



Report on Operations

Consolidated Financial Statements as at 31 December 2006 (under IFRS)

Board of Directors of 15 February 2007

Unofficial translation of the French-language “Rapport sur la gestion du Groupe - Comptes consolidés au 31 décembre 2006” of PagesJaunes Groupe, for information purposes only.

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PagesJaunes Groupe,
A limited liability company (Company Anonyme) having a Board of Directors (Conseil of Administration) and a share capital of €56,053,356
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1 Overview

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

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

- **PagesJaunes in France:** the Group's activities in France related to the publication and distribution of directories and the sale of advertising space in printed and online directories. It also includes the creation and hosting of websites, the telephone directory enquiry service (118 008), as well as various activities such as the publication of the PagesPro directories, the sale of online access to databases, the reverse directory QuiDonc and the advertising representation for Europages. Finally, it includes the holding company activities accommodated within PagesJaunes Groupe.
- **International & Subsidiaries:** the activities of the Group'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 and the direct marketing activities of PagesJaunes Marketing Services. The segment also includes the new online classifieds business ("annoncesjaunes.fr") launched at the beginning of January 2007.

The data presented for the year ending 31 December 2005 have not been adjusted to take account of the acquisition of e-sama, which took place on 1 February 2005, and the acquisition of Edicom, which took place on 30 June 2005, since these acquisitions, with revenues of €0.7 million in January 2005 for e-sama and €1.2 million in the first half of 2005 for Edicom, have no material impact on the results of the Group.

The companies Wanadoo Data and e-sama were merged on 31 March 2006 to form PagesJaunes Marketing Services. In addition, PagesJaunes Liban, an unconsolidated subsidiary, was sold at the end of June 2006. Finally, the Group launched a new online classifieds business, accommodated within its subsidiary Cristallerie 1, the name of which has been changed to PagesJaunes Petites Annonces.

2 Commentary on the results for the years ending 31 December 2005 and 31 December 2006

PagesJaunes Groupe <i>In millions of euros</i>	Periods ending 31 December		
	2006	2005	Change 2006/2005
Revenues	1,124.5	1,060.7	6.0%
External purchases	(311.3)	(330.4)	-5.8%
Other operating income	12.5	54.9	-77.3%
Other operating expenses	(25.7)	(24.6)	4.7%
Salaries and charges	(313.6)	(297.6)	5.4%
Gross Operating Margin	486.3	463.1	5.0%
<i>As % of revenues</i>	<i>43.2%</i>	<i>43.7%</i>	
Employee profit-sharing	(13.6)	(32.9)	-58.8%
Share-based payment	(9.2)	(20.5)	-54.9%
Depreciation, amortisation and impairment	(12.6)	(9.7)	30.1%
Capital gains (losses) on asset disposals	(0.6)	(0.6)	-1.9%
Restructuring charges	(0.1)	(0.4)	-83.1%
Operating income	450.3	399.0	12.8%
<i>As % of revenues</i>	<i>40.0%</i>	<i>37.6%</i>	
Financial income	21.2	16.4	29.2%
Financial expenses	(13.7)	(4.8)	184.9%
Result of disposal of financial assets	0.8	0	NA
Corporation tax	(161.7)	(148.9)	8.6%
Net income	296.9	261.7	13.4%
of which attributable to the shareholders of PagesJaunes Groupe	296.9	261.7	13.4%

The consolidated revenues of the Group amounted to €1,124.5 million in 2006. They advanced 6.0% compared to 2005. This advance is due to the increase in the average revenue per advertiser and the recruitment of new advertisers in France and in Spain, as well as the increase in rates. It is also the result of the launch of the telephone directory enquiry services (118 008) in France.

The Gross Operating Margin amounted to €486.3 million as at 31 December 2006. It rose 5.0% compared to 31 December 2005. The rate of Gross Operating Margin as a

proportion of consolidated revenues decreased slightly, from 43.7% as at 31 December 2005 to 43.2% as at 31 December 2006.

Excluding the costs associated with France Télécom's sale of its holding in PagesJaunes Groupe, the consolidated Gross Operating Margin amounted to €490.4 million, a rise of 5.9% compared to 2005.

Four important events had a significant impact on the Gross Operating Margin in full-year 2006:

- The launch of the telephone directory enquiry service (118 008), which resulted in a large advertising investment, particularly in the first half of 2006 and costs for the establishment of external call centres, whereas the service was not fully opened until 3 April 2006, when the previous short numbers were fully withdrawn;
- The overhauling of the agreements for advertising representation, production and distribution of *l'Annuaire* (white pages) between France Télécom and PagesJaunes, which resulted in the establishment of a concession agreement to operate the printed universal directory granted to PagesJaunes, accompanied by a contract transferring the "*l'Annuaire*" trademark for a total of €12 million. These contracts, which were signed on 12 January 2006, were effective from 1 January 2006. This operation led to the discontinuation of the payment of a fee to France Télécom, which amounted to €54.5 million in 2005, and the discontinuation of the recharging to France Télécom of the costs of the production and distribution of *l'Annuaire*, which represented €41.4 million in 2005. The discontinuation of these financial flows from France Télécom in 2006 does not involve the PagesJaunes 3611 service, which continues to be covered by the previous agreements;
- The launch of the classifieds business ("*annoncesjaunes.fr*"), the development costs for which were incurred in 2006, essentially in the second half, whereas the operational opening to the general public and commercial deployment took place in January 2007;
- The sale by France Télécom of its entire holding in the PagesJaunes Group to Médiannuaire, which resulted in PagesJaunes Groupe incurring fees for merchant banks, lawyers and other experts, in the second half of 2006, amounting to €4.1 million.

