



Report on Operations

Consolidated Financial Statements as at 31 December 2005 and 2004 (under IFRS)

Board of Directors of 7 February 2006

PagesJaunes Groupe,
A limited liability company (Société Anonyme) having a Board of Directors
(Conseil d'Administration) and a share capital of €55,757,922
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1 Overview

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

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

- **PagesJaunes in France:** the 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 telephone directory enquiry service 118008 and 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 relational marketing activities of Wanadoo Data and e-sama).

In February 2005, through its subsidiary Wanadoo Data, PagesJaunes Groupe acquired 100% of e-sama, a company specialising in the hosting of databases and customer relationship management (CRM) services. This company has been fully consolidated since 1 February 2005.

In July 2005, PagesJaunes also acquired Edicom, the leading publisher of directories in Morocco. This company has been fully consolidated since 1 July 2005.

In order to ensure comparability between the data for 2004 and 2005, the 2004 data has been restated on the basis of the scope of consolidation in 2005.

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

- The entries of QDQ Media and Mappy on 1 January 2004 instead of 1 April 2004 and 1 May 2004 respectively;
- The entry of Kompass Belgium on 1 January 2004 instead of 1 January 2005;
- The acquisition of Edicom on 1 July 2004 instead of 1 July 2005;
- The proportional consolidation of Editus as at 1 January 2004. This company had previously been consolidated by the equity method;
- The acquisition of e-sama on 1 February 2004 instead of 1 February 2005.

The resulting structure effects are as follows:

PagesJaunes Group <i>In millions of euros</i>	Periods ending 31 December		
	Consolidated accounts 2004	Structure effects 2004 & 2005	Like-for- like accounts 2004
Revenues	967.2	33.8	1,001.0
Gross operating margin	407.5	4.2	411.7
Operating income	342.6	2.5	345.1
Consolidated net income	213.6	(0.7)	212.9

These structure effects impact the "International & Subsidiaries" segment.

2 **Commentary on the results for the periods ending 31 December 2004 and 31 December 2005**

Groupe PagesJaunes	Periods ending 31 December		
	2005	2004 on like-for-like basis	Change 2005/2004
<i>In millions of euros</i>			
Revenues	1,060.7	1,001.0	6.0%
External purchases	(330.4)	(331.9)	-0.5%
Other operating income	54.9	60.4	-9.1%
Other operating expenses	(24.6)	(34.1)	-27.9%
Salaries and charges	(297.6)	(283.7)	4.9%
Gross operating margin	463.1	411.7	12.5%
<i>as % of revenues</i>	<i>43.7%</i>	<i>41.1%</i>	
Employee profit-sharing	(32.9)	(30.2)	9.1%
Share-based payment	(20.5)	(25.3)	-19.1%
Depreciation, amortisation and impairment	(9.7)	(10.9)	-10.5%
Capital gains (losses) on disposals	(0.6)	(0.4)	52.8%
Restructuring costs	(0.4)	0.0	na
Operating income	399.0	345.1	15.6%
<i>as % of revenues</i>	<i>37.6%</i>	<i>34.5%</i>	
Financial income	16.4	19.1	-14.1%
Financial expenses	(4.8)	(0.5)	na
Corporation tax	(148.9)	(150.8)	-1.3%
Net income	261.7	212.9	23.0%
of which attributable to the shareholders of PagesJaunes Groupe	261.7	212.9	

The revenues of the consolidated group grew 6.0% in 2005 compared to 2004 on a like-for-like basis and amounted to €1060.7 million as at 31 December 2005. This growth is due to a fuller range of products in both printed directories and online services, increased average revenue per advertiser and the acquisition of new advertisers in France and Spain, as well as to an increase in rates.

