PAGESJAUNES GROUPE

Consolidated financial statements as at 31 December 2005 and 31 December 2004

Unofficial translation of the French-language "*Comptes consolidés au 31décembre 2005 et 31 décembre 2004*" of PagesJaunes Groupe, for information purposes only.

PagesJaunes Groupe,
A limited liability company (Société Anonyme) having a Board of Directors (Conseil d'Administration) and a share capital of €55,757,922
Registered office: 7 avenue de la Cristallerie – 92317 Sèvres Cedex
Commercial and Companies Register: Nanterre 552 028 425

IFRS CONSOLIDATED INCOME STATEMENT

(Amounts in thousands of euros, except data relating to shares)

		Notes	Period ending 31 December 2005	Period ending 31 December 2004
Net revenues		7	1,060,700	967,160
External purchases			(330,366)	(317,582)
Other operating income		8	54,906	55,249
Other operating expenses			(24,588)	(28,353)
Personnel expenses:	– Salaries and charges	9	(297,577)	(268,992)
Gross operating margin			**463,075**	**407,482**
	- Employee profit-sharing	9	(32,906)	(29,926)
	- Share-based payment	9	(20,450)	(25,274)
Depreciation and amortisation			(9,744)	(10,066)
Result of asset disposals			(569)	(363)
Restructuring costs			(372)	0
Results of equity method associates				774
Operating income			**399,034**	**342,627**
Financial income			16,378	20,784
Financial expenses			(4,813)	(444)
Gain (loss) on foreign exchange			18	(51)
Financial result		10	**11,583**	**20,289**
Corporation tax		11	(148,873)	(149,314)
Net income			**261,744**	**213,602**
Attributable to:				
- Shareholders of PagesJaunes Groupe			261,744	213,602
- Minority interests				0
Earnings per share (in euros)		12		
Net income				
	- basic		0.94	0.77
	- diluted		0.93	0.76

IFRS CONSOLIDATED BALANCE SHEET

(Amounts in thousands of euros)

	Notes	**As at 31 December 2005**	**As at 31 December 2004**
ASSETS			
Net goodwill	13	107,394	77,475
Other net intangible fixed assets	14	11,511	8,419
Net tangible fixed assets	15	17,995	16,816
Investments accounted for using the equity method	16		15,493
Available-for-sale assets	17	438	
Other non-current financial assets	18	44,081	3,784
Deferred income taxes	11	28,527	26,144
Total non-current assets		**209,946**	**148,131**
Net inventories	20	5,281	12,373
Net trade accounts receivable	21	472,756	430,793
Other current assets	22	39,764	44,350
Current taxation		5,106	133
Prepaid expenses	23	55,639	39,844
Other current financial assets	19	39,356	861
Cash and cash equivalents	28	549,827	644,077
Total current assets		**1,167,729**	**1,172,431**
TOTAL ASSETS		**1,377,675**	**1,320,562**
LIABILITIES			
Share capital		55,758	55,758
Issue premium		68,335	68,335
Reserves		23,422	49,848
Net income		261,744	213,602
Foreign currency translation adjustment		8	0
Own shares		(2,169)	
Shareholders' equity	25	**407,098**	**387,543**
Long-term financial debts and derivatives	28	17	32
Employee benefits - non-current	26	25,450	22,062
Provisions - non-current	26	7,876	8,329
Other non-current liabilities		2,492	
Total non-current liabilities		**35,835**	**30,423**
Portion of long- and medium-term debt maturing in less than one year			3,822
Bank overdrafts and other short-term borrowings	28	13,288	10,730
Accrued interest not yet due	28	8	18
Provisions - current	26	509	236
Trade accounts payable		124,167	107,026
Employee benefits - current	26	87,890	82,021
Other current liabilities	26	101,155	91,261
Corporation tax	11	16,069	72,112
Deferred income	29	591,656	535,370
Total current liabilities		**934,742**	**902,596**
TOTAL LIABILITIES		**1,377,675**	**1,320,562**

STATEMENT OF CHANGES IN IFRS CONSOLIDATED SHAREHOLDERS' EQUITY
(Amounts in thousands of euros)

	Share capital	Issue premium	Income & Reserves	Translation reserve	Own shares	Total shareholders' equity
Balance as at 1 January 2004	**54,810**	**42,249**	**235,159**			**332,218**
Capital increase	948	68,335				69,283
2004 result			213,602			213,602
Share-based payment			8,399			8,399
Dividends paid		(42,249)	(193,710)			(235,959)
Balance as at 31 December 2004	**55,758**	**68,335**	**263,450**			**387,543**
2005 result			261,744			261,744
Share-based payment			19,246			19,246
Dividends paid			(259,274)			(259,274)
Translation differential re Edicom				8		8
Treasury shares					(2,169)	(2,169)
Balance as at 31 December 2005	**55,758**	**68,335**	**285,166**	**8**	**(2,169)**	**407,098**

Cash flow statement

(Amounts in thousands of euros)	Notes	**31 December 2005**	**31 December 2004**
Consolidated net attributable income		261,744	213,602
Depreciation and amortisation of fixed assets	14 & 15	9,744	10,065
Capital gains or losses on asset disposals		569	411
Change in provisions	24 & 26	(3,633)	(4,081)
Undistributed earnings of companies accounted for using the equity method			512
Tax charge for the period	11	148,873	149,314
Interest income and expenses	10	(11,565)	(20,391)
Minority interests			
Unrealised exchange difference		(25)	51
Other non-monetary items			
Share-based payment		19,238	24,124
Decrease (increase) in inventories		7,148	(5,086)
Decrease (increase) in trade accounts receivable		(25,743)	(36,325)
Decrease (increase) in other receivables		(16,891)	18,138
Increase (decrease) in trade accounts payable		14,679	(10,810)
Increase (decrease) in other payables		56,045	70,229
Dividends and interest received		18,737	20,784
Interest paid and rate effect of net derivatives		(3,288)	(444)
Taxes paid	11	(212,181)	(67,859)
Net cash from operations		**263,451**	**362,234**
Acquisition of tangible and intangible fixed assets, net of changes in suppliers of fixed assets	14 & 15	(11,823)	(8,376)
Proceeds from sale of tangible and intangible assets		125	215
Acquisitions of investment securities and subsidiaries, net of cash acquired	6	(12,498)	(21,981)
Investments in equity method associates	6		(13,500)
Decreases (increases) in marketable securities and other long-term assets	28	(80,794)	11,509
Net cash used in investing activities		**(104,990)**	**(32,133)**
Increase (decrease) in long-term borrowings	28	(18)	(89,326)
Increase (decrease) in bank overdrafts and short-term borrowings	28	(1,328)	(1,167)
Decrease (increase) in deposits and other financial assets linked to debt		(26)	
Redemption of shares	12	(2,169)	
Capital increase	25	10,081	58,492
Dividends paid	25	(259,274)	(235,958)
Net cash provided by (used in) financing activities		**(252,734)**	**(267,959)**
Net increase (decrease) in cash and cash equivalents		**(94,273)**	**62,142**
Impact of changes in exchange rates on cash		22	
Net increase (decrease) in cash position		(94,251)	62,142
Cash and cash equivalents at beginning of period		644,077	581,935
Cash and cash equivalents at end of period	28	**549,827**	**644,077**

Note 1 - Description of business

For over fifty years, the PagesJaunes Group has been offering a wide range of products and services geared to the general public and businesses. Its core business is directories in France and abroad on printed and online media.

The financial year of the companies of the PagesJaunes Group is from 1 January to 31 December.

The consolidated financial statements presentation currency and their appendices is the euro.

Note 2 – Context of the publication and basis for preparation of the 2005 financial information

In accordance with European regulation 1606/2002 dated 19 July 2002, the consolidated financial statements for the 2005 financial year have been prepared in accordance with the IAS/IFRS international standards and presented with comparative data for 2004 prepared under the same standards.

The basis for the preparation of this 2005 financial information, as described in note 3, results from:

- All the standards and interpretations adopted by the European Union as at 31 December 2005;
- IFRS standards and interpretations whose application will be compulsory after 2005 and for which the Group has opted for earlier application;
- Accounting positions adopted by the Group, on which work is currently being carried out by the IASB (IFRIC) or the CNC, as recalled in note 3;
- The options and exemptions used.

The preparation of financial statements requires the management of PagesJaunes Groupe to make estimates and apply assumptions that affect the reported amounts of assets and liabilities and contingent liabilities at the date of preparation of the financial statements and reported income and expenses for the period. The management reviews these estimates and assessments on a continuous basis, by reference to past experience and various other factors considered as reasonable which form the basis for assessing the book value of assets and liabilities. Actual results may differ significantly from these estimates, if different assumptions or circumstances apply. Finally, where a specific transaction is not dealt with in any standards or interpretations, the management of the Group applies judgment to define and apply accounting policies that will lead to relevant and reliable information, so that the financial statements:

- give a true and fair view of the Group's financial position, financial performance and cash flows,
- reflect the substance of transactions,
- are neutral,
- are prepared on a prudent basis,
- are complete in all material respects.

This information was drawn up by the Board of Directors of PagesJaunes Groupe of 7 February 2006.

Note 3 - Accounting policies and changes of estimate

3.1 Accounting policies

This note describes the Accounting Policies applied to the accounts as at 31 December 2005 in accordance with the provisions of international accounting standards as adopted by the European Commission as at 31 December 2005.

3.1.1 Application of standards, amendments to standards and interpretations in advance of the date of compulsory application

The group has decided to apply the following texts early from 1 January 2004, in order to provide better comparability of the 2004 and 2005 financial years:

- IAS 39 "Financial Instruments: Recognition and Measurement" and IAS 32 "Financial instruments: disclosure and presentation", to be applied compulsorily from 1 January 2005;
- IFRS 5 "Non-current assets held for sale and discontinued operations". This text has applied compulsorily since 1 January 2005;
- IFRIC 1 "Changes in existing decommissioning, restoration and similar liabilities" This text has applied compulsorily for periods commencing after 1 September 2004.
- IFRIC 4 "Determining whether an arrangement contains a lease". This interpretation, relating to the identification of operational lease contracts, which has applied compulsorily with effect from periods commencing on 1 January 2006, may, optionally, be applied early.
- IAS 39 The "fair value" option, which applies compulsorily from 1 January 2006. This amendment allows the cancellation one of the two exclusions decided on by the European Commission at the time of the adoption of IAS 39. The provisions of this text relate to the choice of recognition of an asset at the outset and a financial liability at fair value through the income statement.

On the other hand, PagesJaunes Groupe has not adopted for early application of the following standards, amendments to standards and interpretations:

- IFRS 7 "Financial Instruments – Disclosures". The date of first application of this text is 1 January 2007. This text has not been approved by European Commission, but has received a favourable opinion the EFRAG;
- IAS 19 "Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures", to be applied compulsorily from 1 January 2006;
- IAS 39 "Cash Flow hedge accounting of forecast Intragroup transactions", to be applied compulsorily from 1 January 2006;

The PagesJaunes Group is nevertheless currently analysing the practical consequences of these new texts and the effects of their application on the financial statements.

The group is not affected by interpretations IFRIC 2 "Members' Shares in Co-operative Entities and Similar Instruments", IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds" and IFRIC 6 "Liabilities Arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment".

3.1.2 Accounting positions adopted by PagesJaunes Groupe by virtue of paragraphs 10 to 12 of IAS 8

The accounting positions presented below are not the subject of particular provisions in international accounting standards as adopted by the European Commission or their interpretation.

Employee share issues:

The Group has adopted as the grant date for the offers reserved for employees the date of announcement to the employees of the main conditions of the offer, thereby complying with the circular issued by the Conseil National de la Comptabilité of 21 December 2004 relating to employee share ownership plans. This circular interprets the date of announcement as the grant date defined in IFRS 2 "Share-Based Payment". The charge recognised in this regard amounts to €25.3 million (including €1.2 million in respect of the contribution) for the 2004 financial year and to €20.5 million (including €1.2 million in respect of the contribution) for the 2005 financial year. If the grant date had been the closing date of the offer, an additional charge of €12.2 million would have been recognised in 2004 and €0.3 million in 2005, principally due to the change in the price of the share between the announcement date and the closing date of the offer.

Statutory training rights (DIF)

In accordance with opinions number 2004-F of 13 October 2004 of the emergency committee of the CNC relating to the accounting treatment of the statutory training right (DIF), expenditure in respect of statutory training rights constitutes an expense for the period and therefore does not give rise to any provision. However, the notes to the consolidated financial statements include disclosures of the outstanding hours of training entitlement at the end of the accounting period and the portion which have not been requested by employees.

In a limited number of cases (request for training leave, redundancy or resignation) or where such costs cannot be considered as remuneration of future services, the resulting short-term obligation is provided for in the financial statements for the period as soon as the obligation towards the employee becomes probable or certain.