Furthermore, the effective control of all expenses, and in particular the editorial expenses in respect of printed directories and the reduction in losses at QDQ Media, had a favourable impact on the full-year 2006 results.

Taking into account these various factors, the consolidated external purchases (as defined in Section 2.1.2 "*External purchases in the PagesJaunes in France segment*") decreased by 5.8% in 2006 compared to 2005.

The salaries and charges, which include in particular personnel expenses relating to the sales force, increased by 5.4% between the two periods. At the same time, revenues advanced by 6.0% and the average headcount (in Full-Time Equivalent) of the Group rose from 4,677 in 2005 to 4,736 in 2006.

The operating income amounted to €450.3 million, a rise of 12.8% compared to 2005. This rise, which was more marked than that of the Gross Operating Margin, is due in particular to the substantial reduction in the employee profit-sharing expense, which fell from €32.9 million to €13.6 million, due to the establishment of a pooled profit-sharing agreement covering the companies in the PagesJaunes Group, in place of the France Télécom profit-sharing agreement which was in force up to the end of 2005. This new agreement allows a large reduction in the profit-sharing expense while significantly increasing the sums paid to the Group's employees, which rose from €11.4 million in respect of full-year 2005 to €13.6 million in respect of full-year 2006. The operating income also includes the large decrease in share-based payment, which fell from €20.5 million in 2005 to €9.2 million in 2006, taking into account particularly the impact in 2005 of the expense relating to the France Télécom employee share issue launched in September 2005 and the ending of amortisation of France Télécom stock option plans.

The financial result decreased markedly to €8.3 million in 2006 compared to €11.6 million in 2005, taking into account the new financial structure of PagesJaunes Groupe at the end of 2006, whose net debt amounted to €1,866.6 million compared to a positive net cash position of €553.0 million at the end of 2005. The consolidated net income amounted to €296.9 million in 2006 against €261.7 million in 2005, an increase of 13.4%.

It should be noted that in order to optimise costs, the publication dates of printed directories (which determine the recognition of revenues and the related costs) may vary from one quarter to the next, since each printed directory appears only once per year. However, there is no publication timing difference between 31 December 2005 and 31 December 2006.

The developments set out below present the revenues, operating income and certain intermediate balances for each of the two segments of the consolidated Group, the PagesJaunes in France segment and the International & Subsidiaries segment.

2.1 Analysis of the revenues and operating income of the PagesJaunes in France segment

The table below shows the trend in revenues and operating income of the PagesJaunes in France segment for the years 2005 and 2006:

PagesJaunes in France <i>In millions of euros</i>	Periods ending 31 December		
	2006	2005	Change 2006/2005
Revenues	1,015.0	956.1	6.2%
External purchases	(269.2)	(287.2)	-6.3%
Other operating income	9.6	52.7	-81.8%
Other operating expenses	(21.5)	(21.5)	NA
Salaries and charges	(254.0)	(242.6)	4.7%
Gross Operating Margin	479.9	457.5	4.9%
<i>As % of revenues</i>	<i>47.3%</i>	<i>47.9%</i>	
Employee profit-sharing	(13.5)	(32.3)	-58.3%
Share-based payment	(7.4)	(19.1)	-61.1%
Depreciation, amortisation and impairment	(8.8)	(5.9)	49.7%
Capital gains or losses on asset disposals	(0.6)	(0.5)	10.6%
Operating income	449.6	399.7	12.5%
<i>As % of revenues</i>	<i>44.3%</i>	<i>41.8%</i>	

The PagesJaunes in France segment comprises the activities related to the publication and distribution of directories and the sale of advertising space in printed and online directories. It also includes the creation and hosting of websites and other activities (mainly the 118 008 telephone directory enquiry service, the publication of the PagesPro directories, the sale of online access to databases, the reverse directory QuiDonc, the advertising representation for Europages and the holding activities of PagesJaunes Groupe).

2.1.1 Revenues of the PagesJaunes in France segment

The following table analyses the revenues of the PagesJaunes in France segment by product line for 2005 and 2006:

PagesJaunes in France <i>In millions of euros</i>	Periods ending 31 December		
	2006	2005	Change 2006/2005
Printed directories	654.1	638.2	2.5%
PagesJaunes	528.8	524.3	0.9%
<i>l'Annuaire</i>	125.4	113.9	10.1%
Online services	320.7	285.0	12.6%
Internet	280.0	227.7	22.9%
Minitel	40.8	57.2	-28.8%
Telephone directory enquiry services	14.4	0.4	NA
Other activities	25.7	32.6	-21.2%
Revenues	1015.0	956.1	6.2%

The revenues of the PagesJaunes in France segment amounted to €1,015.0 million in 2006. They rose 6.2% compared to 2005. This trend results from the growth in revenues from printed directories, sustained by the success of the new offering of *l'Annuaire* (white pages), and online services, buoyed by the sustained development of internet activities. It is also due to the launch of a telephone directory enquiry service.

The increase in revenues from printed directories and online services results mainly from the increase in the number of advertisers in the printed and online media, as well as an increase in the average revenue per advertiser. Overall, the number of advertisers rose by 3.0% between 2005 and 2006, to around 638,400 advertisers in 2006 against 619,500 advertisers in 2005. More than 115,000 new advertisers were recruited in 2006, compared to 113,000 in 2005. In this context of sustained recruitment, average revenues per advertiser nevertheless continued to rise, by 2.7% to €1,570.