The gross operating margin rose 12.5% in 2005 compared to 2004 on a like-for-like basis and amounted to €463.1 million as at 31 December 2005. Excluding IPO costs in 2004 (€8.1 million) and on a like-for-like basis, the growth in the gross operating margin was 10.3% in 2005. Gross operating margin as a proportion of revenues rose from 41.1% (41.9% excluding IPO costs) in 2004 to 43.7% in 2005, reflecting a significant improvement in the profitability of the consolidated Group. This is due to an increase in revenues and good control of

overall expenses, particularly the continued optimisation of publishing costs for printed directories and a reduction of losses at QDQ Media.

External purchases (as defined in section 2.1.2 "External purchases in the PagesJaunes in France segment") declined by 0.5% in 2005 compared to 2004 on a like-for-like basis. Salaries and charges, which include in particular personnel expenses relating to the sales force, increased by only 4.9% between the two periods, while revenues grew by 6.0%.

Consolidated net income amounted to €261.7 million in 2005 compared to €212.9 million in 2004 on a like-for-like basis, a rise of 23.0%. Excluding the costs of the IPO in 2004, the growth in net income was 20.0%.

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

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

The following table presents the revenues and operating income of the PagesJaunes in France segment for the periods ending 31 December 2004 and 31 December 2005:

PagesJaunes in France	Periods ending 31 December		
	2005	2004	Change 2005/2004
<i>In millions of euros</i>			
Revenues	956.1	903.9	5.8%
External purchases	(287.2)	(288.4)	-0.4%
Other operating income	52.7	58.3	-9.5%
Other operating expenses	(21.5)	(28.5)	-24.4%
Salaries and charges	(242.6)	(231.4)	4.8%
Gross operating margin	457.5	413.9	10.5%
<i>as % of revenues</i>	<i>47.9%</i>	<i>45.8%</i>	
Employee profit-sharing	(32.3)	(29.4)	10.0%
Share-based payment	(19.1)	(23.5)	-18.7%
Depreciation, amortisation and impairment	(5.9)	(6.7)	-12.0%
Capital gains (losses) on disposals	(0.5)	(0.4)	49.4%
Operating income	399.7	354.0	12.9%
<i>as % of revenues</i>	<i>41.8%</i>	<i>39.2%</i>	

The PagesJaunes in France segment incorporates the activities related to the publication and distribution of directories, the sale of advertising space in printed and online directories, the creation and hosting of websites and other activities (mainly the publication of the PagesPro directories, the sale of online access to databases, the reverse directory QuiDonc, the telephone directory enquiry service 118008 and the advertising representation for Europages).

2.1.1 Revenues of the PagesJaunes in France segment

The following table analyses the consolidated revenues of the PagesJaunes in France segment by product line for the periods ending 31 December 2004 and 31 December 2005 and the percentage changes per product line between these two periods:

PagesJaunes in France	Periods ending 31 December		
	2005	2004	Change 2005/2004
<i>In millions of euros</i>			
Printed directories	638.2	618.9	3.1%
PagesJaunes	524.3	505.2	3.8%
The <i>Annuaire</i>	113.9	113.8	0.1%
Online services	285.0	254.5	12.0%
Internet	227.7	169.6	34.3%
Minitel	57.2	85.0	-32.6%
Other businesses	33.0	30.5	8.2%
Revenues	956.1	903.9	5.8%

The revenues of the PagesJaunes in France segment rose 5.8% in 2005 compared to 2004 and amounted to €956.1 million as at 31 December 2005. This rise was due to increased revenues from printed directories and online services on the Internet, while revenues from online services on Minitel declined substantially. The increase in revenues from printed directories and the dynamic growth of Internet activities offset the decrease in Minitel revenues by a factor of more than two, thanks in particular to an increase in the number of customers on the printed and online platforms. Overall, the number of advertisers rose 6.1% between 2004 and 2005 to around 620,000 in 2005. Almost 113,000 new advertisers were recruited in 2005 compared to 98,000 in 2004. The average revenue per advertiser remained stable at €1,528.

Printed directories

Revenues from printed directories, resulting mainly from the sale of advertising space in the PagesJaunes directory and the *Annuaire*, increased by 3.1% in 2005 compared to 2004 and amounted to €638.2 million as at 31 December 2005.