3.1.3 Options provided by the accounting standards and adopted by the PagesJaunes Group

Certain IASB standards provide for options with regard to the methods of valuation and recognition of assets and liabilities. The group has chosen:

- to maintain the methods of accounting for inventories at their initial cost determined in accordance with the weighted average unit cost method (standard IAS 2 "Inventories");
- the method of valuation at amortised historical cost of tangible and intangible fixed assets and has not chosen to revalue its tangible and intangible fixed assets at each closing date (standard IAS 16 "Property, plant and equipment" and standard IAS 38 "Intangible assets") and not to capitalise the financial interest accrued during the construction and acquisition of tangible and intangible assets, as provided for by standard IAS 23 "Borrowing costs";
- to record the actuarial gains and losses relating to post-employment benefits stated in accordance with the corridor method, which provides for the spreading of cumulative actuarial gains and losses exceeding 10% of the greater of the current value of the obligation in respect of defined benefits and the fair value of the assets of the scheme over residual period of activity of persons included in the commitment (standard IAS 19 "Employee benefits");
- to maintain the method of consolidation of jointly controlled businesses in accordance with the proportional consolidation method (standard IAS 31 "Interests in joint ventures").

In addition, standard IFRS 1 relating to the first-time adoption of International Financial Reporting Standards provides for a certain number of possible exemptions to the principle of retrospective application of IFRS at the date of transition (1 January 2004 for the PagesJaunes Group). Among these exemptions for the preparation of an opening balance sheet, the group has chosen:

- not to apply standard IFRS 3 relating to business combinations prior to the date of transition. With regard to acquisitions of minority interests which do not appear explicitly in the exemptions authorised by IFRS 1 and in the absence of any particular provision in the standards, the group has maintained the accounting treatment applied under French GAAP;
- to use historical cost of tangible and intangible fixed assets in accordance with IAS 16 and 38;
- to apply retrospectively the provisions of standard IFRS 2 "Share-based payment" for equity- and cash-settled plans; as a result, all plans, even those issued before 7 November 2002, are stated on the basis of accounting policies defined by IFRS 2. Plans issued prior to 31 December 2003 have been valued in accordance with the valuations made according to the provisions of the US FAS 123 using the Black-Scholes model. With effect from 1 January 2004, all new plans are valued in accordance with IFRS 2 using a binomial model.

The Group has not made use of the other options provided for by standard IFRS 1.

3.2 Consolidation

Subsidiaries which are controlled exclusively by PagesJaunes Groupe, directly or indirectly, are fully consolidated.

Companies which are controlled jointly by PagesJaunes Groupe and a limited number of other shareholders are proportionally consolidated.

Companies not controlled by PagesJaunes Groupe but over which the Group exercises significant influence (generally corresponding to an ownership interest of 20% to 50%) are consolidated using the equity method.

When assessing the level of control or significant influence exercised, account is taken of the existence and effect of any exercisable or convertible potential voting rights at the end of the period.

In accordance with IFRS 5, the assets and liabilities of controlled entities that are considered as being held for sale are reported on a separate line in the balance sheet. Profits or losses of discontinued operations are reported on a separate line of the income statement. IFRS 5 defines a discontinued operation as a component of an entity comprising cash flows that can be clearly distinguished from the rest of the entity, that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations.

Material intercompany transactions and balances are eliminated in consolidation.

3.3 Transactions in foreign currencies

The principles covering the measurement and recognition of transactions in foreign currencies are set out in IAS 21 "Effects of Changes in Foreign Exchange Rates". In accordance with this standard, transactions in foreign currencies are converted by the subsidiary into its operating currency at the exchange rate at the transaction date. Monetary assets and liabilities are remeasured at each balance sheet date at the period-end exchange rate and the differences arising from remeasurement are recorded in the income statement:

- In operating income for commercial transactions.
- In financial income or expenses for financial transactions.

3.4 Presentation of the financial statements

As permitted under IAS 1 "Presentation of Financial Statements", the Group presents the income statement by type. The presentation of the income statement under IFRS is significantly different from that under French GAAP, in particular with the elimination of the notion of non-operating income and expenses and the reincorporation in operating income of expenses associated with goodwill.

Operating income corresponds to net income before:

- Financial income;
- Financial expenses;
- Current and deferred income taxes;
- Profits and losses of discontinued operations and operations held for sale.

Gross operating margin corresponds to operating income before:

- Employee profit-sharing;
- Share-based payments;
- Depreciation and amortisation expense;
- Impairment of goodwill and fixed assets;
- Results of asset disposals;
- Restructuring costs;
- Share in profits (losses) of equity-method associates;
- Impairment of goodwill in respect of equity-method associates.

3.5 Revenues

Revenues from the activities of PagesJaunes Groupe are recognised and presented as follows, in accordance with IAS 18 "Revenue":

- Revenues from the sale of advertising space in printed directories are recognised at the time of publication. Consequently, sales of advertising space billed in respect of future directories are stated in the balance sheet under the heading of "Deferred income".
- Income from the sale of advertising space in online directories is apportioned over the display period, which is generally 12 months.
- Revenues from traffic relating to the telephone enquiry services (118 008 in France and 118 75 in Spain) are recognised when the service is rendered.
- The expenses which are directly attributable to the directory publication campaigns for a particular financial period are associated with the corresponding revenues stated for the period in question; this concerns commissions for sales and telesales personnel as well as the publication fee.

3.6 Advertising and similar expenses

Expenses for advertising, promotion, sponsorship, communication and brand development are stated in full in the expenses for the year in which they are incurred.

3.7 Earnings per share

The Group discloses both basic earnings per share and diluted earnings per share. The number of shares used to calculate diluted earnings per share takes into account the conversion into ordinary shares of dilutive instruments outstanding at the period-end. Diluted earnings are calculated based on net attributable income, adjusted for the finance cost of dilutive debt instruments and their impact on employee profit-sharing, net of the related tax effect. If the basic earnings per share are negative, diluted loss per share represents the same amount as the basic loss. To permit direct comparisons of earnings per share, the weighted average number of shares outstanding for the reporting year and previous years is adjusted to take into account any shares issued at a discount to market price. Treasury stock deducted from consolidated equity is not taken into account in the calculation of earnings per share.

3.8 Goodwill

Goodwill represents the difference between the purchase cost of shares in consolidated companies, including transaction expenses, and the Group's equity in the value of the underlying net assets at the date of acquisition.

In accordance with IFRS 3 "Business Combinations", goodwill is not amortised but is tested for impairment at least once a year or more frequently when there is an indication that it may be impaired. IAS 36 "Impairment of Assets" requires these tests to be performed at the level of each Cash Generating Unit (CGU) to which the goodwill has been allocated. In certain cases, CGUs may be combined if the combined CGUs represent the lowest level at which management monitors return on investment. (A Cash Generating Unit is defined as the smallest homogenous group of assets whose continuous use generates cash inflows that are largely independent of the cash inflows from other groups of assets.). The level at which PagesJaunes Groupe measures the current value of goodwill generally corresponds to the level of each of the consolidated companies.

To determine whether goodwill has been impaired, the consolidated net book value of the assets and liabilities is compared to their recoverable amount. The recoverable amount is the higher of the fair value less exit costs and value in use.

Fair value less exit costs is determined as the best estimate of the sale value net of exit costs in a transaction conducted under normal competitive conditions between knowledgeable, willing parties. This estimate is determined on the basis of the available market information, taking into account particular situations.

The value in use applied by PagesJaunes Groupe is the present value of the future cash flows expected to be derived from the CGU, including goodwill. Cash flow projections are based on economic and regulatory assumptions and forecast trading conditions applied by the management of PagesJaunes, as follows:

- Cash flow projections are based on the five-year business plan,

- Cash flow projections beyond the five-year period are extrapolated by applying a declining or flat growth rate over the next three years, followed by a growth rate to perpetuity reflecting the expected long-term growth in the market,
- The cash flows obtained are discounted using appropriate rates for the type of business and the countries concerned.

Goodwill impairment losses are recorded in the income statement as a deduction from operating income.

If the business is intended to be sold, the recoverable amount is determined on the basis of the fair value net of exit costs.

3.9 Other intangible assets

Other intangible assets, consisting mainly of trademarks, licences and patents, research and development costs and software, are stated at acquisition or production cost.

When intangible assets are acquired in a business combination, their cost is generally determined in connection with the purchase price allocation based on their respective market values. When their market value is not readily determinable, cost is determined using generally accepted valuation methods based on revenues, costs or other appropriate criteria.

Internally developed trademarks are not recognised in the balance sheet.

Trademarks

Trademarks having an indefinite useful life are not amortised, but are tested for impairment (cf. note 3.11).

Licences and patents

Licences and patents are amortised on a straight-line basis over periods which correspond to the expected usage period, not exceeding 20 years.

Research and development costs

Under IAS 38 "Intangible Assets", development costs must be recognised as an intangible fixed asset when the following can be demonstrated:

- The intention and financial and technical ability to complete the development project.
- The likelihood that the future economic benefits attributable to the development costs incurred will accrue to the company.
- The costs of this asset can be reliably valued.

Research costs and development costs not fulfilling the above criteria are expensed in the year in which they are incurred. Significant capitalised development costs are amortised on a straight-line basis over their useful life, generally not exceeding three years.

Software

Software is amortised on a straight-line basis over its useful life, not exceeding five years.

3.10 Tangible fixed assets

Gross value

The gross value of tangible fixed assets corresponds to their purchase or production cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

It also includes the estimate of the costs of dismantling and removing the item and restoring the site on which it is located, such obligation being incurred by the Group either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories.

Finance leases

Assets acquired under leases that transfer the risks and rewards of ownership to PagesJaunes Groupe (finance leases) are stated in fixed assets, with a corresponding financial obligation being recorded in liabilities. The risks and rewards of ownership are considered as having been transferred to PagesJaunes Groupe when:

- The lease transfers ownership of the asset to the lessee at the end of the lease term,
- The Group has the option to purchase and the conditions of the option are such that it is highly likely that ownership will be transferred at the end of the lease term,
- The lease term covers the major part of the estimated economic life of the asset,
- The discounted value of the total of the minimum fees provided for in the contract is close to the fair value of the asset.

At the same time, the assets in respect of which the risks and rewards associated with ownership are transferred by PagesJaunes Groupe to third parties under a lease contract are considered as having been sold.

Maintenance and repair costs are expensed as incurred, except where they serve to increase the asset's productivity or prolong its useful life.

Depreciation

Tangible fixed assets are depreciated on a basis that reflects the pattern in which their future economic benefits are expected to be consumed in the case of each asset item on the basis of the acquisition cost, less any residual value. The straight-line basis is usually applied over the following estimated useful life: 25 to 30 years for buildings, 5 to 10 years for fittings, 1 to 5 years for other fixed assets.

These depreciation periods are reviewed annually and are adjusted if current estimated useful life differ from previous estimates. These changes in accounting estimates are recognised prospectively.

3.11 Impairment of fixed assets

Under IAS 36 “Impairment of Assets”, the value in use of tangible and intangible fixed assets must be tested for impairment when there is an indication that they may be impaired. Indicators are reviewed at each closing date.

Intangible and tangible fixed assets are subject to an impairment when, because of events or circumstances which have occurred during the period (such as obsolescence, physical deterioration, significant changes to the manner in which the asset is used, worse than expected performance, a drop in revenues or other external indicators, etc.), their recoverable amount appears to be lower than their net book value in the long term. The recoverable amount of an asset is the higher of its fair value less exit costs and its value in use.

Each asset or group of assets is tested for impairment by comparing its recoverable amount to its net book value. When an asset or group of assets is found to be impaired, the recognised impairment loss is equal to the difference between its net book value and the recoverable amount.

The recoverable amount of an asset is generally determined by reference to its value in use, corresponding to the future economic benefits expected to be derived from the use of the asset and its subsequent disposal. It is assessed by the discounted cash flows method, based on economic assumptions and operating conditions expected by the Management of PagesJaunes Groupe.

3.12 Financial assets and liabilities

Financial assets include available-for-sale assets, held-to-maturity assets, loans and receivables and cash and cash equivalents.

Financial liabilities include borrowings, other financing and bank overdrafts and operating debts.

Financial assets and liabilities are measured and recognised in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

Measurement and recognition of financial assets

Assets held to maturity

Held-to-maturity investments comprise exclusively securities with fixed or determinable income and fixed maturities, other than loans and receivables, which the Group has the intention and ability to hold to maturity. They are recognised initially at fair value and are subsequently measured at amortised cost by the effective interest method.

The Group assesses whether there is any objective evidence that held-to-maturity assets are impaired. A financial asset is written down if its book value exceeds the recoverable amount estimated at the time of the impairment tests. The impairment loss is recognised in the income statement.

Available-for-sale assets

Available-for-sale assets consist mainly of shares in non-consolidated companies and marketable securities that do not fulfil the criteria for classification in any of the other categories of financial assets. They are measured at fair value and gains and losses arising from remeasurement at fair value are recognised in equity.

Fair value corresponds to market price for listed securities and estimated value in use for unlisted securities, determined according to the most appropriate financial criteria in each case.

If there is any objective indication that these assets are impaired, the accumulated loss stated in equity is recognised in the income statement.

Loans and receivables

This category includes receivables from participating interests, other loans and receivables and trade accounts receivable. They are recognised initially at fair value and are subsequently measured at amortised cost by the effective interest method. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Cash flows on loans and receivables at variable rates of interest are remeasured periodically, to take into account changes in market interest rates. The remeasurement has the effect of increasing or reducing the effective interest rate and, consequently, the carrying value of the loan or receivable.