With regard to online services, the increase in revenues from Internet businesses (in particular due to pagesjaunes.fr) largely absorbed the decrease in revenues from the Minitel service.

The revenues from the 118 008 service are not representative, in that the market for telephone directory inquiries was only fully opened on 3 April 2006 and the revenues from 118 008 only really began to develop from that date.

Printed directories

Revenues from printed directories, resulting mainly from the sale of advertising space in the PagesJaunes directory and in *l'Annuaire* (white pages), amounted to €654.1 million in 2006. They advanced 2.5% compared to 2005.

From one period to the next, the revenues from the PagesJaunes directory advanced 0.9% to €528.8 million and those of *l'Annuaire* by 10.1% to €125.4 million. Overall, these rises are due to an increase in the number of advertisers (588,325 advertisers in 2006 against 575,435 advertisers in 2005), with average revenue per advertiser in 2006 (€1,112) slightly in excess of the 2005 figure (€1,109).

The strong advance of *l'Annuaire* is explained by the repositioning of the 2006 edition, with a new editorial and advertising line combining a new format, the switch to four-colour printing, an increase in distribution and a new geographic breakdown in the major population centres (Paris, Ile de France, Bouches du Rhône and Nord).

The process that is currently under way of enriching subscriber lists with the numbers of unbundled and mobile lines should increase the usage value of *l'Annuaire* and, from 2007, is expected to be accompanied by an increase in print runs and distribution. It should also result in an increase in publishing costs in 2007.

Online services

The revenues from online services amounted to €320.7 million in 2006. They advanced 12.6% compared to 2005. These revenues came mainly from the sale of advertising products in the online services (pagesjaunes.fr and PagesJaunes 3611) and the website creation and hosting business.

The strong growth in revenues from Internet services, which rose 22.9% to €280.0 million in 2006, is due on the one hand to an increase of 7.1% in the number of advertisers on pagesjaunes.fr (363,741 advertisers as at 31 December 2006 against 339,553 advertisers as at 31 December 2005), an on the other hand to the growth of 14.3% of the average revenue per advertiser, which amounted to €721 in 2006 against €631 in 2005.

This growth in average revenue per advertiser results from the combined effects of increased monetisation of the audience, a strengthening of the existing offerings and the launch of new advertising products.

The new content which went online in 2006 allowed a significant increase in the audience for pagesjaunes.fr, which reached 720 million visits in 2006 against 538 million in 2005, a rise of 33.8%. The new pagesjaunes.fr homepage includes "Ville en Direct", strengthening the value of pagesjaunes.fr as a local resource. Furthermore, the inclusion of weather forecasts, real-time traffic information and webcams and three-dimensional views of the cities of Paris and Rennes, as well as the partnerships entered into with Allociné (information on cinema programmes, bookings), FNAC (information on shows) and IGN (aerial photographs) are contributing to the audience growth of pagesjaunes.fr

The value of this audience growth is being enhanced through changes to rates and advertising products. Almost 196,000 "module pagesjaunes.fr" advertisers were using the free call service at the end of 2006. The "En savoir +" product range, which has attracted almost 36,000 advertisers by the end of 2006 (including 21,000 recruited in 2006) has been enhanced with new options: product catalogue, 360°, Clip+, Audio Flash, English version. Finally, the advertising offering has been expanded, with the opening of new areas to provide a more effective response to the demands of advertisers.

All these innovations in content and advertising products help to secure customer loyalty, raise revenues and increase the number of new customers.

The revenues of PagesJaunes 3611 (Minitel) amounted to €40.8 million in 2006, representing a decrease of 28.8% compared to 2005. This trend reflects the natural decline in the audience of the Minitel service, with 112.1 million consultations in 2006 against 154.2 million in 2005.

Telephone directory enquiry services

The revenues from telephone directory enquiry services (118 008) amounted to €14.4 million as at 31 December 2006. PagesJaunes benefits from a unique position in the French market, due to a mixed model which enables it to generate revenues associated with calls to the 118 008 service, but also to offer advertisers a complete range of advertising products.

It should be noted that the comparison with full-year 2005 is not relevant ; the telephone directory enquiries market opened on 2 November 2005, with the appearance of new 118 XYZ numbers, but the disappearance of short numbers (particularly 12) did not take place until 3 April 2006. In full year 2006, only the last three quarters of activity actually generated revenues.

Other businesses

The other activities of the PagesJaunes in France segment contributed €25.7 million to 2006 revenues. This contribution is a decrease of 21.2% compared to 2005. These other businesses, which represent only 2.5% of the revenues of the segment in 2006, related essentially to the PagesPro offerings on printed and Internet media, the sale of online access to databases to French and foreign operators, consultations of the QuiDonc reverse directory via the Internet, Minitel and Audiotel platforms and the advertising representation for Europages on printed and Internet platforms.

The revenues from PagesPro on the Internet platform remain stable. On the other hand, the revenues from the QuiDonc reverse directory have declined due to a decrease in the QuiDonc audience on Minitel, which has not been offset by the growth in the audience of this service on the Internet. Finally, the revenues associated with the sale of online access to databases fell substantially, with PagesJaunes discontinuing this business from the second quarter of 2006.