Between these two periods, the revenues from the PagesJaunes directory grew 3.8% to 524.3 million, while those of the *Annuaire* remained stable at €113.9 million. These rises are explained essentially by the increase in the number of advertisers (575,435 advertisers as at 31 December 2005 compared to 550,504 as at 31 December 2004), the average revenue per advertiser in 2005 (€1,109) being slightly lower than that of 2004 (€1,124).

Online services

Revenues from online services rose 12.0% in 2005 compared to 2004 and amounted to €285.0 million as at 31 December 2005. The revenues from online services result mainly from the sale of advertising products on the online services (pagesjaunes.fr and PagesJaunes 3611) as well as the creation and hosting of websites.

This performance is mainly due to strong growth in revenues from Internet services, which rose 34.3% to €227.7 million as at 31 December 2005. This rise is explained by the increase of 10.3% in the number of advertisers on pagesjaunes.fr between 31 December 2004 and 31 December 2005 (339,553

advertisers as at 31 December 2005, compared to 307,953 as at 31 December 2004), combined with an increase in average revenue per advertiser of 23.5% (€631 in 2005 against €511 in 2004), under the combined effect of higher rates in line with the growth in the audience and a fuller range of products, such as multimedia impact products, "totem" display products and advertising products comparable to local advertising on the Internet (e-pub). Furthermore, the addition to the product range from November 2004 of an entry level product known as "En savoir plus" helped to secure the continued loyalty of customers and to increase revenues in 2005. This innovative product incorporates functionalities such as audience monitoring using the market-leading statistical tool which can be consulted by the advertiser and, since November 2005, the free telephone calling service (click to talk). As at 31 December 2005, almost 15,000 customers had signed up for "En savoir plus".

The revenues of PagesJaunes 3611 decreased by 32.6% in 2005 compared to 2004, amounting to €57.2 million in 2005. This was due to the natural decline in the Minitel audience.

Other businesses

Revenues of other businesses in the PagesJaunes in France segment increased by 8.2% in 2005 compared to 2004, amounting to €33.0 million in 2005, i.e. 3.5% of the revenues of the segment. These revenues result essentially from the activities of PagesPro on printed and Internet platforms, but also from sales of online database access to French and foreign operators, the reverse directory QuiDonc on the Internet, Minitel and Audiotel platforms, the telephone directory enquiry service 118008 as well as Europages activities on printed and Internet platforms. The revenue growth results essentially from the increase in revenues of PagesPro on Internet platforms, higher revenues from sale of online access to databases and the decline in revenues from the reverse directory QuiDonc. This was due to a decline in the audience of QuiDonc on Minitel, which was not offset by an increase in the audience of the service on the Internet. It should be noted that the revenues of 118 008 were insignificant in 2005 due to the recent and partial opening of the market on 2 November 2005. The French market for directory enquiries will only be fully liberalised from 3 April 2006.

2.1.2 External purchases in the PagesJaunes in France segment

PagesJaunes in France	Periods ending 31 December		
	2005	2004	Change 2005/2004
<i>In millions of euros</i>			
External purchases	(287.2)	(288.4)	-0.4%
<i>as % of revenues</i>	<i>30.0%</i>	<i>31.9%</i>	

The external purchases in the PagesJaunes in France segment totalled €287.2 million as at 31 December 2005, a slight decrease compared to 2004, while the revenues in the segment increased by 5.8%. External purchases essentially cover publishing costs (paper purchases, printing and distribution of printed directories), the fee paid under the advertising representation agreement for the *Annuaire* with France Télécom, communication expenses (purchases of space

and design expenses), expenses for IT development, hosting and distribution of online directories and expenses for the purchase, creation and updating of databases and the production of advertisements. External purchases represented 30.0% of revenues in 2005, compared to 31.9% in 2004. The costs of paper, printing and distribution in 2005 amounted to €97.8 million, including €42.2 million for paper, compared to €97.4 million in 2004, including €42.7 million for paper. This slight decrease in external purchases results in part from the continued control of costs of paper, inventory and printing of directories against a background of stable purchase prices for paper, but also from the measured decline in IT development charges and the decrease in the fee paid under the advertising representation contract linked to the decline in Minitel revenues on PagesJaunes 3611. Conversely, major investments were made at the year-end in the purchasing of advertising space and communications as part of the launch of the telephone directory enquiry service 118 008, resulting in an increase in communication expenses compared to the previous year.