The Group assesses whether there is any objective evidence that loans or receivables are impaired. A financial asset is written down if its book value exceeds the recoverable amount estimated at the time of the impairment tests. The impairment loss is recognised in the income statement.

Assets held for trading

Assets held for trading are assets which the Company intends to resell in the near term in order to realise a profit, which form part of a portfolio of financial instruments that are managed together and for which there is a practice of short-term disposal. This category also includes assets which the Group has opted to classify in this category, irrespective of the criteria stated above ("fair value" option).

Assets held for trading, consisting mainly of mutual fund units, are carried in the balance sheet under "Short-term financial assets").

Cash and cash equivalents

Cash equivalents are held to meet short-term cash needs rather than for investment or other purposes. They consist of instruments that are readily convertible into known amounts of cash and are not exposed to any material risk of impairment. Cash and cash equivalents comprise cash available on demand and short-term investments with maturities generally of three months or less at the date of purchase. They are stated at historical cost, which is close to their realisable value.

Measurement and recognition of financial liabilities

With the exception of financial liabilities held for trading, which are measured at fair value, borrowings and other financial liabilities are initially recognised at fair value and subsequently measured at amortised cost by the effective interest method.

Transaction costs that are directly attributable to the acquisition or issue of a financial liability are deducted from the liability's carrying value. This is because financial liabilities are initially recognised at cost, corresponding to the fair value of the sums paid or received in exchange for the liability. The costs are subsequently amortised over the life of the liability, by the effective interest method.

The effective interest rate is the rate which discounts estimated future cash payments up to the maturity date or the nearest date of price adjustment to the market rate, to the net carrying amount of the financial liability. The calculation includes all fees and points paid or received between the parties to the contract.

Financial liabilities held for trading

Financial liabilities held for trading are measured at fair value.

3.13 Inventories

Inventories are stated at the lower of cost and probable net realisable value. Cost corresponds to purchase or production cost determined by the weighted average cost method.

3.14 Deferred taxes

In accordance with IAS 12 “Income Taxes”, deferred taxes are recognised for all temporary differences between the book values of assets and liabilities and their tax basis, as well as for unused tax losses, by the liability method. Deferred tax assets are recognised only when their recovery is considered probable.

IAS 12 requires, in particular, the recognition of deferred tax liabilities on all intangible assets recognised in business combinations (trade marks, customer lists, etc.).

A deferred tax liability is recognised for all taxable temporary differences between the book value of shares and their tax base associated with investments in subsidiaries, equity-method associates and interests in joint ventures, except where:

- The Group is able to control the timing of the reversal of the temporary difference (e.g.: distribution of dividends); and
- It is probable that the temporary difference will not be reversed in the foreseeable future.

In practice, this means that for fully and proportionally consolidated companies, a deferred tax liability is recognised for taxes payable on planned dividend distributions by these companies.

In accordance with IAS 12, deferred tax assets and liabilities are not discounted.

3.15 Provisions

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", a provision is recognised when, at the end of the period, the Group has an obligation towards a third party resulting from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

The obligation may be legal, regulatory or contractual or it may represent a constructive obligation deriving from the Group's practices or public commitments which have created a legitimate expectation among third parties concerned that the group will meet certain responsibilities.

The amount recognised as a provision corresponds to the best estimate of the expenditure required of the Group to settle the present obligation. If a reliable estimate cannot be made of the amount of the obligation, no provision is recorded, but details of the obligation are disclosed in the notes to the financial statements.

Contingent liabilities – corresponding to potential obligations resulting from past events, the existence of which will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Company's control, and to probable obligations that are not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation – are disclosed in the notes to the financial statements.

Provisions for restructuring costs are recognised only when the restructuring has been announced and the Group has drawn up or has started to implement a detailed plan before the period end-date.

Provisions are discounted when the discounting adjustment is material.

Statutory training rights (DIF)

Expenditure in respect of statutory training rights constitutes an expense for the period and therefore does not give rise to any provision. However, the notes to the consolidated financial statements include disclosures of the cumulative number of hours' training entitlement at the end of the accounting period and the unused portion of the vested entitlement.

In a limited number of cases (request for training leave, redundancy or resignation) or where such costs cannot be considered as remuneration of future services, the resulting short-term obligation is provided for in the financial statements for the period as soon as the obligation towards the employee becomes probable or certain.

3.16 Pension and similar benefit obligations

Post-employment benefits

Retirement benefits and similar commitments

In France, the legislation provides for benefits to be paid to employees at retirement on the basis of their length of service and salary at retirement age. The actuarial differences relating to post-employment benefits are treated in accordance with the corridor method, which consists of recognising a specified portion of the net cumulative actuarial gains and losses that exceed 10% of the greater of the present value of the commitment and the value of plan assets, over the average expected remaining working life of the employees participating in the plan.

The impact of changes in assumptions is reflected in the income statement over the residual average working life of the employees (cf. note 26).

Other retirement schemes

These benefits are provided either on the basis of defined contribution schemes or on the basis of defined benefit schemes.

In the context of defined contribution schemes, the Group has no commitment other than the payment of contributions; the charge corresponding to the contributions paid is recognised in the income statement for the period.

In accordance with IAS 19, obligations under defined benefit schemes are measured by the projected unit credit method. According to this method, each period of service gives rise to an additional unit of benefit entitlement and measures each unit separately to value the final obligation, which is then discounted.

Other long-term benefits

Other long-term benefits which may be granted by PagesJaunes Groupe consist mainly of long-service awards and paid long-term leaves of absence, for which the related obligations are also measured on an actuarial basis.

Termination benefits

Any termination benefits are also determined on an actuarial basis and covered by provisions.

For all commitments where termination of employment contracts would trigger payment of compensation, the impact of changes in assumptions is recognised in profit or loss for the period during which the revision takes place.

3.17 Share-based payments

In accordance with IFRS 2 "Share-Based Payment", stock options, employee share issues and free allocations of shares to employees of the Group are valued on the grant date.

For employee share issues, the grant date has been taken to be the date when the main terms of the plan were announced to employees, as stipulated in the circular issued by the CNC on 21 December 2004 relating to employee share ownership plans.

Since the related benefits are vested immediately (the vesting period being very short or non-existent), the related compensation expense is recognised in full in the period. The Group has valued the benefits granted to employees at fair value on the grant date of the rights, taking into account the restriction period.

The value of stock options is determined in particular by reference to the exercise price, the life of the options, the current price of the underlying shares, the expected share price volatility, expected dividends and the risk-free interest rate over the life of the options. The amount so determined is recognised in personnel expenses on a straight-line basis over the period between the grant date and the exercise date – corresponding to the vesting period – and in equity for equity-settled plans or in liabilities to employees for cash-settled plans.

The Group has opted for retrospective application of IFRS 2 to equity- and cash-settled plans. Plans issued prior to 31 December 2003 have been valued in accordance with the US standard FAS 123 using the Black-Scholes model. With effect from 1 January 2004, all new plans are valued in accordance with IFRS 2 using a binomial model.

Note 4 - Segment information

The core business of the Group 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 activities in France 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: 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 and the direct marketing activities of Wanadoo Data and e-sama).

4.1 - Analysis by business segment

The following table shows information by business segment for the periods ended 31 December 2004 and 31 December 2005:

Analysis by business segment - historical	2005				2004			
Amounts in thousands of euros	**PagesJaunes in France**	**International & Subsidiaries**	**Eliminations**	**Total PagesJaunes Group**	**PagesJaunes in France**	**International & Subsidiaries**	**Eliminations**	**Total PagesJaunes Group**
Net revenues	**956,144**	**108,874**	**(4,318)**	**1,060,700**	**903,937**	**65,064**	**(1,841)**	**967,160**
- External	954,914	105,786		1,060,700	903,900	63,260		967,160
- Inter-segment	1,230	3,088	(4,318)	0	37	1,804	(1,841)	0
Gross Operating Margin	**457,538**	**5,537**	**0**	**463,075**	**413,940**	**(6,458)**	**0**	**407,482**
Employee profit-sharing	(32,340)	(566)		(32,906)	(29,408)	(518)		(29,926)
Share-based payment	(19,125)	(1,325)		(20,450)	(23,522)	(1,752)		(25,274)
Depreciation and amortisation	(5,872)	(3,872)		(9,744)	(6,670)	(3,396)		(10,066)
Result of asset disposals	(538)	(31)		(569)	(360)	(3)		(363)
Restructuring cost		(372)		(372)				0
Results of equity method associates						774		774
Operating income	**399,663**	**(629)**	**0**	**399,034**	**353,980**	**(11,353)**	**0**	**342,627**
Financial income				16,378				20,784
Financial expenses				(4,813)				(444)
Gain (loss) on foreign exchange				18				(51)
Corporation tax				(148,873)				(149,314)
Net income				**261,744**				**213,602**
Capex	**9,824**	**2,019**		**11,843**	**6,211**	**1,466**		**7,677**

Analysis by business segment - historical

Amounts in thousands of euros	**2 005** PagesJaunes in France	**2 005** International & Subsidiaries	**2 005** Eliminations	**2 005** Total PagesJaunes Group	**2 004** PagesJaunes in France	**2 004** International & Subsidiaries	**2 004** Eliminations	**2 004** Total PagesJaunes Group
Net goodwill		107,394		107,394		77,475		77,475
Net intangible fixed assets	6,031	5,480		11,511	1,578	6,841		8,419
Net tangible fixed assets	12,985	5,010		17,995	13,808	3,008		16,816
Investments accounted for using the equity method						15,493		15,493
Non-current non-segment assets				73,047				29,928
Non-current assets				**209,947**				**148,131**
Net inventories	4,653	628		5,281	11,842	531		12,373
Net trade accounts receivable	422,221	52,884	(2,349)	472,756	396,542	35,494	(1,243)	430,793
Other current assets	28,119	11,645		39,764	25,021	19,329		44,350
Pre-paid expenses	39,934	15,709	(4)	55,639	27,148	12,696		39,844
Current non-segment assets				594,289				645,071
Current assets				**1,167,729**				**1,172,431**
Total assets				**1,377,676**				**1,320,562**
- of which segment assets	513,943	198,750	(2,353)	710,340	475,939	170,867	(1,243)	645,563
- of which non-segment assets				667,336				674,999
Shareholders' equity				**407,098**				**387,543**
Personnel benefits	24,497	949		25,446	20,959	1,103		22,062
Provisions	7,876	4		7,880	8,217	112		8,329
Other non-current liabilities	2,400	92		2,492				
Non-current segment liabilities				18				32
Non-current liabilities				**35,836**				**30,423**
Provisions		509		509		236		236
Current personnel benefits	78,158	9,732		87,890	74,077	7,944		82,021
Trade accounts payable	107,713	18,803	(2,349)	124,167	93,272	14,997	(1,243)	107,026
Other current liabilities	89,736	11,419		101,155	86,506	4,755		91,261
Deferred income	553,167	38,493	(4)	591,656	506,707	28,663		535,370
Current non-segment liabilities				29,365				86,682
Current liabilities				**934,742**				**902,596**
Total liabilities				**1,377,676**				**1,320,562**
- of which segment liabilities	863,547	80,001	(2,353)	941,195	789,738	57,810	(1,243)	846,305
- of which non-segment liabilities				436,481				474,257

4.2 - Analysis by geographic region

(Amounts in thousands of euros)	**31 décembre 2005**	**31 décembre 2004**
Contributory revenues	**1,060,700**	**967,160**
- France	1,004,239	940,774
- Others	56,461	26,386
Assets	**1,377,676**	**1,320,562**
- France	570,251	469,804
- Others	140,089	91,565
- Non segment assets	667,336	759,193
Tangible & intangible investments	**11,843**	**7,677**
- France	11,119	6,888
- Others	724	789

Note 5 - Additional information on a like-for-like basis

In order to make the data for 2004 comparable with that of the scope of consolidation in 2005, the 2004 data has been restated on the basis of the 2005 scope of consolidation.

The table below shows the transition between the consolidated financial statements as at 31 December 2004 and the consolidated information on a like-for-like basis as at 31 December 2004, taking into account:

- the entry into the consolidated group of QDQ Media and Mappy as at 1 January 2004 instead of 1 April 2004 and 1 May 2004 respectively,
- the entry into the consolidated group of Kompass Belgium on 1 January 2004 instead of 1 January 2005. The adjustments to 1 January being insignificant,
- the acquisition of Edicom on 1 July 2004 instead of 1 July 2005,
- the proportional consolidation of Editus on 1 January 2004, this company having previously been consolidated by the equity method,
- the acquisition of e-sama on 1 February 2004 instead of 1 February 2005. The adjustments to 1 January being insignificant.

