Transition to IFRS

Preliminary Consolidated Financial Information 2004

Unofficial translation of the French-language *Transition aux IFRS* of PagesJaunes, for information purposes only.

TRANSITION TO IFRS

PRELIMINARY CONSOLIDATED INCOME STATEMENT

(Amounts in thousands of euros, except for per share data)

	Year ended 31 December 2004
Net revenues	967 160
External purchases	(317 582)
Other operating income and expenses	26 896
Wages and employee benefit expenses	(268 992)
Gross operating margin	**407 482**
- Employee profit-sharing	(29 926)
- Share-based compensation *(*)*	(25 274)
Depreciation and amortisation	(10 066)
Impairment of goodwill	0
Impairment of non-current assets	0
Gains (losses) on disposal of assets	(363)
Restructuring costs	0
Share of profits (losses) of associates	774
Operating income	**342 627**
Interest revenue	20 784
Interest expense	(444)
Foreign exchange gains (losses)	(51)
Financial income	**20 289**
Income tax	(149 314)
Net income	**213 602**
Minority interests	0
Attributable net income	**213 602**

Earnings per share (in euros)	
Attributable net income	
- basic	0,77
- diluted	0,77

(*) of which 1,150 of top-up contributions booked under non-operating income according to French GAAP but considered as share-based payment under IFRS

TRANSITION TO IFRS – *PRELIMINARY CONSOLIDATED BALANCE SHEET*

(Amounts in thousands of euros)

	At January 1 2004	*At 31 December 2004*
ASSETS		
Goodwill	1 198	77 475
Intangible assets	3 607	8 419
Property, plant and equipment	15 321	16 816
Interests in associates	2 504	15 493
Other non-current financial assets	1 740	3 784
Deferred tax assets	24 542	26 144
Total non-current assets	**48 912**	**148 131**
Inventories	6 836	12 373
Trade receivables	371 791	430 793
Other receivables	20 695	26 784
Current tax assets	26 979	133
Prepaid expenses and other current assets	54 346	57 410
Other current financial assets	12 457	861
Cash	581 935	644 077
Total current assets	**1 075 039**	**1 172 431**
TOTAL ASSETS	**1 123 951**	**1 320 562**
EQUITY AND LIABILITIES		
Share capital	54 810	55 758
Additional paid-in capital	42 249	68 335
Retained earnings	235 159	49 848
Net income for the year		213 602
Foreign currency translation adjustment	0	0
Equity	**332 218**	**387 543**
Exchangeable or convertible bonds	0	0
Financial long-term debt	0	32
Provision for employee benefit costs	17 176	22 062
Provisions	7 690	8 329
Total non-current liabilities	**24 866**	**30 423**
Current portion of long-term debt	3 812	3 822
Bank overdrafts and other short-term borrowings	11 559	10 730
Accrued interest payable	15	18
Provisions	4 145	236
Trade payables	107 251	107 026
Employee liabilities	78 673	82 021
Other payables	78 458	87 157
Other current liabilities	1 654	4 104
Current tax payable	15 966	72 112
Deferred income	465 334	535 370
Total current liabilities	**766 867**	**902 596**
TOTAL EQUITY AND LIABILITIES	**1 123 951**	**1 320 562**

TRANSITION TO IFRS

PRELIMINARY CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

(Amounts in thousands of euros)

	Share capital	*Additional paid-in capital*	*Retained earnings*	*Total*
Balance at 1 January 2004	**54 810**	**42 249**	**235 159**	**332 218**
Capital increase	948	68 335		69 283
2004 income			213 602	213 602
Equity share options issued			8 399	8 399
Dividends		(42 249)	(193 710)	(235 959)
Balance at 31 December 2004	**55 758**	**68 335**	**263 450**	**387 543**

NOTE 1 - BACKGROUND

1.1 Preparation of 2004 consolidated financial information on the conversion to IFRS

Pursuant to European regulation 1606/2002 dated 19 July 2002, the 2005 consolidated income statement will be prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

The first published IAS/IFRS income statement will concern financial year 2005 and will include comparative figures for 2004 prepared under the same method.

Ahead of the publication of the 2005 IFRS income statement with comparative information for 2004, and following the recommendation of the French securities regulator (AMF) regarding financial communication during the transition period, preliminary information has been prepared to consider the main effects of the transition to IFRS on:

- the opening IFRS balance sheet at the transition date (1 January 2004), in which the final IFRS transition adjustments determined at the time of publication of the 2005 consolidated income statements will be recorded in equity,
- equity at 31 December 2004 and profit or loss for the period.