2.1.3 Other operating income in the PagesJaunes in France segment

PagesJaunes in France	Periods ending 31 December		
	2005	2004	Change 2005/2004
<i>In millions of euros</i>			
Other operating income	52.7	58.3	-9.5%

The other operating income in the PagesJaunes in France segment totalled €52.7 million in 2005, a decrease of 9.5% compared to 2004. This other operating income mainly comprised income from the recharging to France Télécom of the cost of internal and external resources relating to the production and distribution of the *Annuaire* and PagesJaunes 3611 alphabetical search service and to a lesser extent non-recurring operating income. Excluding the favourable effect in 2004 of a tax credit of €1.8 million, the other operating income decreased slightly because of lower recharging to France Télécom of charges associated with the production and distribution of the *Annuaire* reflecting continued control of the costs of paper and the printing of directories.

2.1.4 Other operating expenses in the PagesJaunes in France segment

PagesJaunes in France	Periods ending 31 December		
	2005	2004	Change 2005/2004
<i>In millions of euros</i>			
Other operating expenses	(21.5)	(28.5)	-24.4%
<i>as % of revenues</i>	2.3%	3.2%	

Other operating expenses in the PagesJaunes in France segment amounted to €21.5 million as at 31 December 2005, a decrease of 24.4% compared to 31 December 2004. Other operating expenses represented 2.3% of revenues in 2005, compared to 3.2% in 2004. These other operating expenses comprised

tax expenses and levies and certain provisions for risks, as well as assistance charges and trademark fees paid to the France Télécom Group. Excluding the effects of non-recurring charges relating to the initial public offering of the PagesJaunes Group in 2004 (€8.1 million) and the increase in trade tax associated with the increase in revenues, the other operating expenses remained almost unchanged between the two periods.

2.1.5 Salaries and charges in the PagesJaunes in France segment

PagesJaunes in France	Periods ending 31 December		
	2005	2004	Change 2005/2004
<i>In millions of euros</i>			
Salaries and charges	(242.6)	(231.4)	4.8%
<i>as % of revenues</i>	<i>25.4%</i>	<i>25.6%</i>	

The salaries and charges in the PagesJaunes in France segment amounted to €242.6 million as at 31 December 2005, a rise of 4.8% compared to 2004. Salaries and charges grew at a slower rate than revenues, which grew by 5.8% over the same period.

Salaries and charges represented 25.4% of revenues as at 31 December 2005, compared to 25.6% in 2004. This heading comprises wages and salaries, both fixed and variable, including profit-sharing, social charges, payroll tax, provisions for paid leave, post-employment benefits and various benefits paid to employees in the sales force and support functions. The remuneration of the sales force and its immediate supervisory personnel represented 13.8% of revenues in 2005, compared to 13.5% in 2004. This remuneration of the sales force, which rose slightly and is to a large extent variable, depends principally on the commercial results recorded in 2005.

2.1.6 Gross operating margin in the PagesJaunes in France segment

The gross operating margin of the PagesJaunes in France segment grew 10.5% between the two periods and amounted to €457.5 million as at 31 December 2005. The gross operating margin of this segment increased from 45.8% in 2004 to 47.9% in 2005, a rise of 2.1 points between the two periods. Stripping out the non-recurring effect of IPO expenses recorded in 2004, the growth in gross operating margin was 8.4%. This performance resulted essentially from revenue growth and cost control.