HISTORICAL INCOME STATEMENT / LIKE-FOR-LIKE DATA
(Amounts in thousands of euros)

		2004 historical	Adjustments	**2004 on a like-for-like basis**
Net revenues		967,160	33,873	1,001,033
External purchases		(317,582)	(14,284)	(331,866)
Other operating income and expenses		26,896	(603)	26,293
Personnel expenses	- Salaries and charges	(268,992)	(14,718)	(283,710)
Gross Operating Margin		**407,482**	**4,268**	**411,750**
	- Employee profit-sharing	(29,926)	(224)	(30,150)
	- Share-based payment	(25,274)	0	(25,274)
Depreciation and amortisation		(10,066)	(788)	(10,854)
Impairment of goodwill		0	0	
Impairment of fixed assets		0	(11)	(11)
Result of asset disposals		(363)	(9)	(372)
Restructuring cost		0	0	0
Result of equity method associates		774	(774)	0
Operating income		**342,627**	**2,462**	**345,089**
Financial income		20,784	(1,714)	19,070
Financial expenses		(444)	(22)	(466)
Gain (loss) on foreign exchange		(51)	0	(51)
Financial result		**20,289**	**(1,736)**	**18,553**
Corporation tax		(149,314)	(1,457)	(150,771)
Net income		**213,602**	**(731)**	**212,871**

Cf. note 6 for more details.

Note 6 - Change in the scope of consolidation

- **2004**

The entry on 1 April 2004 of QDQ Media for €17 million with an equity loan of €89 million generated goodwill amounting to €69 million (100% of shares and voting rights were acquired). The cash acquired amounted to €7 million. On an indicative basis, the 2004 revenues of QDQ Media were €37 million, with a negative gross operating margin of -€13 million. The acquisition price relating to this entity is explained in particular by the fact that QDQ Media occupies the second position in the Spanish market and that the target of breakeven in gross operating margin is expected to be achieved by the end of 2006.

The entry of Mappy (formerly Wanadoo Maps) on 1 May 2004, at an acquisition price of €10 million for 100% of the shares and voting rights, generates goodwill amounting to €7 million. On an indicative basis the 2004 revenues of Mappy (before intra-group eliminations) amounts to €5.5 million, with a gross operating margin of €1.3 million.

The acquisition of 50% of Eurodirectory, for a price of €13.5 million, takes the holding of PagesJaunes Groupe in this company to 100% and generates goodwill of €12.1 million. PagesJaunes Groupe thus becomes an indirect 49% shareholder in Editus, a Luxembourg directory company. Eurodirectory, the remainder of which was acquired at the end of 2004, remains consolidated by the equity method in 2004. This decision has no significant impact on the financial statements.

All the companies were acquired for cash.

In order to separate the directories activity from the holding company assets, the Group acquired in November 2004 a company named Nedif (since renamed PagesJaunes SA), to which it has transferred the operating activity of PagesJaunes. At the same time, the PagesJaunes company changed its name to PagesJaunes Groupe. The new PagesJaunes company is fully consolidated retrospectively to 1 January 2004.

It should be noted that the adoption of IFRS standards has no impact on the scope and methods of consolidation applied under French GAAP.

- **2005**

The entry into the consolidated group of Kompass Belgium on 1 January 2005, this company having been acquired on 14 April 2004, at a price of €1.8 million, generated goodwill of €1.3 million, (for 100% of the shares and voting rights).

In February 2005, PagesJaunes Groupe acquired in cash through its subsidiary Wanadoo Data 100% of e-sama, a company specialising in database hosting and Customer Relationship Management (CRM). This company has been fully consolidated since 1 February 2005 and its acquisition generated goodwill of €11.7 million for 100% of the shares at an acquisition price of €13 million (including a €2 million earn out).

PagesJaunes Groupe also acquired the company Edicom, the leading publisher of directories in Morocco in July 2005. This company has been fully consolidated since 1 July 2005. The purchase from Atlas Services Belgium of 100% of the shares of Edicom at a price of €5.5 million generated goodwill of €4.8 million.

In view of the acquisition of the remaining 50% of the Eurodirectory sub-group at the end of 2004, Eurodirectory has been fully consolidated since 1 January 2005 and its subsidiary Editus has been proportionally consolidated.

Note 7 - Revenues

(in thousands of euros)	31 December 2005	31 December 2004
PagesJaunes in France		
Printed directories	638,194	618,928
PagesJaunes	524,275	505,167
The *Annuaire*	113,919	113,761
Online services	284,959	254,518
Internet	227,717	169,558
Minitel	57,242	84,960
Other businesses	32,991	30,491
Total for the PagesJaunes in France segment	**956,144**	**903,937**
International & Subsidiaries		
B to C directories	52,409	26,386
Kompass businesses	29,338	23,356
Direct Marketing and Geographic services	27,127	15,322
Total segment International & Subsidiaries	**108,874**	**65,064**
Inter-segments	(4,318)	(1,841)
TOTAL	**1,060,700**	**967,160**

In accordance with SIC 31, income from ordinary activities does not include exchanges of goods or services for similar advertising transactions.

Note 8 - Other operating income

(in thousands of euros)	31 December 2005	31 December 2004
Recharging of publication costs relating to the *Annuaire*	47,276	48,264
Other income	7,630	6,985
TOTAL	**54,906**	**55,249**

Note 9 - Personnel expenses

(in thousands of euros, except for number of employees)		31-December-05	31-December-04
Average number of employees (full-time equivalent)		4,677	4,233
Wages and social charges		**(297,577)**	**(268,992)**
of which:	- Wages and salaries	(195,082)	(185,114)
	- Social charges	(80,626)	(72,846)
	- Own work capitalised	-	-
	- Taxes on salaries and other items	(21,869)	(11,032)
Share-based payment		**(20,450)**	**(25,274)**
of which:	- Employee share issues	(14,732)	(15,299)
	- Stock options (1)	(5,718)	(9,975)
Employee profit-sharing		**(32,906)**	**(29,926)**
Total personnel expenses		**(350,933)**	**(324,192)**

(1) cf. note 27

Employee share issues

2004

Following the sale of PagesJaunes Groupe shares to outside investors in July 2004, the Company carried out a rights issue reserved for employees of the France Télécom Group. A total of 4.7 million shares were purchased by the employees.

In addition, following the sale by the State of 10.85% of France Télécom SA's capital on 7 September 2004, the State offered shares to current and former employees of the France Télécom Group and PagesJaunes Groupe, in accordance with the Privatisation Act of 6 August 1986. The subscription period ran from 1 to 13 December 2004. A total of 28.7 million shares were purchased by the employees, including 2.3 million shares by employees of PagesJaunes Groupe. The settlement and delivery of the shares took place on 20 January 2005.

The charge recognised for these transactions in 2004 amounts to €15.3 million (including €3.0 million for PagesJaunes' offer)

2005

Following the sale by the State of 152.2 million existing shares of France Télécom representing 6.2% of the share capital, on 9 June 2005, the State offered shares to current and former employees of the France Télécom Group and PagesJaunes Groupe, in accordance with the Privatisation Act of 6 August 1986. This offer involved 16.911 million shares of France Télécom, representing 0.68% (undiluted) of the total number of shares.

The offer was the subject of a prospectus approved by the Autorité des Marchés Financiers on 8 September 2005 under the number 04-895. The France Télécom shares were offered at the unit price of €19.79, corresponding to 80% of the sale price of the France Télécom share in the private placement with investors (i.e. €22.55 per share).

The subscription period ran from 15 to 27 September 2005. A total of 16.7 million shares were purchased, including 3.2 million by employees of the PagesJaunes Group. The settlement and delivery of the shares took place on 7 November 2005.

The amount of the charge entered in respect of this transaction was €14.7 million in 2005.

Note 10 - Financial income (expense)

This item consists primarily of income generated by cash placed with France Télécom.

In 2005, the financial expenses included in particular a financial expense of an amount of €2.9 million, paid at the time of the securitisation of the tax credit relating to the exceptional levy of 25% on the dividends paid in 2005.

Note 11 - Corporation tax

11.1 Group tax computation:

The corporation tax for the year results from the application of the effective year-end rate to the pretax income as at 31 December 2005.

The reconciliation between the effective tax expense and the theoretical tax calculated on the basis of the French statutory tax rate is as follows:

(in thousands of euros)	31 December 2005	31 December 2004
Pretax income	**410,617**	**362,916**
Statutory tax rate	34,93%	35,43%
Theoretical tax	**(143,429)**	**(128,581)**
Income from equity-method associates	0	274
Loss-making companies	(2,742)	(7,456)
Tax on special reserve for long-term capital gains	-	(964)
Distribution of special reserve for long-term capital gains	-	(4,610)
Share-based payments	(6,720)	(8,547)
Foreign subsidiaries	113	-
Regularisation of previous year tax	3,232	-
Other non-taxable revenues and expenses	673	570
Effective tax	**(148,873)**	**(149,314)**
of which current tax	*(151,258)*	*(150,893)*
of which deferred tax	*2,385*	*1,579*

11.2 Balance sheet tax position:

The net balance sheet tax position is made up as follows:

(in thousands of euros)	31 December 2005	31 December 2004
Retirement benefits	7,105	6,201
Fixed assets	2,977	3,244
Non-deductible provisions	2,827	2,783
Tax loss carry-forwards and depreciation deemed deferred	2,466	2,829
Provision for employee profit-sharing	11,361	10,320
Other differences	1,791	767
Total deferred tax assets	**28,527**	**26,144**

It should be noted that no deferred tax was recognised in the balance sheet relating to the loss carry-forwards for loss-making companies (mainly QDQ Media). The amount is estimated at €66.5 million as at 31 December 2005.

The companies' deferred tax assets and liabilities have been valued taking into account the departure in 2004, without compensation, of companies from the consolidated tax group formed by Wanadoo S.A.

PagesJaunes Groupe has opted for the French tax consolidation regime provided for by Article 223A ff. of the French General Tax Code. This option aims to create a consolidated tax group, consisting of, in addition to PagesJaunes Groupe, all its French subsidiaries which satisfy the conditions required to become a member. This option took effect from 1 January 2005 for a period of five years.

The liability in the balance sheet corresponds to current tax. The tax disbursed during the financial year amounted to €212.2 million.

Note 12 - Earnings per share

Net income amounted to €261.7 million.

The number of ordinary shares was 278,789,610 (cf. note 25 – Shareholders' equity) as at 31 December 2005.

The net earnings per share therefore amount to €0.94 and €0.93 taking into account the potentially dilutive effect of the granting to some employees of 3,796,800 PagesJaunes Groupe stock options in June 2005, 3,757,000 of which are still in circulation as at 31 December 2005, and of 100,000 shares held by PagesJaunes Groupe under the liquidity contract implemented by PagesJaunes Groupe in November 2005.

Note 13 - Goodwill related to consolidated companies

The principal goodwill items arising from the fully consolidated companies are as follows:

(in thousands of euros)	31 December 2005			31 December 2004
	Opening balance	Acquisitions/ disposals	Closing balance	Closing balance
QDQ Media	68,882	-	68,882	68,882
Mappy (ex-Wanadoo Maps)	7,395	5	7,400	7,395
Wanadoo Data	1,198	-	1,198	1,198
Eurodirectory	-	12,109	12,109	-
e-sama	-	11,747	11,747	-
Edicom	-	4,796	4,796	-
Kompass Belgium	-	1,262	1,262	-
Total	**77,475**	**29,919**	**107,394**	**77,475**

The main acquisitions in 2005 were:

The entry into the scope of consolidation of Kompass Belgium in 1 January 2005, a company acquired on 14 April 2004, at a price of €1.8 million, generated goodwill of €1.3 million (for 100% of the shares and voting rights).

The acquisition of e-sama, through the subsidiary Wanadoo Data, on 1 February 2005, at a price of €12.9 million for 100% of the shares, generated goodwill of €11.7 million.

The acquisition of Edicom from Atlas Services Belgium, at a price of €5.5 million for 100% of the shares, generated goodwill of €4.8 million.

The acquisition of the remaining 50% of the Eurodirectory sub-group at a price of €13.5 million at the end of 2004 generated goodwill of €12 million. This company is now owned 100%. By acquiring the balance of the holding in Eurodirectory, PagesJaunes Groupe has become a 49% shareholder in Editus, a Luxembourg directory company. Since 1 January 2005, Eurodirectory has been fully consolidated and its subsidiary Editus proportionally consolidated.

The value of goodwill was examined in the context of the preparation of the consolidated financial statements, in accordance with the method described in note 3.8 – Accounting policies, on the basis of business plans, a perpetual growth rate of between 2% and 3% and a discount rate after tax of between 9% and 11%.

Note 14 - Other intangible fixed assets

(in thousands of euros)	31 December 2005			31 December 2004		
	Gross value	Accumulated amortisation	Net value	Gross value	Accumulated amortisation	Net value
ERP & Applications support	37,674	(27,845)	9,829	32,865	(26,538)	6,327
Other intangible fixed assets	5,534	(3,852)	1,682	4,018	(1,926)	2,092
Total	**43,208**	**(31,697)**	**11,511**	**36,883**	**(28,464)**	**8,419**

No significant impairment was recognised as at 31 December 2004 and 2005.

The movements in the net value of other intangible fixed assets were as follows:

(in thousands of euros)	31 December 2005	31 December 2004
Opening balance	**8,419**	**3,607**
- Acquisitions	1,640	1,558
- Assets generated internally (1)	4,908	394
- Effect of changes in scope of consolidation (2)	293	6,796
- Disposals	(2)	(10)
- Amortisation charge	(3,748)	(3,926)
Closing balance	**11,511**	**8,419**

(1) Concerns all capitalised development expenses.

(2) Concerns primarily the consolidation of Mappy (formerly Wanadoo Maps) and QDQ Media.