2.1.2 External purchases in the PagesJaunes in France segment

PagesJaunes in France <i>In millions of euros</i>	Periods ending 31 December		
	2006	2005	Change 2006/2005
External purchases	(269.2)	(287.2)	-6.3%
<i>As % of revenues</i>	<i>26.5%</i>	<i>30.0%</i>	

The external purchases of the PagesJaunes in France segment amounted to €269.2 million in 2006, a decrease of 6.3% on revenues up 6.2% during the period. External purchases represented 26.5% of revenues in 2006, against 30.0% in 2005.

External purchases essentially include publishing costs (purchase of paper, printing and distribution of printed directories), communication expenses (purchase of space and design expenses), IT development expenses, expenses for the hosting and distribution of online directories as well as the cost of purchasing, creating and updating databases, call centre expenses and expenses for the production of advertisements.

In 2006, the advertising representation and production agreements for *l'Annuaire* between France Télécom and PagesJaunes were reviewed. It was decided to limit their scope to the PagesJaunes 3611 alphabetical search directory.

The slight decrease in external purchases therefore reflects two major developments with opposite effects:

- The discontinuation in the fee paid to France Télécom concerning *l'Annuaire*, which was €54.5 million in 2005 ;
- The launch of the telephone directory enquiry service, which resulted in a major advertising investment, particularly in the first half of 2006, and the costs of establishing external call centres.

The cost of paper, printing and distribution represented €95.2 million in 2006, against €97.8 million as at 31 December 2005. The costs of paper fell and amounted to €40.5 million in 2006 against €42.2 million in 2005. This trend reflects a lower consumption of paper having regard to editorial developments and the switch to a compact format in certain regions, in spite of a rising trend in paper prices and delivery costs.

2.1.3 Other operating income of the PagesJaunes in France segment

PagesJaunes in France <i>In millions of euros</i>	Periods ending 31 December		
	2006	2005	Change 2006/2005
Other operating income	9.6	52.7	-81.8%

The other operating income of the PagesJaunes in France segment amounted to €9.6 million in 2006, a decrease of 81.8% compared to 2005. This trend is explained mainly by the discontinuation of recharging to France Télécom of the costs of producing and distributing *l'Annuaire*, after the implementation of the operating concession contract for the printed universal directory to PagesJaunes on 1 January 2006. This income amounted to €41.4 million in 2005. The other operating income in 2006 mainly comprised the recharging to France Télécom of the costs of the PagesJaunes 3611 alphabetical search service and other non-recurring income.

2.1.4 Other operating expenses of the PagesJaunes in France segment

PagesJaunes in France <i>In millions of euros</i>	Periods ending 31 December		
	2006	2005	Change 2006/2005
Other operating expenses	(21.5)	(21.5)	NA
<i>As % of revenues</i>	2.1%	2.3%	

The other operating expenses of the PagesJaunes in France segment amounted to €21.5 million in 2006; they remained stable compared to 2005 at 2.1% of revenues.

These other operating expenses comprise taxes, levies and various provisions for liabilities and charges. Up to 11 October 2006, the date of which France Télécom sold its holding in PagesJaunes Groupe, they also include the expenses associated with the assistance agreement in the legal, fiscal, accounting, and strategic fields concluded with the France Télécom group, which represents the sum of €4.5 million in 2006, against €5.6 million in 2005. In addition, the France Télécom trademarks fee has not been payable since 1 January 2006, whereas it represented an expense of €0.6 million in 2005, PagesJaunes having decided no longer to use the France Télécom brand or ampersand in 2006. On the other hand, the business tax and other taxes amounted to €14.4 million in 2006, a rise of 10.7% compared to 2005.

2.1.5 Salaries and charges of the PagesJaunes in France segment

PagesJaunes in France <i>In millions of euros</i>	Periods ending 31 December		
	2006	2005	Change 2006/2005
Salaries and charges	(254.0)	(242.6)	4.7%
<i>As % of revenues</i>	<i>25.0%</i>	<i>25.4%</i>	

The salaries and charges of the PagesJaunes in France segment amounted to €254.0 million in 2006, a rise of 4.7% compared to 2005, on revenues up 6.2% on the period.

Salaries and charges represented 25.0% of revenues in 2006, against 25.4% in 2005. This heading comprises wages and salaries, both fixed and variable, including profit-sharing, social charges, payroll tax, provisions for paid leaves, post-employment benefits and various benefits paid to employees in the sales force and support functions. The remuneration of the sales force and its immediate supervisory personnel remained stable at 13.8% of revenues. This remuneration of the sales force, which is to a large extent variable, depends principally on the commercial results recorded in the periods concerned.

2.1.6 Gross Operating Margin of the PagesJaunes in France segment

The Gross Operating Margin of the PagesJaunes in France segment amounted to €479.9 million in 2006, an increase of 4.9% compared to 2005. It represents 47.3% of revenues in 2006 against 47.9% in 2005, i.e. a decrease of 0.6 points between the two periods, mainly reflecting the investment made in 2006, in a particularly competitive market, for the launch of a telephone directory enquiry service, which only contributed to the revenues of the period for three quarters.

The costs associated with France Télécom's sale of its holding in PagesJaunes Groupe, already referred to in section 2, are included in full in the Gross Operating Margin of the France segment. Excluding costs associated with France Télécom's sales, the Gross Operating Margin of the France segment would increase by 5.8%.