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

Employee profit-sharing in the PagesJaunes in France segment amounted to €32.3 million in 2005, an increase of 10.0% compared to 2004. It represented 7.1% of the gross operating margin in 2005 as in 2004. This increase is therefore in line with the growth in gross operating margin. The expenses for share-based payment in the segment amounted to €19.1 million in 2005, a

decrease of 18.7% compared to 2004. This decline was mainly due to the progressive ending of amortisation of stock option plans.

2.1.8 Depreciation, amortisation and results of asset disposals of the PagesJaunes in France segment

The depreciation, amortisation and results of asset disposals decreased overall by 8.8% between the two periods and amounted to €6.4 million in 2005, i.e. less than 1% of the revenues of the segment.

2.1.9 Operating income of the PagesJaunes in France segment

The operating income of the PagesJaunes in France segment rose 12.9% between the two periods and amounted to €399.7 million as at 31 December 2005.

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

The table below shows the like-for-like revenues and operating income in the International & Subsidiaries segment for the periods ending 31 December 2004 and 31 December 2005:

International & Subsidiaries	Periods ending 31 December		
	2005	2004 on like-for-like basis	Change 2005/2004
<i>In millions of euros</i>			
Revenues	108.9	99.5	9.4%
External purchases	(47.4)	(45.8)	3.5%
Other operating income and expenses	(0.9)	(3.5)	-74.7%
Salaries and charges	(55.0)	(52.3)	5.1%
Gross operating margin	5.5	(2.2)	na
<i>as % of revenues</i>	<i>5.1%</i>	<i>-2.2%</i>	
Employee profit-sharing	(0.6)	(0.7)	-23.7%
Share-based payment	(1.3)	(1.8)	-24.4%
Depreciation, amortisation and impairment	(3.8)	(4.2)	-8.2%
Restructuring costs	(0.4)	0.0	na
Operating income	(0.6)	(8.9)	na
<i>as % of revenues</i>	<i>-0.6%</i>	<i>-8.9%</i>	

2.2.1 Like-for-like revenues of the International & Subsidiaries segment

The table below shows the breakdown of like-for-like consolidated revenues of the International & Subsidiaries segment by product line for the periods ending 31 December 2004 and 31 December 2005 and the percentage changes per product line between these two periods:

International & Subsidiaries	Periods ending 31 December		
	2005	2004 on like-for- like basis	Change 2005/2004
<i>In millions of euros</i>			
B to C Directories	52.4	47.6	10.2%
Kompass businesses	29.3	27.4	7.1%
Direct Marketing and Geographic Services	27.1	24.5	10.6%
Revenues	108.9	99.5	9.4%

The revenues of the International & Subsidiaries segment rose 9.4% compared to 2004 on a like-for-like basis and amounted to €108.9 million as at 31 December 2005.

B to C Directories

Revenues from B to C directories businesses rose 10.2% in 2005 compared to 2004 on a like-for-like basis and amounted to €52.4 million as at 31 December 2005. The revenues from B to C directories result from the sale of advertising space in printed and online directories, their publication and distribution, carried out by the subsidiaries QDQ Media in Spain, Editus in Luxembourg and Edicom in Morocco.

The revenues of QDQ Media increased by 13.2% in 2005 compared to 2004, reaching €41.3 million. The increase in this figure results principally from growth of 6.6% in average revenue per advertiser in 2005 compared to 2004 (€524 in 2005 against €492 in 2004), and from an increase of 5.4% in the number of customers to 78,300 advertisers as at 31 December 2005. The proportion of sales represented by online activities grew appreciably, representing 14.8% of revenues in 2005, compared to 9.6% in 2004. The number of advertisers on QDQ.com almost doubled between the periods, rising from 24,685 as at 31 December 2004 to 40,951 as at 31 December 2005.

The revenues of the other B to C directories amounted to €11.1 million in 2005, stable compared to 2004.