Note 15 - Tangible fixed assets

(in thousands of euros)	31 December 2005			31 December 2004		
	Gross value	Accumulated depreciation	Net value	Gross value	Accumulated depreciation	Net value
Land and buildings	2,855	(929)	1,926	632	(232)	400
Computers and terminals	37,295	(30,325)	6,970	36,073	(28,360)	7,713
Other assets	24,199	(15,100)	9,099	23,052	(14,349)	8,703
Total	**64,349**	**(46,354)**	**17,995**	**59,757**	**(42,941)**	**16,816**

No significant impairment was recognised as at 31 December 2004 and 2005

Movements in the net value of tangible fixed assets were as follows:

(in thousands of euros)	31 December 2005	31 December 2004
Opening balance	**16,816**	**15,321**
- Acquisitions of tangible fixed assets	5,298	5,726
- Effect of changes in the scope of consolidation	2,248	2,537
- Disposals and discards	(371)	(616)
- Depreciation charge	(5,996)	(6,152)
Closing balance	**17,995**	**16,816**

Note 16 - Investments accounted for using the equity method

Following the acquisition of 100% of the shares of Eurodirectory at the end of 2004, Eurodirectory is fully consolidated and Editus Luxembourg, its subsidiary, is proportionally consolidated.

(in thousands of euros)	31 December 2005	31 December 2004
Eurodirectory		
Opening balance	15,493	2,504
- Share in earnings		774
- Dividends paid		(1,285)
- Interest acquired in 2004		1,391
- Goodwill		12,109
- Change of consolidation method (equity => full/prop.)	(15,493)	
Closing balance	**0**	**15,493**

Note 17 – Other available-for-sale assets

		31 December 2005			31 December 2004
(in thousands of euros)	% interest	Fair value	Change in fair value	Change in scope of consolidation and loss of value	Fair value
PagesJaunes Outremer	100%	76			
PagesJaunes Liban	100%	312			
Other assets		50			
TOTAL		**438**			

These entities are not consolidated, due to their insignificant nature.

Note 18 - Other non-current financial assets

(in thousands of euros)	31 December 2005	31 December 2004
Loan to France Télécom (1)	42,805	
Non-consolidated other assets		2,263
Other assets (2)	1,276	1,521
TOTAL	**44,081**	**3,784**

(1) Long-term portion of loan granted to France Télécom in a total amount of €64.2 million

(2) Other assets comprise essentially the long-term portion of security deposits and guarantees

Note 19 - Other current financial assets

(in thousands of euros)	31 December 2005	31 December 2004
Loan to France Télécom (1)	21,403	
Short-term investments >3 months and <1 year (2)	16,482	
Other assets	1,471	861
TOTAL	**39,356**	**861**

(1) Short-term portion of loan granted to France Télécom in a total amount of €64.2 million

(2) Sum provided for the market maker in respect of the liquidity contract entered into in November 2005

Note 20 - Net inventories

Inventories principally comprise paper for the production of printed directories (PagesJaunes and the *Annuaire*) and work in progress relating to the production of advertisements (printed and online products) and websites.

The application of IFRS standards does not result in any change in the method of valuing inventories. Inventories are valued at their weighted average cost in accordance with the standard IAS 2.

If necessary they are written down if, having regard to the commercial prospects, there is a risk that they may be sold for less than their balance sheet value.

No significant discards were recognised during the 2004 and 2005 financial years.

Note 21 - Trade accounts receivable

Trade receivables are generally due in less than one year. The breakdown of the gross value and provisions of trade receivables is as follows:

(in thousands of euros)	31 December 2005	31 December 2004
Gross trade accounts receivable	489,027	451,259
Provisions (1)	(16,271)	(20,466)
Net trade accounts receivable	**472,756**	**430,793**

(1) cf. note 24 – changes in provisions for impairment of assets

Note 22 - Other current assets

Other current assets are made up as follows:

(in thousands of euros)	31 December 2005	31 December 2004
VAT receivable	17,897	13,690
Sundry accounts receivable	217	300
Uncalled subscribed capital (1)	7,485	17,566
Other current assets (2)	14,165	12,794
Total	**39,764**	**44,350**

(1) The uncalled subscribed capital corresponds to the balance of the 2003 capital increase of QDQ Media, which Atlas Services Belgium (formerly Wanadoo International) has undertaken to pay up when requested by the Company's Board of Directors

(2) Concerns mainly advances and down payments to suppliers for €7.2 million.

Note 23 - Prepaid expenses

The other prepaid expenses are made up as follows:

(in thousands of euros)	31-December-2005	31-December-2004
Prepaid expenses (1)	55,639	39,844
Total	**55,639**	**39,844**

The prepaid expenses consist mainly of charges relating to the sale of advertisements billed in respect of as yet unpublished directories and online directories distributed over a display period which is generally 12 months.

Note 24 - Changes in provisions

(in thousands of euros)	Opening balance	Net allowances (releases)	Other movements (1)	Closing balance
2004				
Investment securities	1,813	-	-	1,813
Trade accounts receivable	6,568	(4,892)	18,790	20,466
Other assets	1,264	(634)	-	630
2005				
Investment securities	1,813	889	-	2,702
Trade accounts receivable	20,466	(5,316)	1,121	16,271
Other assets	630	(572)	52	110

(1) Effect of change in scope of consolidation

Note 25 - Shareholders' equity

25.1 - Share capital

As at 31 December 2005, the share capital of the company PagesJaunes Groupe, amounting to €55.8 million, was divided into 278,789,610 ordinary shares of a par value of €0.20 each. It is fully paid up.

PagesJaunes Groupe is owned 54.0% by France Télécom.

Movements in the number of shares during the period

Number of €300 par value shares at start of period **on 01/01/2004**	182,700
Division of the par value by 1500	273,867,300
Capital increase reserved for employees (1)	4,739,610
Number of €0.20 par value shares at end of period **on 31/12/2004**	278,789,610
	-
Number of €0.20 par value shares at end of period **on 31/12/2005**	278,789,610

(1) Capital increase reserved for employees in an amount of €53 million.

25.2 - Reserves

The various components of the consolidated reserves, which include the income for the period, are as follows:

In thousands of euros	31 December 2005	31 December 2004
Statutory reserves of PagesJaunes Groupe SA	43,676	44,545
- of which "legal" reserve	5,576	5,481
- of which special reserve for long-term capital gains		39,064
- of which other reserves	38,100	
Other reserves and consolidated results	(20,254)	5,303
Total reserves	**23,422**	**49,848**

25.3 – Own shares

As at 31 December 2005, 100,000 PagesJaunes Groupe shares are held by the Group under a liquidity contract implemented by PagesJaunes Groupe in November 2005.

25.4 - Dividend

Dividend distribution in 2005 amounted to €259,274,000. i.e. €0.93 per share on the basis of the number of shares in existence as at 31 December 2005 and 2004.

Note 26 - Employee benefits, provisions and other current liabilities

These are made up as follows:

(in thousands of euros)	31 December 2005	31 December 2004
Post-employment benefits	20,626	18,065
Other long-term benefits	4,824	3,997
Employee benefits – non-current	**25,450**	**22,062**
Other provisions for risks and charges	576	112
Provisions for corporate and taxation disputes	7,300	8,217
Provisions – non-current	**7,876**	**8,329**

(in thousands of euros)	31 December 2005	31 December 2004
Personnel (1)	64,795	59,453
Corporate bodies	23,095	22,568
Total employee benefits – current	**87,890**	**82,021**
VAT payable	88,870	80,572
Sundry accounts payable	7,125	6,585
Other current liabilities	5,160	4,104
Other current liabilities	**101,155**	**91,261**

(1) Mainly comprises employee profit-sharing and provisions for personnel expenses

Movements in provisions were as follows:

(in thousands of euros)	1 January 2005	Allowance for the period	Release for the period (unused provision)	Release for the period (used provision)	Changes in scope, reclassifications and other	31 December 2005
Provisions for corporate and taxation disputes	8,217	-	-	(36)	(881)	7,300
Other provisions for risks and charges	348	497	-	(586)	826	1,085
Total provisions	**8,565**	**497**	**0**	**(622)**	**(55)**	**8,385**
- of which non-current	8,329	74	-	(432)	(95)	7,876
- of which current	236	423	-	(190)	40	509

Tables of pension commitments and other personnel benefits:

(in thousands of euros)	Post-employment benefits	Other long-term benefits	**Total 31 December 2005**	**Total 31 December 2004**
Change in value of commitments				
Total value of commitments at start of period	**28,912**	**4,014**	**32,926**	**23,255**
Cost of services rendered	2,051	294	2,345	1,378
Discounting cost	1,384	189	1,573	1,239
Contributions paid by employees				
Amendments to scheme				
Reductions/liquidations	(94)		(94)	
Actuarial (gains) or losses	3,930	520	4,450	7,728
Benefits paid	(1,233)	(193)	(1,426)	(674)
Acquisitions	36		36	
Assignments/transfers of activity	(18)		(18)	
Changes in scope				
Others: (translation differentials)				
Total value of commitments at end of period: (A)	**34,968**	**4,824**	**39,792**	**32,926**
Commitments at end of period relating to fully or partly financed schemes	33,122		33,122	31,882
Commitments at end of period relating to non-financed schemes	1,846	4,824	6,670	1,044
Change in cover assets				
Fair value of cover assets at start of period	**1,920**		**1,920**	**1,566**
Financial income from cover assets	50		50	66
Gains/losses on cover assets	(100)		(100)	
Contributions paid by the employer	800		800	800
Contributions paid by the employees				
Reductions/liquidations				
Benefits paid by the fund	(1,058)		(1,058)	(512)
Change in scope				
Others (translation differentials)				
Fair value of cover assets at end of period: (B)	**1,612**		**1,612**	**1,920**
Financial cover				
Situation of the scheme (A) – (B)	33,356	4,824	38,180	30,982
Unrecognised actuarial gains or (losses)	(12,730)		(12,730)	(9,037)
Unrecognised cost of past services				
Adjustment linked to upper limit of assets				
Provision/(assets) at end of period	**20,626**	**4,824**	**25,450**	**22,062**
of which provision (asset): short-term	53	281	334	
of which provision (asset): long-term	20,573	4,543	25,116	22,062
Pension charge				
Cost of services rendered	1,958	294	2,252	583
Discounting costs	1,384	189	1,573	1,239
Expected return on scheme assets	(50)		(50)	(66)
Amortisation of actuarial (gains) or losses	329	519	848	3,292
Amortisation of cost of past services				
Effect of reductions/liquidations	(119)		(119)	
Assignments/transfers of activity	(18)		(18)	
Adjustment linked to upper limit of assets				
Total pension charge	**3,484**	**1,002**	**4,486**	**5,048**
Movements in the provision (assets)				
Provision/(assets) at start of period	**18,047**	**4,015**	**22,062**	**17,176**
Pension charge	3,484	1,002	4,486	5,048
Contributions paid by the employer	(800)		(800)	
Benefits paid directly by the employer	(141)	(193)	(334)	(162)
Change of scope				
Others (goodwill)	36		36	
Provision/(assets) at end of period	**20,626**	**4,824**	**25,450**	**22,062**
Assumptions (1)				
Discount rate (%)	4,5%	4,5%	4,5%	
Expected long-term discount rates (%)	2,0%	2,0%	2,0%	
Expected long-term salary growth (%)	3,5%	3,5%	3,5%	
Expected long-term rates of annuity revaluation (%)				
Rate of growth of medical expenses (%)				
Expected yield on scheme assets (%)	4,5%			
Expected growth of compulsory schemes (%)				
Probable residual activity period	20,1	20,1	20,1	
Amount entered as a charge in respect of the period	**3,484**	**1,002**	**4,486**	**5,048**

Note 27 - Stock options

27.1 – Description of the plans

PagesJaunes Groupe established a stock option plan on 28 June 2005. In addition, some employees hold options which had been granted to them when PagesJaunes was a subsidiary of the Wanadoo Group or when they were employees of Wanadoo and Orange S.A., subsidiaries of the France Télécom Group.

PagesJaunes Groupe:

This plan, totalling 3,796,800 options all with an exercise price of €19.30, has a life of 10 years. The options are fully vested after three years. There are no performance conditions.

Orange S.A.:

"France" stock option plans: These plans (2001, 2002 and 2003), amounting to 45,983,363 options at the level of the France Télécom Group, have a term of 10 years and, in the case of most plans, the options are fully vested after three years. Certain options also have individually specified vesting periods.

Wanadoo S.A.:

The Wanadoo stock option plans for French employees (2000, 2001, 2002 and 2003), amounting to 30,630,000 options at the level of the France Télécom Group, have a term of 10 years and are fully vested after three years (or five years in the case of the 2000 plan). In addition, for the 2000 and 2001 plans, the exercising of the options is subject to performance conditions associated with the performance of the underlying shares and the achievement of operating results. All the plans are based on settlement in shares (cash settlement was possible temporarily between 9 March 2004 and 1 September 2004).

Whichever plan is involved (PagesJaunes Groupe, Wanadoo or Orange), the shares are subject to a four-year period of non-transferability (sales restriction) in accordance with taxation regulations applicable to French beneficiaries.