2.1.7 Employee profit-sharing and share-based payment in the PagesJaunes in France segment

The employee profit-sharing in the PagesJaunes in France segment amounted to €13.5 million in the first half of 2006, a decrease of 58.3% compared to 2005. This decrease was linked to the termination at the end of 2005 of the France Télécom group pooled profit-sharing agreement. A new agreement, specifically for the French companies of the PagesJaunes Group, was negotiated in the first half of 2006. This new agreement, which has been in force since 1 January 2006, allows a substantial

increase in the amount distributed to the employees of the PagesJaunes Group, while substantially decreasing the profit-sharing expense borne by the Group.

The share-based payments expense in the segment amounted to €7.4 million in 2006, a decrease of 61.1% compared to 2005. This decrease results principally from the major impact in 2005 of the cost of the France Télécom employee share issue which took place in September 2005 and the progressive amortisation of the France Télécom stock option plans. In addition, the 2006 expense includes the impact of the free grants of PagesJaunes Groupe shares on 30 May 2006 and 20 November 2006 (see section 4) which are reflected in an expense of €2.5 million in 2006. Finally, the early exercise of PagesJaunes Group stock options due to the departure from the France Télécom group generated an expense of €1.3 million, together with social charges amounting to €2.1 million in 2006.

2.1.8 Depreciation and amortisation in the PagesJaunes in France segment

The depreciation and amortisation charges amounted to €8.8 million in 2006, an increase of 49.7% compared to 2005. This increase was mainly due to the amortisation of the operating concession for *l'Annuaire*, which represented an expense of €2.8 million in 2006.

2.1.9 Operating income of the PagesJaunes in France segment

The operating income of the PagesJaunes in France segment advanced 12.5% to €449.6 million in 2006. The rate of operating margin in this segment increased from 41.8% in 2005 to 44.3% in 2006, a rise of 2.5 points.

2.2 Analysis of the revenues and operating income of the International & Subsidiaries segment

The table below shows the like-for-like revenues and operating income in the International & Subsidiaries segment for the periods ending 31 December 2005 and 31 December 2006:

International & Subsidiaries <i>In millions of euros</i>	Periods ending 31 December		
	2006	2005	Change 2006/2005
Revenues	117.2	108.9	7.7%
External purchases	(49.9)	(47.4)	5.2%
Other operating income & expenses	(1.4)	(0.9)	56.2%
Salaries and charges	(59.6)	(55.0)	8.3%
Gross Operating Margin	6.4	5.5	15.8%
<i>As % of revenues</i>	<i>5.5%</i>	<i>5.1%</i>	
Employee profit-sharing	(0.1)	(0.6)	-88.0%
Share-based payments	(1.8)	(1.3)	33.6%
Depreciation, amortisation and impairment	(3.8)	(3.8)	NA
Capital gains or disposals on asset disposals	0.0	(0.0)	NA
Restructuring cost	(0.1)	(0.4)	-83.1%
Operating income	0.7	(0.6)	NA
<i>As % of revenues</i>	<i>0.6%</i>	<i>-0.6%</i>	

2.2.1 Revenues of the International & Subsidiaries segment

The breakdown of the consolidated revenues of the International & Subsidiaries segment by product line for the years 2005 and 2006 is as follows:

International & Subsidiaries <i>In millions of euros</i>	Periods ending 31 December		
	2006	2005	Change 2006/2005
B to C directories	58.4	52.4	11.4%
Kompass	31.4	29.3	7.0%
Direct marketing and geographic services	27.5	27.1	1.2%
Revenues	117.2	108.9	7.7%

The revenues of the International & Subsidiaries segment amounted to €117.2 million in 2006, an increase of 7.7% compared to 2005.

B to C directories

The revenues from B to C directories businesses amounted to €58.4 million in 2006. They rose 11.4% compared to 2005. The revenues from B to C directories result from the sale of advertising space in printed and online directories, their publication and distribution, carried out by the companies QDQ Media in Spain, Editus in Luxembourg and Edicom in Morocco.

The revenues of QDQ Media amounted to €45.2 million in 2006, a rise of 9.5% compared to 2005. This rise resulted mainly from the 4,1% growth in the average revenue per advertiser in 2006 edition, to €555 against €533 in 2005 edition, and to a 4.2% increase in the number of customers to 81,641 advertisers in 2006 edition compared to 78,332 customers in 2005 edition. The revenue growth of QDQ Media was particularly buoyant in the case of online services (QDQ.com), which recorded a rise of 42.1% to €8.7 million, whereas the revenues from printed directories rose by 3.5% to €36.5 million. Sales generated by online activities now represent 19.2% of revenues against 14.8% in 2005. 44,325 advertisers were present on QDQ.com at the end of 2006, against 40,951 at the end of 2005, an increase of 8.2%.

The revenues from other B to C directories amounted to €13.2 million in 2006 against €11.1 million in 2005.

Kompass businesses

Revenues from the Kompass businesses amounted to €31.4 million in 2006, a rise of 7.0% compared to 2005. These revenues result from the marketing of the Kompass information system through the sale of advertising space and data on printed media, CD-Rom, Minitel and the Internet on the "Kompass.com" sites, the global online directory of the Kompass agents and "Kompass.fr", the audience of which increased from 177,061 visits in December 2005 to 277,678 visits in December 2006. This strong growth is due to the strengthening of the listing on the main search engines. The sale of media is complemented by direct marketing services. Kompass revenues are generated in France, Spain, Belgium and Luxembourg.

Direct marketing and geographic services

The revenues from direct marketing and geographic services amounted to €27.5 million in 2006, a rise of 1.2% compared to 2005.