Kompass businesses

Revenues from the Kompass businesses grew 7.1% in 2005 compared to 2004 on a like-for-like basis, amounting to €29.3 million as at 31 December 2005.

The revenues from the Kompass businesses result from the marketing of the Kompass information system through the sale of advertising space and data on printed media, CD-Rom, Minitel and the Internet (Kompass.com, the global online directory of the Kompass agents). The sale of media is complemented by direct marketing services. Kompass revenues are generated by the Group's activities in France, Spain, Belgium and Luxembourg.

Direct Marketing and Geographic Services

Revenues from Direct Marketing and Geographic Services grew 10.6% in 2005 compared to 2004 on a like-for-like basis and amounted to €27.1 million as at 31 December 2005. These revenues result from the marketing of qualified databases of individuals and businesses for prospection campaigns, data processing services, online geographic services and photographs of cities. The Direct Marketing and Geographic Services area includes the activities of the subsidiaries Wanadoo Data, e-sama and Mappy.

2.2.2 Like-for-like external purchases in the International & Subsidiaries segment

The external purchases in the International & Subsidiaries segment amounted to €47.4 million in 2005, an increase of 3.5% compared to 2004 on a like-for-like basis. External purchases represented 43.6% of revenues in 2005, compared to 46.1% in 2004 on a like-for-like basis. External purchases essentially comprise publishing costs (paper purchases, printing and distribution of printed directories), communication expenses (purchases of space and design expenses), IT development costs, hosting and distribution of online directories and expenses for the purchase, creation and updating of databases and the production of advertisements. This trend results mainly from lower commercial and communication expenses at QDQ Media. Moreover, the 2004 expenses had been increased by the expenses associated to the capital increase of this subsidiary.

2.2.3 Like-for-like other operating income and expenses in the International & Subsidiaries segment

Other operating income and expenses in the International & Subsidiaries segment amounted to €(0.9) million in 2005, against €(3.5) million in 2004 on a like-for-like basis. Other operating income and expenses comprise operating income other than revenues, the costs of taxes and levies (excluding corporation tax and payroll tax), bad debts provisions, certain provisions for risks. This favourable trend is explained by the decrease in customer risk at QDQ Media resulting from actions implemented as part of the recovery plan for this subsidiary. This led to the release of the provision in respect of previous editions and lower writedowns of customer accounts in respect of new editions.

2.2.4 Like-for-like salaries and charges in the International & Subsidiaries segment

Salaries and charges in the International & Subsidiaries segment amounted to €55.0 million as at 31 December 2005, a rise of 5.1% compared to 2004 on a like-for-like basis, i.e. a controlled rise in the context of revenues which themselves grew 9.4% on the period. Salaries and charges represented 50.5% of revenues in 2005 against 52.6% in 2004 on a like-for-like basis. This favourable trend results mainly from the decrease in the workforce of QDQ

Media in 2005 compared to 2004, in accordance with the recovery plan undertaken in 2004.

2.2.5 Like-for-like gross operating margin of the International & Subsidiaries segment

The gross operating margin amounted to €5.5 million as at 31 December 2005, compared to a loss of €2.2 million recorded in 2004 on a like-for-like basis. The improvement in gross operating margin results from an increase in revenues at each of the subsidiaries, combined with the continuation of the recovery plan at QDQ Media. The gross operating margin of QDQ Media was -€5.1 million in 2005 compared to -€13.0 million in 2004.

2.2.6 Like-for-like employee profit-sharing and share-based payment in the International & Subsidiaries segment

Employee profit-sharing and the expense for share-based payment in the International & Subsidiaries segment amounted to €1.9 million as at 31 December 2005 against €2.5 million in 2004.

2.2.7 Depreciation and amortisation in the International & Subsidiaries segment on a like-for-like basis

The depreciation and amortisation charges decreased by 8.2% between the two periods and amounted to €3.8 million in 2005. This was due to control of the volume of investments made.

