 million for 2005 to 2009.

Commitments to purchase goods and services

As part of its business operation, PagesJaunes SA is committed to its paper suppliers on the basis of annual contracts with firm volume commitments. PagesJaunes SA also has commitments with printers on the basis of tri-annual or bi-annual contracts and with distributors on the basis of annual contracts for the production and distribution of the PagesJaunes directory and the Annuaire. These commitments are made only for forecast order volumes

without any minimum contractual value. These commitments are valued at €50.5 million due in December 2005. These amounts may vary depending on the actual volume each year.

QDQ Media is similarly committed to paper suppliers, with firm volume commitments, and to printers. These commitments amount to €12 million, of which €8 million is due in December 2005 and €4 million in December 2006.

Purchase of securities

The Group has given an undertaking to purchase a company in the direct marketing sector, in order to consolidate the activities of Wanadoo Data, for a consideration not exceeding €13 million.

Individual training rights

In respect of the individual right to training, for non-civil servant employees and those on indefinite contracts within the French entities of the PagesJaunes Group, the number of hours in the open but unconsumed portion of the rights was 43,648 as at December 31, 2004. No hours have been the subject of employee requests.

Deconsolidating structures and special purpose entities

The Group has not established any deconsolidating structures during the periods under review.

There are no contractual obligations vis-à-vis ad hoc entities.

Litigation and arbitration

The legal risks to which the Consolidated Group is exposed are described in note 23 of the consolidated financial statements.

1.7 Implementation of INTERNATIONAL FINANCIAL REPORTING STANDARDS in the Group

Context of the transition to international accounting standards

In application of regulation 1606/2002 and in accordance with IFRS 1 on the first-time adoption of International Financial Reporting Standards, the consolidated financial statements of the PagesJaunes Group for the period ending on December 31, 2005 will be drawn up in accordance with international accounting standards, with comparative figures for 2004 in accordance with the same standards.

In order to publish this comparative information, PagesJaunes is required to prepare an opening balance sheet as at January 1, 2004, the starting point for the application of IFRS standards and the date on which the impact of the change will be entered in shareholders' equity. PagesJaunes is also required

to adjust all of the flows of the 2004 financial year in order to present the comparative figures for that year.

Organisation of the conversion project

In this context, PagesJaunes, with France Telecom, instigated a project for the conversion to international standards (IAS/IFRS) in July 2003 which made it possible to identify and process the main differences in accounting methods as at December 2004 and to begin the preparation of the opening balance sheet as at January 1, 2004 and the adjustments of the monthly flows of the 2004 financial year. Having regard to the limited practical application of certain standards, the limited number of interpretations and the provisional nature of these standards prior to December 31, 2005, the analysis of certain Group transactions may change.

In order to ensure the standardisation of the accounting policies and their implementation within France Télécom, the IFRS conversion project is being conducted by a central team which is managing the entire project for the Group and sub-groups, of which PagesJaunes.

The PagesJaunes Group is participating in the main monitoring bodies to ensure the success of the project and to gauge its progress. These bodies have been established on three levels:

- a Programme Steering Committee with the main participants of the Group and sub-groups,
- a Technical Committee in charge of the pre-validation of the IFRS technical points and options, bringing together the main participants of the Group, the sub-groups and the Auditors,
- A Programme Strategy Committee, covering the IFRS project, the new consolidation tool and the new management reporting system, bringing together the Executive Directors and the Financial Management.

Initial qualitative analysis of the impact of the implementation of international accounting standards

The establishment of international standards will have no impact on the strategy and performance of the company, nor on the distributive capacity of PagesJaunes Groupe. The conversion of the Group's accounts is similarly not expected to have any impact on the cash flow generation of the company.

At this stage of the project, the Group has identified the main differences between the valuation and presentation methods defined by the international standards and the accounting methods and principles currently applied. It should be understood that this information has been compiled on the basis of the current knowledge of the standards which will actually be applied in 2005.

The main differences identified with regard to valuation and presentation can be summarised in terms of the following qualitative elements:

- The application of standard IAS 18 on revenue recognition is only expected to have a very limited impact in terms of presentation: the application of SIC 31 involves the non-inclusion of bartering services in revenue, for similar transactions. This adjustment has no impact on operating income and net income;
- Goodwill will no longer be amortised, but will continue to be subject to impairment tests. The group already carries out impairment tests within each unit for internal management purposes. At this stage, the expected impact of the tests on impairment of goodwill as at January 1, 2004 is not expected to be significant, because of the recent formation of the Group. In the context of the formation of the consolidated Group, acquisitions have been valued at market value and they have not given rise to the recognition of intangible fixed assets (IFRS 3) at this stage. This work is currently under way and could lead to the identification of elements relating to marketing, the customer base or any other element allowed by IFRS 3. It should be recalled that the recognition of such elements gives rise to the entry of a deferred tax liability and that elements of finite life give rise to an amortisation charge.
- As a result of the application of IFRS 2 (share-based payments), share purchase or subscription options allocated by the France Telecom group to its employees, of which PagesJaunes employees, will be entered as an expense. The group has chosen to restate all of the schemes introduced prior to November 7, 2002, the date of adoption of the IFRS 2 standard; the impact on the consolidated operating income and on the 2004 consolidated net income of the Group of the estimated charge for stock options and offers to acquire or subscribe shares reserved for employees is not expected to exceed around €20 million, but should have no impact on the shareholders equity at the beginning and end of the year, the counter entry to this charge being the shareholders' equity. The Company is still analysing the implementation of the IFRS 2 standard and the recent press release of the Conseil National de la Comptabilité of December 21, 2004 relating to company savings schemes;
- As is permitted under IAS 1, the group has decided to present its statement of income by type in order to better meet the expectations of investors by aligning its income statement with its financial communication. The international standards significantly alter the presentation of the income statement, particularly by eliminating the notion of non-operating income and expenses and reincorporating expenses associated with goodwill in the result from ordinary operations. Hence the application of this standard is expected to lead to the reclassification under operating income of employee profit-sharing (€29.9 million in 2004 pro forma figures) and other non-operating income/expenses (€9.6 million in 2004 pro forma figures). IFRS standards

also require that detailed information be given for each business sector and/or geographic region. The preparation of this information according to the IAS 14 standard is currently being analysed;

- Options adopted by the Group in the compilation of the opening balance sheet as at January 1, 2004: PagesJaunes has chosen to use historical value as the valuation basis for tangible fixed assets for the compilation of the 2004 opening balance sheet. This choice is not expected to have any major impact on the opening balance sheet.

Projected timetable for the IFRS financial communication by the Group

In order to support the financial community in the transition to international standards, the Group plans to adopt the following communication schedule:

- Mid-April 2005: initial communication on consolidated IFRS financial data for the period ending December 31, 2004;
- End of April 2005: publication of information on revenues in IFRS format for the first quarter of 2005;
- End of July 2005: publication of preliminary results for the first half of 2005;
- End of September 2005: publication of final results for the first half of 2005.

1.8 Subsequent events

As at the date of compiling this report, there are no significant subsequent events to report.

1.9 Outlook

Acquisition of Télécontact (Morocco)

In line with the Group's intentions as announced at the time of its initial public offering, PagesJaunes Groupe is preparing to acquire the Télécontact company from France Telecom. Télécontact is the leading directory publisher in Morocco.

Directory assistance

PagesJaunes Groupe plans to take part in the liberalisation of the French Directory assistance market. However, this is not expected to be opened up until the fourth quarter of 2005.