These revenues resulted from the marketing of qualified databases of individuals and businesses for prospection campaigns and data processing services, as well as customer relationship management (CRM) services. This marketing is carried out by PagesJaunes Marketing Services, which was created by the merger of Wanadoo Data and e-sama on 31 March 2006. In a context of transition resulting from implementation of this merger, PagesJaunes Marketing Services recorded a decrease in revenues of 14%.

These revenues also come from the geographic and online city photograph services provided by Mappy. The revenues from this business increased by more than 45.6% in 2006.

2.2.2 External purchases in the International & Subsidiaries segment

International & Subsidiaries <i>In millions of euros</i>	Periods ending 31 December		
	2006	2005	Change 2006/2005
External purchases	(49.9)	(47.4)	5.2%

External purchases in the International & Subsidiaries segment amounted to €49.9 million in 2006, an increase of 5.2% compared to 2005, on revenue growth of 7.7% over the period. External purchases therefore represented 42.6% of 2006 revenues against 43.6% of 2005 revenues.

These figures include the costs of the merger of Wanadoo Data and of e-sama, which represent approximately €1.1 million, and the cost of developing the new online classifieds business carried by PagesJaunes Petites Annonces, for a total of €3.8 million, including the salaries and charges incurred by this subsidiary. This activity will only contribute to consolidated revenues from the 2007 financial year.

2.2.3 Other operating income and expenses of the International & Subsidiaries segment

International & Subsidiaries <i>In millions of euros</i>	Periods ending 31 December		
	2006	2005	Change 2006/2005
Other operating income & expenses	(1.4)	(0.9)	56.2%

The other operating income and expenses of the International & Subsidiaries segment represented a net expense of €1.4 million in 2006, a rise of 56.2% compared to 2005.

The other operating income and expenses comprised management income other than sales revenues, increases in stocks and work in progress, costs of taxes and levies (excluding corporation and payroll tax), customer provisions and certain provisions for risks and charges.

This favourable trend was due in particular to an improvement in the management of customer risk at QDQ Media, following the actions taken as part of the recovery plan for this subsidiary, which was reflected in a decrease in impairment charges in respect of trade debtors on new editions.

2.2.4 Salaries and charges of the International & Subsidiaries segment

International & Subsidiaries <i>In millions of euros</i>	Periods ending 31 December		
	2006	2005	Change 2006/2005
Salaries and charges	(59.6)	(55.0)	8.3%

The salaries and charges of the International & Subsidiaries segment amounted to €59.6 million in 2006, a rise of 8.3% compared to 2005 on revenue growth of 7.7% over the same period.

Salaries and charges therefore represented 50.8% of revenues in 2006 against 50.5% as at 31 December 2005. The 2006 salaries and charges included those of the personnel involved in the new online classifieds business.

2.2.5 Gross Operating Margin of the International & Subsidiaries segment

The Gross Operating Margin of the International & Subsidiaries segment amounted to €6.4 million in 2006, a rise of 15.8% compared to 2005.

The continuation of the recovery plan at QDQ Media resulted in an improvement in its Gross Operating Margin, which moved from a loss of €5.1 million in 2005 to a profit of €0.5 million in 2006.

This improvement in the profitability of Kompass France also contributed €1.0 million to the increase in this 2006 Gross Operating Margin.

Conversely, the impact of the costs of the merger of Wanadoo Data and e-sama and the costs incurred by PagesJaunes Petites Annonces partly absorbed these improvements in the Gross Operating Margin of QDQ and Kompass France.

2.2.6 Employee profit-sharing and share-based payment in the International & Subsidiaries segment

The employee profit-sharing and the share-based payment expense in the International & Subsidiaries segment amounted to €1.9 million in 2006, i.e. a stable total compared to 2005.

Full-year 2006 includes the impact of the early exercise of PagesJaunes Groupe stock options, 50% of these options having become eligible for early exercise on the disposal by France Télécom of its holding in PagesJaunes Group.

2.2.7 Depreciation and amortisation in the International & Subsidiaries segment

Depreciation and amortisation remained stable at €3.8 million in 2006.

2.2.8 Operating income of the International & Subsidiaries segment

The operating income of International & Subsidiaries business was a profit of €0.7 million in 2006, against an operating loss of €0.6 million in 2005.

2.3 Analysis of consolidated net income

The table below shows the consolidated net income of the consolidated Group generated by all businesses during the periods ending on 31 December 2005 and 31 December 2006:

PagesJaunes Group <i>In millions of euros</i>	Periods ending 31 December		
	2006	2005	Change 2006/2005
Operating income	450.3	399.0	12.8%
<i>As % of revenues</i>	<i>40.0%</i>	<i>37.6%</i>	
Financial income	21.2	16.4	29.2%
Financial expenses	(13.7)	(4.8)	184.9%
Result of disposal of financial assets	0.8	0.0	NA
Corporation tax	(161.7)	(148.9)	8.6%
Net income	296.9	261.7	13.4%
of which attributable to the shareholders of PagesJaunes Groupe	296.9	261.7	13.4%

2.3.1 Financial income

Financial income amounted to €21.2 million in 2006. It increased by €4.8 million, a rise of 29.2% compared to 2005. This was due mainly to the increase in interest rates in 2006 and an increase in the average cash position.

Up to 11 October 2006, the date of France Télécom's sale of its holding in PagesJaunes Group, the financial income mainly comprised income from of PagesJaunes Group cash deposit with France Télécom. All the loans and overdrafts granted to France Télécom were repaid on that date. Since then, financial income has resulted from the investment of surplus cash of PagesJaunes Group in the form of short-term treasury instruments.