27.2 – Description of the valuation models

PagesJaunes Groupe has measured the fair value of the goods or services received during the period, on the basis of the fair value of the issued instruments of shareholders' equity. PagesJaunes Groupe issued stock options in 2005. No other instrument of shareholders' equity was issued in 2005.

The fair values of the options in the PagesJaunes Groupe plan have been calculated using a binomial model which reflects the expected exercise behaviour of grantees by means of "exercise ceiling" assumptions expressed as a multiple of the exercise price and representing the value of the shares for which it is expected that all the options will be exercised. The ceiling used to calculate the above fair values is 2.0. For the assumptions used, see note 27.5. The expected volatility has been established on the basis of the historical volatility of PagesJaunes Groupe's share over the longest available period preceding the calculation date, i.e. since its initial public offering in July 2004.

No equity instrument was allocated in 2004.

27.3 - Movements in stock option plans during the period

	Number of options 2005	Weighted average exercise price 2005	Number of options 2004	Weighted average exercise price 2004
Options in circulation at start of period	**4,316,609**	**20.56 €**	**4,660,560**	**20.90 €**
Orange stock option plan	186,900	9.15 €		
Wanadoo stock option plan	4,129,709	21.07 €		
Options granted			-	-
Orange stock option plan			-	-
Wanadoo stock option plan			-	-
PagesJaunes Groupe stock option plan	3,796,800	19.30 €	-	-
Additional options				
Orange stock option plan				
Wanadoo stock option plan	12,484	22.62 €		
PagesJaunes Groupe stock option plan				
Options exercised			(309,624)	15.37 €
Orange stock option plan	(5,000)	10.00 €	-	-
Wanadoo stock option plan	(868,128)	14.93 €	(309,624)	15.37 €
PagesJaunes Groupe stock option plan				
Options cancelled, lapsed			(65,907)	19.73 €
Orange stock option plan				
Wanadoo stock option plan	(110,084)	22.79 €	(65,907)	19.73 €
PagesJaunes Groupe stock option plan	(39,800)	19.30 €		
Migration outside the PJ Group (*)			(250,781)	24.89 €
Orange stock option plan			-	-
Wanadoo stock option plan	(128,737)	20.42 €	(250,781)	24.89 €
PagesJaunes Groupe stock option plan	(9,000)	19.30 €		
Migration within the PJ Group (**)			282,361	12.76 €
Orange stock option plan	136,300	9.00 €	186,900	9.15 €
Wanadoo stock option plan			95,461	19.82 €
PagesJaunes Groupe stock option plan				
Options in circulation at end of period	**7,101,444**	**20.30 €**	**4,316,609**	**20.56 €**
Orange stock option plan	318,200	9.07 €	186,900	9.15 €
Wanadoo stock option plan	3,035,244	22.71 €	4,129,709	21.07 €
PagesJaunes Groupe stock option plan	3,748,000	19.30 €	-	-

(*) Options held by beneficiaries who transferred to another company within the France Télécom Group in 2005

(**) Options held by beneficiaries who transferred within the PagesJaunes Group in 2005 but who were in another company within the France Télécom Group when their options were granted.

27.4 - Details of options in circulation at the end of the period

	Number of options not exercised at closing date	Weighted average time to start of exercise period (months)	Weighted average exercise price	Number of options exercisable at end of period
2004				
Orange stock option plan	186,900	2	9.15 €	137,500
Wanadoo stock option plan	4,129,709	8	21.07 €	1,188,556
Total	**4,316,609**	**7**	**20.56 €**	**1,326,056**
2005				
Orange stock option plan	318,200	1	9.07 €	276,080
Wanadoo stock option plan	3,035,244	3	22.71 €	2,289,492
PagesJaunes Groupe stock option plan	3,748,000	30	19.30 €	-
Total	**7,101,444**	**17**	**20.30 €**	**2,565,572**

27.5 – Fair value of options granted during the period

Options granted during the period	Weighted average fair value
PagesJaunes Groupe stock option plan	1.68 €
Total	**1.68 €**

Main assumptions	PJ plan
Valuation model*	
Price of underlying asset on grant date	19.00 €
Exercise price	19.30 €
Expected volatility	15.00%
Life of option (contractual or expected)	10.00
Starting rate (annual)	2.00%
Expected dividend rate	5.00%
Risk-free return rate	2.75%

* Note: All the above fair values have been calculated using a binomial model which reflects the expected exercise behaviour of grantees by means of "exercise ceiling" assumptions expressed as a multiple of the exercise price and representing the

value of the shares for which it is expected that all the options will be exercised. The ceiling used to calculate the above fair values is 2.0.

27.6 - Effect of stock option plans on the income statement

(in thousands of euros)	31 December 2005	31 December 2004
Charge for the period		
Orange stock option plan	440	65
Wanadoo stock option plan	4,267	9,910
PagesJaunes Groupe stock option plan	1,011	-
TOTAL	**5,718**	**9,975**

The charge for the 2005 financial year relates to stock options.

Note 28 - Gross financial debt, cash

(in thousands of euros)	31 December 2005	31 December 2004
Short-term investments >3 months and <1 year	16,482	265
Cash and cash equivalents (1)	549,827	644,077
Total marketable securities and cash	**566,309**	**644,342**
Bank overdrafts	7,806	9,786
Other financial liabilities	5,507	4,816
Gross financial debt	**13,313**	**14,602**
of which due in less than one year	13,296	14,570
of which due in more than one year	17	32
Net cash position (debt)	**552,996**	**629,740**

(1) Comprises essentially current accounts and deposits up to three months with France Télécom.

Movements in the financial debt were as follows:

(in thousands of euros)	31 December 2005	31 December 2004
Opening balance	14,602	15,386
- Changes in scope of consolidation	368	89,705
- Net increase (decrease)	(1,657)	(90,507)
Closing balance	**13,313**	**14,602**

Note 29 - Deferred income

(in thousands of euros)	31 December 2005	31 December 2004
Deferred income	591,656	535,370
Total	**591,656**	**535,370**

Deferred income consists mainly of the billing for advertisements in as yet unpublished directories and online directories distributed over a display period that is generally 12 months.

Note 30 - Transactions with related parties

Note 30.1 - Remuneration of members of the Executive Committee and the Board of Directors

In thousands of euros	**31 December 2005**	**31 December 2004**
Short-term benefits (1)	2,851	3,226
of which employer's contributions	*778*	*955*
Post-employment benefits (2)	34	43
Other long-term benefits (3)	-	-
Termination benefits (4)	705	-
Equity Benefits (5)	830	1,717
Total	**4,420**	**4,986**

(1) Salaries, remuneration, profit-sharing and bonuses paid and social security contributions, paid leave, directors' fees and recognised non-monetary benefits

(2) Pensions, retirement and other benefits, life assurance, medical insurance, etc.

(3) Leave associated with length of service, sabbatical leave, long-term leave, end of career leave, deferred remuneration, profit-sharing and bonuses (if payable 12 months or more after the period-end)

(4) Redundancy benefits

(5) Stock options and other share-based payments

Note 30.2 - Transactions with related parties

Transactions and balances with related parties summarised below form part of day-to-day operations:

Amounts receivable from related parties

(in thousands of euros) Related party	31 December 2005	31 December 2004
France Télécom SA	15,821	15,710
Atlas Services Belgium (ex.Wanadoo International)	7,485	17,613
Other companies of the France Télécom Group	1,591	1,875
Total	**24,897**	**35,198**

In addition to these receivables, current accounts and deposits with France Télécom amounted to €637.6 millions as at 1 January 2005 and €537.6 million as at 31 December 2005.

A loan was also granted to France Télécom in a total amount of €64.2 million relating to the amount receivable in respect of the exceptional deduction from the 2005 dividend.

Amounts owed to related parties

(in thousands of euros) Related party	31 December 2005	31 December 2004
France Télécom SA	35,973	30,280
Other companies of the France Télécom Group	1,297	2,197
Total	**37,270**	**32,477**

Significant transactions with related parties

(in thousands of euros) Transactions	31 December 2005	31 December 2004
Télétel	3,915	6,028
Publishing costs	47,276	48,264
Audiotel	1,248	1,395
Access to directories	5,504	2,664
Provision of personnel	(5,948)	(7,631)
Pages Blanches fees	(61,323)	(58,622)
Real estate and rental charges	(12,022)	(10,085)
Databases	(3,957)	(7,640)
Management fees	(5,618)	(5,464)
Trademark fees	(579)	(1,066)
Telephone - hosting	(6,070)	(5,438)
Other operational services	(7,141)	(6,353)
Total	**(44,715)**	**(43,948)**

The main agreements entered into with the France Télécom Group relate to:

- The provision of directory data for the publication of directories

- Prospecting and collecting advertising for insertion in the *Annuaire* and the Minitel alphabetical search service and the technical design, implementation and formatting of this advertising.

- Carrying out on behalf of France Télécom the work necessary for the production, distribution and promotion of the *Annuaire* and Minitel alphabetical search service.

- Trademark and management fees.

- The loan granted to France Télécom in a total amount of €64.2 million.

In addition to these transactions, financial income was generated by the cash deposited with France Télécom, amounting to €15.4 million, and the PagesJaunes contribution to employee profit-sharing pooled at the level of the France Télécom group.

Note 31 – Contractual obligations and off-balance-sheet liabilities

A summary of the significant off-balance-sheet liabilities is as follows:

	2005				2004
Contractual obligations (in thousands of euros)	Total	Payments due by period			Total
		Less than one year	One to five years	More than five years	
Leases	37,448	15,556	21,760	132	44,389
Purchase obligations for goods and services	120,165	51,410	68,755	-	64,224
Total	157,613	66,966	90,515	132	108,613

	2005				2004
Contingent liabilities (in thousands of euros)	Total	Payments due by period			Total
		Less than one year	One to five years	More than five years	
Guarantees	1,013	1,009	4	-	853

Leasing contracts

PagesJaunes leases land, buildings, vehicles and materials. These contracts are due to mature at various dates over the next ten years.

The Management believes that these contracts will be renewed or replaced at their termination by other contracts under normal business conditions.

The rent expense recorded in the income statement for operating leases amounted to €15.1 million in 2005. Of this amount of €15.1 million, €10.1 million was billed by France Télécom. France Télécom’s share of future commitments amounts to €10.7 million in 2006 and €15.7 million for 2007 to 2011.

Commitments to purchase goods and services

Production of directories

As part of its business operation, PagesJaunes SA is committed to its paper suppliers on the basis of generally annual contracts with significant 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 €111.1 million, of which €48.6 million is due in less than one year. These amounts may vary depending on the actual volume each year.

QDQ Media is also committed to paper suppliers, with similar firm volume commitments, and to printers. These commitments amount to €8.7 million, of which €2.8 million is due in December 2006 and €5.8 million from 2007 to 2008.

Deconsolidating structures and *ad hoc* entities

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

There are no contractual obligations towards *ad hoc* entities.

Statutory 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 111,637 as at 31 December 2005. 309 hours have been the subject of employee requests.

Note 32 - Disputes and litigation

In the ordinary course of business, the companies of the Group may be involved in a number of legal, arbitration and administrative proceedings. Costs that may arise from these proceedings are provisioned only when they are probable and their amounts can be either quantified or estimated within a reasonable range. The amount of the provisions is based on an assessment of the risk on a case-by-case basis and largely depends on factors other than the particular stage of proceedings, although events occurring during the course of proceedings may call for a reassessment of this risk.

With the exception of the proceedings described below, neither PagesJaunes Groupe nor any of its subsidiaries is party to any lawsuit or arbitration proceeding that the management of PagesJaunes believes could reasonably have a material adverse effect on its results, its business or its consolidated financial position.

(i) Prodis, a company which operates an Internet site at the address www.pagesjaunes.com and owns the domain names pagesjaunes.com and pagesjaunes.net, commenced legal proceedings against France Télécom and against PagesJaunes on 26 September 2000 and on 20 April 2001 respectively, primarily for nullification of the PagesJaunes trademark. In this context, Prodis sought to assert that the filing of the name Pages Jaunes as a trademark would be fraudulent as it is a mere translation of the term "Yellow Pages", which has been used in the United States since 1886 for the business directory concept, and constitutes a generic term used without distinctiveness in various countries. In a judgment rendered on 14 May 2003, the Tribunal de Grande Instance of Paris confirmed the validity of the "Pages Jaunes" trademark. Prodis filed an appeal citing the same claims and adding new claims concerning the "Pages Blanches", "The *Annuaire*" and "The *Annuaire* des Pages Blanches" trademarks. In a ruling issued on 30 March 2005, the *Cour d'Appel* of Paris considered in particular that "these trademarks have acquired a strong distinctive character as a result of the long-standing and intensive use made of them" and that PagesJaunes and France Télécom had demonstrated "by means of the many notices produced during the proceedings that they have reacted to any unlawful use of their trademarks, regularly defending the associated rights", and that "the contradictory nature of the arguments advanced by Prodis (…) were sufficient to establish its bad faith in the instigation and conduct of the present proceedings". The *Cour d'Appel* of Paris consequently upheld the judgment issued on 14 May 2003 by the Tribunal de Grande Instance de Paris, dismissing all of the claims cited by Prodis and declaring the new claims inadmissible and ordered the company to pay damages of EUR 20,000 each to PagesJaunes and France Télécom for abuse of process and EUR 10,000 on the basis of article 700 of the New Code of Civil Procedure. Since Prodis has not appealed in cassation, the judgment of the *Cour d'Appel* of Paris has become final.