2.2.8 Like-for-like operating income in the International & Subsidiaries segment

The operating income of the International & Subsidiaries segment as at 31 December 2005 shows a loss of €0.6 million compared to a loss of €8.9 million recorded in 2004 on a like-for-like basis.

2.3 Analysis of like-for-like consolidated net income

The table below shows the consolidated net income of the Consolidated Group generated by all activities during the periods ending 31 December 2004 and 31 December 2005:

Like-for-like consolidated income statement of the PagesJaunes Group	Periods ending 31 December		
	2005	2004 on like-for-like basis	Change 2005/2004
<i>In millions of euros</i>			
Operating income	399.0	345.1	15.6%
Financial income	16.4	19.1	-14.1%
Financial expenses	(4.8)	(0.5)	na
Corporation tax	(148.9)	(150.8)	-1.3%
Net income	261.7	212.9	23.0%
of which attributable to the shareholders of PagesJaunes Groupe	261.7	212.9	

2.3.1 *Financial income (like-for-like)*

Financial income decreased by 14.1% in 2005 compared to 2004 on a like-for-like basis and amounted to €16.4 million as at 31 December 2005. This trend was due to a lower average volume of capital invested in 2005 than in 2004 (time lag effect of payment of corporation tax, cf. cash flow statement) and the decline in interest rates. This financial income mainly comprises income from cash deposited with France Télécom (see paragraph "6.4.5 Treasury agreement" of the 2005 *Document de Référence* of PagesJaunes Groupe).

2.3.2 *Financial expenses (like-for-like)*

Financial expenses amounted to €4.8 million as at 31 December 2005 against €0.5 million in 2004 on a like-for-like basis. This was mainly due to the recording of the financial charge paid at the time of the securitisation of an amount receivable in respect of the exceptional levy on the distributions made in 2005.

2.3.3 *Corporation tax (like-for-like)*

As at 31 December 2005, the Consolidated Group reported a corporation tax charge of €148.9 million, a fall of 1.3% compared to 2004.

In 2004, the Company adopted the tax consolidation regime provided for in articles 223A ff. of the French General Tax Code. The aim is to establish a group with an integrated tax system including the Company and all its French subsidiaries that fulfil the membership conditions. This option took effect from 1 January 2005 for a period of five years.

2.3.4 *Net income (like-for-like)*

Net income amounted to €261.7 million in 2005 against €212.9 million in 2004 on a like-for-like basis, a rise of 23.0%. Excluding IPO costs in 2004, the growth in the net income of PagesJaunes Groupe amounted to 20.0% in 2005.

3 Consolidated liquidities, capital resources and investment expenses

The table below shows the movements in the cash position of the consolidated Group in 2004 and 2005:

CONSOLIDATED NET CASH POSITION	Periods ending	
	31/12/2005	31/12/2004
<i>In millions of euros</i>		
Short-term investments > 3 months and < 1 year	16.5	0.3
Cash and cash equivalents	549.8	644.1
Total active cash position	566.3	644.3
Bank overdrafts	7.8	9.8
Other financial debt	5.5	4.8
Gross financial debt	13.3	14.6
Due in less than one year	13.3	14.6
Due in more than one year	-	-
Net cash position	553.0	629.7

The net cash position of the consolidated Group amounted to €553.0 million as at 31 December 2005, compared to €629.7 million as at 31 December 2004.

Since 1999 the PagesJaunes Group has invested nearly all available cash and cash equivalents with France Télécom under annually renegotiated agreements.

The table below shows the consolidated cash flows for the periods ending 31 December 2004 and 31 December 2005:

Consolidated cash flow statement (historical data)	2005	2004
<i>In millions of euros</i>		
Net cash from operations	263.5	362.2
Net cash used in investing activities	(105.0)	(32.1)
Net cash used in financing activities	(252.7)	(268.0)
Net increase (decrease) in cash and cash equivalents	(94.3)	62.1
Effect of changes in exchange rates on cash and cash equivalents	0.0	0.0
Cash and cash equivalents – beginning of period	644.1	581.9
Cash and cash equivalents – end of period	549.8	644.1

Cash and cash equivalents as at 31 December 2005 amounted to €549.8 million, compared to €644.1 million as at 31 December 2004.