The financial income also includes the change in the fair value of the collar initiated at the end of November 2006 in order to hedge this variable rate debt. This change represented income of €4.2 million in 2006.

2.3.2 Financial expenses

Financial expenses amounted to €13.7 million in 2006 against €4.8 million in 2005. The financial expenses in the 2005 financial year included the expense of €3.0 million recorded on the assignment of the receivable in respect of the exceptional levy on dividends paid in the first half 2005. The financial expenses recorded in 2006 corresponded mainly to the interest charge on the debt of €1,950.0 million arranged in November 2006.

2.3.3 Corporation tax

In 2006, the Group recorded a corporation tax charge of €161,7 million, a rise of €8.6% compared to 2005. This is consistent with the trend in the pre-tax result.

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. This option took effect on 1 January 2005 for a period of five years.

PagesJaunes Groupe and its subsidiary PagesJaunes were the subject of a tax audit in 2006 covering the years 2002, 2003 and 2004. The companies received reassessment requests from the taxation authorities on 11 December 2006 concerning two points:

- In respect of the first point, relating to the non-deductibility of debt cancellations, an additional tax charge of €0.7 million was recorded in 2006;
- By contrast, PagesJaunes Groupe and PagesJaunes intend to contest the second point, involving a claim of an additional tax charge for the two companies of around €4.8 million, including interest. The companies believe they have strong arguments for contesting this proposed reassessment and have therefore not recognised a provision in respect of this reassessment. They sent their observations to this effect to the taxation authorities in two letters dated 10 January 2007.

2.3.4 Net income

The net income amounted to €296.9 million in 2006, a rise of 13.4% compared to 2005.

3 Consolidated liquidities, capital resources and investment expenses

The table below shows the movements in the cash position of the consolidated Group in 2005 and in 2006:

(in millions of euros)	31 December 2006	31 December 2005
Hedging instruments	17.5	-
Short-term investments > 3 months and < 1 year	0.3	16.5
Cash and cash equivalents	55.1	549.8
Cash assets	72.8	566.3
Bank loan	(1 950.0)	-
Debt costs	47.3	-
Liabilities in respect of hedging instruments	(8.3)	-
Accrued interest not yet due	(5.6)	-
Bank overdrafts	(7.5)	(7.8)
Other financial liabilities	(15.3)	(5.5)
Gross financial debt	(1 939.4)	(13.3)
<i>Of which current</i>	<i>(28.5)</i>	<i>(13.3)</i>
<i>Of which non-current</i>	<i>(1 911.0)</i>	<i>(0.0)</i>
Net cash (debt)	(1 866.6)	553.0

The Group's net debt amounted to €1,866.6 million as at 31 December 2006 against a net cash position of €553.0 million as at 31 December 2005. This development results mainly from the payment on 24 November 2006 of an exceptional dividend of €9 per share, i.e. €2,519.7 million.

The cash and cash equivalents in 2005 essentially comprised investments up to three months with France Télécom. These current accounts and deposits were fully repaid when France Télécom sold its holding in PagesJaunes Groupe on 11 October 2006. As at 31 December 2006, the cash and cash equivalents essentially comprised cash Mutual Funds and bank current accounts.

Bank loan

On 24 October 2006 PagesJaunes Groupe concluded a financing arrangement with a syndicate comprising seven international banks for a maximum total of €2.35 billion, comprising a medium-term senior loan of €1,950 million and a revolving credit line of €400 million. The sole purpose of the senior debt was to finance the exceptional dividend of €9 per share paid on 24 November 2006 and it was drawn in full on 24 November 2006. The revolving credit line is intended to finance the Group's treasury requirements (working capital requirement, investments or refinancing) in the context of its operating activities and is available in the form of drawings, letters of credit or bilateral lines.

The medium-term senior loan has a maturity of seven years, with interest at a variable rate based on the Euribor reference rate and a maximum margin of 185 basis points (subject to downward adjustments as a function of the ratio of total net debt to an aggregate close to the consolidated Gross Operating Margin), and is repayable in full at maturity. The revolving credit line has a maturity of seven years, with interest at a variable rate based on the Euribor reference rate or Libor (in the event of the use of a currency other than the euro) with a maximum margin of 185 basis points (subject to downward adjustments as a function of the ratio of total net debt to an aggregate close to the consolidated Gross Operating Margin) and the repayment of each drawing takes place at the end of each drawing period. PagesJaunes Groupe is required to pay a non-utilisation commission calculated at a rate of 0.625% per year on the undrawn part of its revolving credit line. This financing contract contains in particular compulsory early repayment clauses and default clauses as well as evolving financial covenants providing for (i) a ratio of consolidated Gross Operating Margin to total net interest expense and a lower limit rising over the term of the credit from 3.25x to 4.00x and (ii) a ratio of total consolidated net debt to an aggregate close to the consolidated Gross Operating Margin and a higher limit reducing over the term of the credit from 5.25x to 3.75x. These two ratios are calculated on the basis of consolidated data. It also includes a compulsory early repayment clause in the event of a change of control of the Company resulting from the acquisition of the shares of the Company.