(ii) At the beginning of 2002, PagesJaunes implemented a commercial development plan, including, notably, the modification of the employment contracts of 930 sales representatives. This modification aims to adapt these contracts to a new competitive environment. Approximately 100 employees refused to sign the proposed new contract and were laid off during the second quarter of 2002. Almost all these employees commenced legal proceedings against PagesJaunes to contest the validity of the reason for the redundancies. The *Cour de Cassation*, in two judgments handed down on 11 January 2006, approved the commercial development plan. The *Cour de Cassation* ruled that economic redundancy following a reorganisation implemented to prevent future economic difficulties associated with technological developments was justified. However, cases including claims based on grounds not settled by the above judgments and cases before the administrative jurisdictions are still pending.

(iii) During the years 2001 and 2002, PagesJaunes was subject to a tax audit for fiscal years 1998 and 1999. The only adjustments still disputed represent a risk of approximately €6.6 million (including interest). The Company believes that it has strong arguments for opposing the still disputed adjustments and has therefore not entered provisions in respect of these adjustments as at 31 December 2003. In order to present its arguments, the company instituted a dispute procedure by filing a prior complaint with the tax authorities in July 2004.

(iv) On 26 June 2002, FAC, an advertising agency, commenced proceedings against PagesJaunes before the Tribunal de commerce of Nanterre. This advertising agency considers that PagesJaunes has committed acts of unfair competition, such as interference with customer relationships, disparagement and abusive sales methods. It is claiming €1 million in damages. This case was heard on 14 September 2004. Judgement was pronounced on 21 December 2004. Our opponents did not win the case. The advertising agency FAC has appealed this judgement. Although PagesJaunes Groupe believes it has elements in its favour, it cannot, in the current circumstances, rule out the possibility that it may lose the case on appeal.

(v) PagesJaunes commenced legal action on 10 June 2003 against LSM, an advertising agency, before the Tribunal de Commerce of Cannes. Based on the testimony of many customers, PagesJaunes claims that this agency undertook acts of unfair competition with the aim of creating confusion between LSM and PagesJaunes in the mind of customers contacted by LSM for advertisement insertions in the PagesJaunes directory. In a judgment rendered on 19 February 2004, the Tribunal de Commerce of Cannes dismissed PagesJaunes' claims. PagesJaunes has appealed this decision, which, if confirmed on appeal, would likely foster the development of this type of competition from other advertising agencies and create difficulties for PagesJaunes in its customer prospection. Even though it believes it has a strong case in these proceedings, PagesJaunes cannot exclude a confirmation of this decision on appeal.

(vi) The Company was informed on 4 October 2004 of a reference to the Conseil de la Concurrence (French Competition Authority) apparently made on May 11, 1998 by the Ministry of the Economy alleging certain practices by the former Office d'Annonces (which subsequently became PagesJaunes) in the market for advertisement insertions in telephone directories in Metropolitan France and Réunion. The Conseil de la Concurrence directed a non-suit on 20 December 2005.

(vii) The Company was informed on 24 January 2006 of a reference to the Conseil de la Concurrence filed on 10 January 2006 by the company Le Numéro relating to alleged practices of France Télécom and PagesJaunes in the area of directory enquiry services. Although it believes that there are factors in its favour, the Company cannot, in the current circumstances, rule out the possibility that it may lose the case.

In addition, in common with the other companies in the sector, the Group is frequently the subject of court proceedings brought in relation to errors in the publication of directories and other media. Generally the financial risk represented by each of these proceedings is relatively limited. However, an increase in their number may constitute a significant risk for the Group. The number of such proceedings declined constantly from 2001 and remained stable in 2005. As at 31 January 2006, the number of proceedings was 28, for a total amount of damages of €1.8 million. In the context of these proceedings, the Group is endeavouring to negotiate out-of-court compensation, which would enable it significantly to reduce the final total cost of these proceedings. However, no guarantee can be given that these proceedings will not have a negative impact on the financial situation of the Group.

To the Company's knowledge, there is no other dispute, arbitration or exceptional fact liable to have, or having had in the recent past, a significant impact on the financial position, earnings, activity and assets of the Company and of the Group.

Note 33 - Subsequent events

At the beginning of 2002, PagesJaunes implemented a commercial development plan, including, notably, the modification of the employment contracts of 930 sales representatives. This modification aims to adapt these contracts to a new competitive environment. Approximately 100 employees refused to sign the proposed new contract and were laid off during the second quarter of 2002. Almost all these employees commenced legal proceedings against PagesJaunes to contest the validity of the reason for the redundancies. The *Cour de Cassation*, in two judgments handed down on 11 January 2006, approved the commercial development plan. The *Cour de Cassation* ruled that economic redundancy following a reorganisation implemented to prevent future economic difficulties associated with technological developments was justified. However, cases including claims based on grounds not settled by the above judgments and cases before the administrative jurisdictions are still pending.

France Télécom was appointed by decree on 3 March 2005 as the publisher of the universal directory for period of two years. France Télécom must remain the publisher. Consequently, the transfer of the *Annuaire* trademark to PagesJaunes SA, a subsidiary of PagesJaunes Groupe, as provided for in the agreements of May/June 2004, cannot be implemented. The solution adopted involves establishing an operational concession contract for the universal printed directory in favour of PagesJaunes accompanied by a contract for the transfer of the *Annuaire* trademark for a total amount of €12 million. These contracts were signed on 20 January and take effect on 1 January 2006. In view of the above arrangement, the contracts for the production and advertising representation for the directories published by France Télécom (the *Annuaire* and the alphabetical 36 11 service) have been revised in order to adjust their scope to cover only the alphabetical 36 11 service.

The Company was informed on 24 January 2006 of a reference to the *Conseil de la Concurrence* filed on 10 January 2006 by the company *Le Numéro* relating to alleged practices of France Télécom and PagesJaunes in the area of directory enquiry services.

Note 34 - Scope of consolidation

SCOPE AS AT 31/12/2005

FULLY CONSOLIDATED COMPANIES

	2005		
Company	Country	Interest	Control
PagesJaunes Groupe (ex-PagesJaunes)	France	100%	100%
PagesJaunes SA	France	100%	100%
Kompass France	France	100%	100%
Wanadoo Data	France	100%	100%
Mappy (ex Wanadoo Maps)	France	100%	100%
QDQ Media	Spain	100%	100%
E-SAMA	France	100%	100%
Kompass Belgium	Belgium	100%	100%
Eurodirectory	Luxembourg	100%	100%
Edicom (ex Telecontact Morocco)	Morocco	100%	100%

PROPORTIONALLY CONSOLIDATED COMPANIES

Company	Country	Interest	Control
Editus Luxembourg	Luxembourg	49%	49%

SCOPE AS AT 31/12/2004

FULLY CONSOLIDATED COMPANIES

	2004		
Company	Country	Interest	Control
PagesJaunes Groupe (ex-PagesJaunes)	France	100%	100%
PagesJaunes SA	France	100%	100%
Kompass France	France	100%	100%
Wanadoo Data	France	100%	100%
Mappy (ex Wanadoo Maps)	France	100%	100%
QDQ Media	Spain	100%	100%

COMPANIES CONSOLIDATED BY THE EQUITY METHOD

Company	Country	Interest	Control
Eurodirectory	Luxembourg	50%	50%

Note 35 - Transition to IFRS in 2004

Effects of the first-time adoption of IFRS

This note describes the principles applied in preparing the opening IFRS balance sheet at 1 January 2004 and the differences as compared to the French accounting standards previously applied, as well as the effects of these differences on the preliminary balance sheets as at 1 January 2004 and 31 December 2004 and on the preliminary results for the 2004 financial year.

35.1 Basis of preparation of the transition note

The 2004 financial information on the transition to IFRS has been prepared in accordance with the provisions of IFRS 1 "First-time adoption of IFRS" and the IFRS/IAS standards applicable as at 31 December 2005, as published by the IASB as at 31 December 2005 and as adopted by the European Commission at that same date.

However, certain standards and interpretations have been applied in advance of the proposed adoption date. These are described in note 3 "Accounting policies and changes of estimate", in paragraph 3.1.1.

Certain accounting positions are not covered by particular provisions of international accounting standards and their interpretations. This concerns in particular the accounting treatment associated with:

- employee share issues;
- statutory training rights.

These treatments are described in note 3- "Accounting policies and changes of estimate", in paragraph 3.1.2.

The accounting standards provide for options with regard to the valuation and recognition of assets and liabilities, both in the context of the standard IFRS 1 relating to the first-time adoption of the international accounting standards and in the standards themselves. These options are described in note 3 - "Accounting policies and changes of estimate", in paragraph 3.1.3.

35.2 Effects on shareholders' equity and net income in 2004

Transition from French GAAP => IFRS

	Shareholders' equity at start of period	Shareholders' equity at end of period	of which net income 2004
French GAAP	**332,358**	**383,375**	**233,418**
Revenue recognition	(140)		140
Amortisation of goodwill		4,168	4,168
Share-based payment			(24,124)
IFRS	**332,218**	**387,543**	**213,602**

35.3 Effects on the 2004 result

(Amounts in thousands of euros, except for data relating to shares)

	French GAAP as published 2004	IFRS 2004	Differences	IAS18 / SIC31 2.6.1	IFRS3 2.6.2	IFRS2 2.6.3	IAS1 *(Reclassifications)* 2.6.5	Other
	Transition of income statement from French GAAP => IFRS			**Detail of the difference by standard**				
Net revenues	973,122	967,160	(5,962)	(5,962)				0
External purchases	(323,544)	(317,582)	5,962	5,962				0
Other operating income			0					
Other operating expenses	32,055	26,896	(5,159)				(5,313)	154
Personnel expenses: - Salaries and charges	(265,649)	(268,992)	(3,343)				(3,343)	0
Gross operating margin	**415,984**	**407,482**	**(8,502)**	**0**			**(8,656)**	**154**
- Employee profit-sharing		(29,926)	(29,926)				(29,926)	0
- Share-based payment		(25,274)	(25,274)			(24,124)	(1,150)	0
Depreciation and amortisation	(10,066)	(10,066)	0					
Impairment of goodwill		0	0					
Impairment of fixed assets		0	0					
Result of asset disposals		(363)	(363)				(363)	0
Restructuring costs		0	0					
Results of equity method associates		774	774				774	0
Operating income	**405,918**	**342,627**	**(63,291)**			**(24,124)**	**(39,321)**	**154**
Financial income	20,434	20,784	350				350	0
Financial expenses	(444)	(444)	0					
Gain (loss) on foreign exchange	(53)	(51)	2				2	0
Financial result	**19,937**	**20,289**	**352**				**352**	**0**
Results of equity method associates	774		(774)				(774)	0
Other non-operating income (expenses), net	(9,817)		9,817				9,817	0
Employee profit-sharing	(29,926)		29,926				29,926	0
Amortisation of goodwill	(4,168)		4,168		4,168			0
Corporation tax	(149,300)	(149,314)	(14)					(14)
Net income	**233,418**	**213,602**	**(19,816)**		**4,168**	**(24,124)**	**0**	**140**
Earnings per share (in euros)								
Net attributable income								
- basic	0,84	0,77	-0,07					
- diluted	0,83	0,76	-0,07					

35.4 Effects on the balance sheet as at 1 January 2004

Transition of opening balance sheet as at 1 January 2004 - Assets

Balance sheet under French GAAP		Reclassifications	IFRS adjustments	IFRS	Balance sheet under IFRS
Net goodwill	**1,198**			**1,198**	Net goodwill
Net intangible fixed assets	**558**	3,049		**3,607**	Other net intangible fixed assets
Tangible fixed assets	**18,370**	(3,049)		**15,321**	Net tangible fixed assets
Investments accounted for using the equity method	**2,504**			**2,504**	Investments accounted for using the equity method
Net investment securities	**388**	(388)		**0**	Assets available for sale
Other net long-term assets	**1,352**	388		**1,740**	Other non-current financial assets
Net long-term deferred taxes	**6,508**	18,034		**24,542**	Net deferred tax assets
Total fixed assets	**30,878**	**18,034**	**0**	**48,912**	**Total non-current assets**
Net inventories	**7,112**		(276)	**6,836**	Net inventories
Trade accounts receivable net of provision	**371,791**			**371,791**	Net trade accounts receivable
Net short-term deferred taxes	**18,034**	(18,034)		**0**	
Other receivables and prepaid expenses	**102,745**	(102,745)			
		20,695		**20,695**	Other current assets
		26,979		**26,979**	Current taxes
		54,214	132	**54,346**	Prepaid expenses
Investment securities	**11,600**	857		**12,457**	Other current financial assets
Cash	**581,935**	0		**581,935**	Cash
Total current assets	**1,093,217**	**(18,034)**	**(144)**	**1,075,039**	**Total current assets**
Total assets	**1,124,095**	**(0)**	**(144)**	**1,123,951**	**Total assets**