The net cash flows from operations decreased by 27.3% between 31 December 2004 and 31 December 2005, amounting to €362.2 million and €263.5 million respectively. This substantial decrease is explained mainly by a larger payment of corporation tax in 2005 than in 2004, in view of a favourable timing difference in the payment of tax in 2004.

In 2005, the net cash used in investing activities amounted to €105 million and included net current investments (operations, network, office automation and equipment) of €11.7 million, the acquisition of e-sama for €9.5 million and Edicom for €5.0 million (net of acquired cash), the provision for the market maker of a sum of €16.5 million in respect of the liquidity contract entered into in November 2005 and the payment of a tax receivable in respect of the exceptional levy of 25% on the distributions made in 2005 ("compulsory loan") of €64.2 million, repayable in one-third instalments in the years 2006 to 2008. In 2004, these flows amounted to €32.1 million and included essentially the acquisition of QDQ Media, Mappy and Kompas Belgium for €21.9 million (net of acquired cash), net current investments of €8.4 million, partly offset by the redemption of investment bonds amounting to €11.6 million maturing in May 2004.

The net cash flow used in financing activities mainly includes the distributions in 2005 amounting to €259.3 million, compared to €236.0 million in 2004. In 2004, this item also included the employee share offer made at the time of the IPO in an amount of €53.6 million as well as the entry into the consolidated group of the debt of QDQ Media in an amount of €89.4 million.

4 Stock options

On 28 June 2005 the Board of Directors of PagesJaunes Groupe granted to certain of its employees, and to employees of companies associated with it within the meaning of article L. 225-180 of the Commercial Code, a total of 3,796,800 options on PagesJaunes shares, representing 1.36% of the company's share capital and conferring the right to subscribe the same number of shares at a price of €19.30 per share. As at 31 December 2005, 3,757,000 options remain in circulation. No option has been exercised to date, as these options cannot be exercised before 28 June 2008.

5 Research and development

The Group is characterised by a strong culture of innovation which does not require major investments in fundamental research and development. In this regard most of the research and development expenses are not accounted for in investments but in expenses. However, in order to cater for technological developments, the group is planning to increase these investments in the next years.

6 Use of estimates

Financial statements prepared in accordance with generally accepted accounting principles require the management of PagesJaunes Groupe to make estimates and to formulate assumptions that affect the amounts shown in these financial statements and the accompanying notes, particularly in respect of provisions for

risks, deferred tax assets and goodwill. The actual amounts may therefore differ from the estimates made.

Provisions for contingencies and impairment

Receivables are valued at their nominal value. A provision for impairment is made on the basis of a review of individual and collective risks, taking account in particular of delays in the payment of trade accounts receivable. The provisions made up to the present time are therefore based on prior experience. However, the Group could be forced in the future to increase or decrease these provisions as a function of the results recorded.

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

Goodwill

Goodwill is considered to be a long-term asset and is not amortised, but is subjected to impairment tests at least once a year. The value of the goodwill may be adjusted to take account of differences between the initial business plans and the actual data for the period.

Deferred tax assets

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

Deconsolidating structures and ad hoc entities

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

There are no contractual obligations to special purpose (or *ad hoc*) entities.

7 Off-balance-sheet commitments and risks

See notes 31 and 32 to the consolidated financial statements.

8 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 had 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 a 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 have been 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.

9 Outlook

In 2006 the Group is aiming for:

- Continued sustained growth;
- Maintenance of a high level of operational profitability, in particular by:
 - The relaunch of the *Annuaire* in France with a new editorial and advertising offering;
 - An extension of the services of pagesjaunes.fr with the maintenance of a growth strategy focused on the development of functionalities, enrichment of content and optimisation of contact services;
 - The development of telephone directory enquiry services (118008) in France.