PagesJaunes Groupe incurred expenses totalling €48.0 million for the arrangement of this financing, mainly comprising commissions paid to the arrangers on the basis of a rate of 2% on the amount of the senior loan, i.e. €39.0 million and 2.125% on the amount of the revolving credit line, i.e. €8.5 million. The loan of €1,950 million has been recognised at fair value, on the basis of its nominal value less these issue costs of €39.0 million, the latter being the subject of actuarial amortisation over the life of the loan in accordance with the Effective Interest Method. As at 31 December 2006, the fair value of the borrowing was €1,911.0 million. The issue expenses on the revolving credit line were also recorded as a deduction from the debt and are being amortised on a straight-line basis over the life of this credit line, which was not drawn as at 31 December 2006. The amortisation charge for all of these issue expenses is recorded in financial expenses.

The table below presents the consolidated cash flow for the years 2005 and 2006:

Consolidated cash flow statement in historical data In millions of euros	Periods ending	
	31 December 2006	31 December 2005
Net cash from operating activity	310.3	263.5
Net cash used in investing activities	50.5	(105.0)
Net cash used in financing activities	(855.6)	(252.7)
Net increase (decrease) in cash and cash equivalents	(494.7)	(94.3)
Impact of treasury differences on cash	(0.0)	0.0
Cash and cash equivalents at start of period	549.8	644.1
Cash and cash equivalents at close of period	55.1	549.8

The cash as at 31 December 2006 amounted to €55.1 million against €549.8 million as at 31 December 2005.

The net cash flow generated by operating activities increased by €46.9 million to €310.3 million, a rise of 17.8% in 2006. This increase is mainly associated with:

- The improvement of €23.2 million in the Gross Operating Margin;
- The change in the working capital requirement, from a positive amount of €35.0 million in 2005 to an additional requirement of €9.7 million in 2006; this development is a result of:
 - The decrease in liabilities to operating suppliers of €16.5 million
 - A lower change in inventories of paper of €8.5 million
 - A slight increase in trade debtors, net of deferred income, of €3.3 million
 - A decrease of €23.4 million in employee benefits, mainly associated with the time lag in the disbursement of employee profit-sharing
- A disbursement of corporation tax which was lower in 2006 than in 2005, having regard to a shift into 2005 of part of the disbursement of the 2004 tax, which created a positive change in cash flows of €49.4 million between 2005 and 2006;
- Various other unfavourable factors between the two periods amounting to €6.1 million, including net interest received and interest paid.

Net cash used in investing activities decreased by €155.5 million between 2005 and 2006. This decrease was made up as follows:

- A higher level of investment in 2006 than in 2005 by €17.4 million, mainly due to the payment of €11.0 million in the context of the operating concession contract for the printed directory entered into with France Télécom and the acquisition of the "*l'Annuaire*" trademark for €1.0 million;
- A positive impact of €128.4 million on the flows relating to the loan with France Télécom. In 2005, a three-year loan of €64.2 million was arranged. In 2006, it was repaid early by France Télécom;
- A change in cash investments made in the context of the liquidity contract in an amount of €33.0 million. This contract was entered into in 2005 and was terminated in 2006;
- An amount of financial investments of €2.0 million in 2006 against €12.5 million in 2005.

The net cash flow allocated to financing operations increased by €602.9 million between 2005 and 2006. This increase is due to:

- The increase of €24.7 million in the dividend paid in respect of the current activity;

- The payment, on 24 November 2006, of an exceptional dividend of €9 per share, i.e. 2,519.7 million;
- Recourse to debt net of expenses amounting to €1,902.1 million to finance the exceptional dividend;
- A capital increase in 2006 following the early exercise of stock options amounting to €26.4 million;
- An increase in the current account with PagesJaunes Outre-mer, an unconsolidated company, of €9.9 million in 2006 against €0.7 million in 2005, due to a deferment of disbursements relating to the advertising representation agreement;
- Repurchases of own shares for €2.2 million in 2005. This position was closed out in 2006.

4 Stock options and free shares

The Board of Directors drew up the conditions for the first free share plan on 30 May 2006. This plan gave rise to the initial grant of 602,361 shares to 591 employees of the Group on 30 May 2006. A second free grant was drawn up on 20 November 2006 and gave rise to the grant of 778,638 shares to 611 employees of the Group.

As at 31 December 2006, taking into account the departures which had arisen since these grants, 1,356,201 shares eligible for free grant remained in circulation. These shares will be finally vested at the end of a vesting period of two years, provided that the beneficiary is still an employee or director of the Group and performance conditions are fulfilled. The performance conditions concern the achievement of criteria for growth in consolidated revenues and growth in the Company's consolidated gross margin for the years 2006 and 2007 in the case of the first plan and criteria for growth in the Company's consolidated gross margin for the years 2007 and 2008 in the case of the second plan.

5 Off-balance-sheet liabilities and risks

See notes 32 and 33 to the consolidated financial statements.

6 Events subsequent to the close of the accounts on 31 December 2006

As at the date of this report, no significant event has occurred since 31 December 2006.

7 Research and development

The PagesJaunes Group is characterised by a strong culture of innovation which does not require major investments in fundamental research and development. In this regard most of the research and development expenses are not accounted for in investments but in expenses. However, in order to cater for technological developments, the group increased these investments in 2006, particularly with the acquisition of the trademark and the operating concession for *l'Annuaire*.

8 Outlook

The Group's aims for 2007 are:

- To pursue sustained growth and maintain a high level of operating profitability in particular by:
 - sustaining the audience for printed directories and increasing its distribution ;
 - continuing a growth strategy based on the development of functionalities, enriching of content and optimising of contact services ;
 - developing telephone directory enquiry services in France (118008) in France ;
- To achieve success in entering the market for online classifieds (annoncesjaunes.fr).