Transition of opening balance sheet as at 1 January 2004 – Liabilities

Balance sheet under French GAAP		**Reclassifications**	**IFRS adjustments**	**IFRS**	**Balance sheet under IFRS**
Share capital	**54,810**			**54,810**	Share capital
Premiums associated with share capital	**42,249**			**42,249**	Issue premium
Reserves	**235,299**	4	**(144)**	**235,159**	Reserves
Translation reserves	**0**			**0**	Translation reserves
Shareholders' equity	**332,358**	**4**	**(144)**	**332,218**	**Shareholders' equity**
Debentures	**0**			**0**	Debentures or exchangeable loan stock
Other long- and medium-term financial debts	**0**			**0**	Long-term financial debts and derivatives
Other long-term debts	**24,805**	(24,805)			
		17,176		**17,176**	Employee benefits - non-current
		7,690		**7,690**	Provisions - non-current
				0	Other liabilities - non-current
				0	Deferred tax liabilities
Total long-term liabilities	**24,805**	**61**		**24,866**	**Total non-current liabilities**
Portion of long- and medium-term debt maturing in less than one year	**3,822**	(10)		**3,812**	Portion of long- and medium-term debt maturing in less than one year
Bank overdrafts and other short-term borrowings	**11,559**			**11,559**	Bank overdrafts and other short-term borrowings
		15		**15**	Accrued interest not yet due
		4,145		**4,145**	Provisions - current
Trade accounts payable	**107,312**	(61)		**107,251**	Trade accounts payable
		78,673		**78,673**	Employee benefits - current
Accrued expenses and other short-term provisions	**177,247**	(177,247)			
		80,112		**80,112**	Other current liabilities
		15,966		**15,966**	Corporation tax liabilities
Other liabilities	**1,654**	(1,654)			
Deferred income	**465,338**	(4)		**465,334**	Deferred income
Total short-term liabilities	**766,932**	**(65)**		**766,867**	**Total current liabilities**
Total liabilities	**1,124,095**	**0**	**(144)**	**1,123,951**	**Total liabilities**

35.5 Effects on the balance sheet as at 31 December 2004

Transition of closing balance sheet as at 31 December 2004 – Assets

Balance sheet under French GAAP		Reclassifications	IFRS adjustments	IFRS	Balance sheet under IFRS
Net goodwill	**73,307**		4,168	**77,475**	Net goodwill
Net intangible fixed assets	**2,092**	6,327		**8,419**	Other net intangible fixed assets
Tangible fixed assets	**23,143**	(6,327)		**16,816**	Net tangible fixed assets
Investments accounted for using the equity method	**15,493**			**15,493**	Investments accounted for using the equity method
Net investment securities	**2,263**	(2,263)		**0**	Assets available for sale
Other net long-term assets	**1,521**	2,263		**3,784**	Other non-current financial assets
Net long-term deferred taxes	**9,016**	17,128		**26,144**	Net deferred tax assets
Total fixed assets	**126,835**	**17,128**	**4,168**	**148,131**	**Total non-current assets**
Net inventories	**12,373**			**12,373**	Net inventories
Trade accounts receivable net of provision	**430,793**			**430,793**	Net trade accounts receivable
Net short-term deferred taxes	**17,128**	(17,128)		**0**	
Other receivables and prepaid expenses	**84,924**	(84,924)			
		44,350		**44,350**	Other receivables
		133		**133**	Current taxes
		39,844		**39,844**	Prepaid expenses
Investment securities	**264**	597		**861**	Other current financial assets
Cash	**644,077**			**644,077**	Cash
Total current assets	**1,189,559**	**(17,128)**	**0**	**1 172 431**	**Total current assets**
Total assets	**1,316,394**	**0**	**4,168**	**1 320 562**	**Total assets**

Transition of closing balance sheet as at 31 December 2004 – Liabilities

Balance sheet under French GAAP		**Reclassifications**	**IFRS adjustments**	**IFRS**	**Balance sheet under IFRS**
Share capital	**55,758**			**55,758**	Share capital
Premiums associated with share capital	**52,610**		**15,725**	**68,335**	Issue premium
Reserves	**41,589**		**8,259**	**49,848**	Reserves
Net attributable income	**233,418**		**(19,816)**	**213,602**	Net attributable income
Translation reserves	**0**			**0**	Translation reserves
Shareholders' equity	**383,375**	**0**	**4,168**	**387,543**	**Shareholders' equity**
Debentures	**0**			**0**	Debentures or exchangeable loan stock
Other long- and medium-term financial debts	**32**			**32**	Long-term financial debts and derivatives
Other long-term liabilities	**30,391**	(30,391)			
		22,062		**22,062**	Employee benefits - non-current
		8,329		**8,329**	Provisions - non-current
				0	Other liabilities - non-current
		0		**0**	Deferred tax liabilities
Total long-term liabilities	**30,423**	**0**	**0**	**30,423**	**Total non-current liabilities**
Portion of long- and medium-term debt maturing in less than one year	**3,822**			**3,822**	Portion of long- and medium-term debt maturing in less than one year
Bank overdrafts and other short-term borrowings	**10,730**			**10,730**	Bank overdrafts and other short-term borrowings
		18		**18**	Accrued interest not yet due
		236		**236**	Provisions - current
Trade accounts payable	**107,026**			**107,026**	Trade accounts payable
		82,021		**82,021**	Employee benefits - current
Accrued expenses and other short-term provisions	**241,543**	(241,543)			
		0		**0**	Sundry payables
		91,261		**91,261**	Other current liabilities
		72,112		**72,112**	Corporate income tax liabilities
Other liabilities	**4,104**	(4,104)			
Deferred income	**535,371**	(1)		**535,370**	Deferred income
Total short-term liabilities	**902,596**	**0**		**902,596**	**Total current liabilities**
Total liabilities	**1,316,394**	**0**	**4,168**	**1,320,562**	**Total liabilities**

35.6 Description of the main IFRS adjustments

35.6-1 Revenues

The 2004 IFRS consolidated income statement shows a decrease of €6 million in revenues compared to the published revenues under French GAAP because of changes in the presentation of certain expenses as deductions from revenues:

- Negative impact of €2 million in respect of reclassification of advertising exchanges as a deduction from revenues,
- Negative impact of €4 million in respect of reclassification of the Europages advertising representation fee as a deduction from revenues.

These items were stated as expenses under French GAAP. The gross operating margin and the consolidated net income are therefore unaffected.

35.6-2 Amortisation and impairment of goodwill

In accordance with the option provided for by the standard IFRS 1, the Group has chosen not to restate business combinations occurring prior to 1 January 2004. In accordance with IFRS 3 "Business combinations", goodwill is no longer amortised from 1 January 2004. This generates a positive impact of €4 million on the income statement (€6 million on a pro forma basis because of the acquisition of QDQ Media).

35.6-3 Stock options and employee share issues

Stock options

Under French accounting standards, no compensation expense is recognised when stock options are granted.

The application of IFRS 2 "Share-based payment" leads to the recognition of an expense for stock options granted by France Télécom to its employees, including the employees of PagesJaunes Groupe. In the 2004 IFRS income statement, the expense related to stock options amounts to €10 million, offset by an entry in shareholders' equity, since the plans are settled in shares.

Employee share issues

Following the sale of PagesJaunes Groupe shares to outside investors in July 2004, the Company carried out a rights issue reserved for employees of the France Télécom Group. A total of 4.7 million shares were purchased by the employees.

Following the sale by the State of 10.85% of France Télécom SA's capital on 7 September 2004, the State offered shares to current and former employees of the France Télécom Group and PagesJaunes Groupe, in accordance with the Privatisation Act of 6 August 1986. The subscription period ran from 1 to 13 December 2004. A total of 28.7 million shares were purchased by the employees, including 2.3 million shares by employees of PagesJaunes Groupe. The settlement and delivery of the shares took place on 20 January 2005.

Under IFRS, the value of the benefit granted to existing and former shareholders in respect of these two transactions has been determined based on the fair value of the rights at the grant date, taking into account the restriction period. In the 2004 IFRS income statement, the effect is an additional charge of €11 million in respect of the France Télécom offer and €3 million in respect of the PagesJaunes offer.

The total impact relating to stock options and employee share issues is therefore €24 million. The total amount charged to the income statement ("share-based payments" account) is €25 million, since a charge of €1 million had already been stated under French GAAP.

35.6-4 Main reclassifications in the balance sheet

Various balance sheet items have been reclassified to comply with IFRS presentation rules. The main reclassifications as at 1 January 2004 – in addition to those described above – are as follows:

- The net balance of the "Software" item, which was classified under tangible fixed assets in the French GAAP balance sheet, has been reclassified under intangible fixed assets in an amount of €3 million (€6 million at the close).
- The balance of the item "Other receivables and prepaid expenses" has mainly been analysed between four headings, namely:
    - "Other current assets" in an amount of €21 million (€44 million at the close),
    - "Current tax assets" in an amount of €27 million (0 at the close),
    - "Prepaid expenses" in an amount of €54 million (€40 million at the close),
    - "Other current financial assets" in an amount of €1 million (€1 million at the close).
- The balance of the item "Other long-term debt" has mainly been analysed between two headings, namely:
    - "Non-current employee benefits" in an amount of €17 million (€22 million at the close),
    - "Non-current provisions" in an amount of €8 million (€8 million at the close),
- The balance of the item "Accrued expenses and other short-term provisions" has mainly been analysed between four headings, namely:
    - "Current provisions" in an amount of €4 million (0 at the close),
    - "Current employee benefits" in an amount of €79 million (€82 million at the close),
    - "Other current liabilities" in an amount of €80 million (€91 million at the close),
    - "Corporation tax payable" in an amount of €16 million (€72 million at the close).

- The balance of "Other liabilities" in the French GAAP balance sheet has been reclassified mainly in "Other current liabilities".
- Deferred income tax assets and liabilities are presented on a specific line under IFRS and are classified as non-current. Therefore, the "Net short-term deferred tax" headings in the assets and liabilities of the French GAAP balance sheet have been reclassified in "Deferred tax assets and liabilities".

35.6-5 Main reclassifications in the income statement

In addition to the IFRS adjustments detailed above (revenue recognition, amortisation and impairment of goodwill, share-based payment), certain presentation changes have been made to the income statement to comply with IFRS rules. The main reclassifications as at 31 December 2004 concern operating income, as follows:

- Employee profit sharing is reported under "Personnel expenses",

- The breakdown of the negative balance of €10 million of "Other non-operating income and expenses" under French GAAP is reported mainly under:

- "Other operating income and expenses" in an amount of €(5 million), including in particular the expenses for the Company's initial public offering,
- "Salaries and charges" in an amount of €(4 million),
- Share-based payment in an amount of €(1 million).

35.7 Effects on the cash flow statement as at 31 December 2004

	Period ending 31 December 2004		
(Amounts in thousands of euros)	French GAAP	IFRS	Adjustments / reclassifications
Consolidated net attributable income	233,418	213,602	(19,816)
Depreciation and amortisation of fixed assets	14,233	10,065	(4,168)
Capital gains or losses on asset disposals	411	411	0
Change in provisions	(4,081)	(4,081)	0
Undistributed earnings of companies accounted for using the equity method	512	512	0
Tax charge for the period	(1,579)	149,314	150,893
Interest income and expenses		(20,391)	(20,391)
Minority interests	0	0	0
Unrealised exchange difference	0	51	51
Other non-monetary items	0	0	0
Share-based payment		24,124	24,124
Decrease (increase) in inventories	(4,810)	(5,086)	(276)
Decrease (increase) in trade accounts receivable	(36,325)	(36,325)	0
Decrease (increase) in other receivables	18,006	18,138	132
Increase (decrease) in trade accounts payable	(10,810)	(10,810)	0
Increase (decrease) in other payables	153,259	70,229	(83,030)
Dividends and interest received		20,784	20,784
Interest paid and rate effect of net derivatives		(444)	(444)
Taxes paid		(67,859)	(67,859)
Net cash from operations	**362,234**	**362,234**	**0**
Acquisition of tangible and intangible fixed assets, net of changes in suppliers of fixed assets	(8,376)	(8,376)	0
Proceeds from sale of tangible and intangible assets	215	215	0
Acquisitions of investment securities and subsidiaries, net of cash acquired	(21,981)	(21,981)	0
Investments in equity method associates	(13,500)	(13,500)	0
Income from sales of investment securities and subsidiaries, net of cash transferred	0	0	0
Decreases (increases) in marketable securities and other long-term assets	11,509	11,509	0
Net cash used in investing activities	**(32,133)**	**(32,133)**	**0**
Increase (decrease) in long-term borrowings	(89,326)	(89,326)	0
Increase (decrease) in bank overdrafts and short-term borrowings	(1,167)	(1,167)	0
Capital increase	58,492	58,492	0
Dividends paid	(235,958)	(235,958)	0
Net cash provided by (used in) financing activities	**(267,959)**	**(267,959)**	**0**
Net increase (decrease) in cash and cash equivalents	62,142	62,142	0
Effect of changes in exchange rates on cash	0	0	0
Cash and cash equivalents at beginning of period	581,935	581,935	0
Cash and cash equivalents at end of period	**644,077**	**644,077**	**0**

The application of IFRS standards has no impact on the change in or balance of cash and cash equivalents.