The Group has estimated the impact of a switch to IFRS on the 2004 income statement by applying the IAS/IFRS and related interpretations that it expects to use in the preparation of the IFRS income statement for the period ending 31 December 2005. As explained in Note 2, the preliminary comparative 2004 financial information has been prepared on the basis of:

- IFRS and related interpretations whose application will be compulsory at 31 December 2005, based on current information;
- IFRS and related interpretations whose application will be compulsory after 31 December 2005 and for which the Group has opted for earlier application;
- the expected outcome of the technical issues and exposure drafts currently being examined by the IASB and IFRIC, which may be applicable to the 2005 consolidated income statement;
- the options and exemptions that the Group expects to apply for the preparation of the 2005 IFRS income statement.

Due to the above, the preliminary closing balance sheet may not correspond exactly to the opening balance sheet that will be used to prepare the 2005 consolidated income statement.

This information was reviewed by the Board of Directors on 26 April 2005.

1.2 Organisation of the conversion project

Adopting France Telecom practice, Pages Jaunes Groupe launched the IFRS conversion project in July 2003. The various phases of the project consisted of identifying and dealing with the main differences in accounting methods at 31 December 2004, preparing the preliminary opening IFRS balance sheet at 1 January 2004 and adjusting the 2004 monthly financial flows. This project forms part of a broader programme to enhance management reporting, deploy a new consolidation tool and a new chart of accounts throughout the Group. To ensure that accounting policies are defined and applied consistently throughout the France Telecom Group, the IFRS conversion project is being led by a corporate team that is responsible for managing the project plans at both Group and sub-group levels, including Pages Jaunes Groupe.

Pages Jaunes Groupe falls under the responsibility of various committees set up to ensure the success of the project and track its progress:

- a Programme Steering Committee comprising the main players in the Group and the sub-groups;
- a Technical Committee responsible for validating IFRS technical issues and options up front, comprised of the main players in the Group and the sub-groups and the external auditors;

- a Programme Strategy Committee responsible for the IFRS conversion project, the new consolidation system and the new management reporting system, comprised of the Executive Directors and Finance Management;
- the Audit Committee, which is responsible for examining all accounting options selected by the Group.

Additional work carried out by Pages Jaunes Groupe and its Audit Committee supplemented these tasks.

NOTE 2 – EFFECTS OF THE FIRST-TIME ADOPTION OF IFRS

This note describes the principles applied to prepare the preliminary opening IFRS balance sheet at 1 January 2004 and the differences between these and the previously applied French generally accepted accounting principles (French GAAP), as well as the effects of these differences on the preliminary 2004 opening and closing balances sheets and 2004 profit or loss.

Preliminary information for 2004 on the transition to IFRS has been prepared in accordance with IFRS 1 "First-time Adoption of IFRS" and the IFRS applicable at 31 December 2005, as published by the IASB as of 31 December 2004.

2.1 Accounting options selected and positions taken by Pages Jaunes Groupe

IFRS 1 – First-time Adoption of IFRS sets out the rules to be followed by those companies using IFRS for the first time. The Group has chosen to apply the following options and exemptions provided for in IFRS 1:

Measurement of certain items of property, plant and equipment and intangible assets at fair value

In the opening IFRS balance sheet at 1 January 2004, Pages Jaunes Groupe has chosen to measure property, plant and equipment at historical cost.

Stock options and other share-based payments

The Group has chosen to apply IFRS 2 (Share-Based Payment) retrospectively to equity-settled and cash-settled plans. Consequently, IFRS 2 has been applied to all share-based plans, including those implemented prior to 7 November 2002.

2.2 Effects on 2004 equity and net income

	Opening equity	Closing equity	2004 income
French GAAP (2003 published financial statements)	**332 358**	**383 375**	**233 418**
Revenue recognition	(140)		140
Impairment of goodwill		4 168	4 168
Equity compensation			(24 124)
IFRS	**332 218**	**387 543**	**213 602**

2.3 Effects on 2004 net income

Reconciliation of French GAAP to IFRS: income statement

	Published 2004 French GAAP accounts	IFRS	Differences
	2 004	**2004**	
Net revenues	973 122	967 160	(5 962)
External purchases	(323 544)	(317 582)	5 962
Other operating income and expenses	32 055	26 896	(5 159)
Wages and employee benefit expenses	(265 649)	(268 992)	(3 343)
Gross operating margin	**415 984**	**407 482**	**(8 502)**
- Employee profit-sharing		(29 926)	(29 926)
- Share-based compensation *(*)*		(25 274)	(25 274)
Depreciation and amortisation	(10 066)	(10 066)	0
Impairment of goodwill		0	0
Impairment of non-current assets		0	0
Gains (losses) on disposal of assets		(363)	(363)
Restructuring costs		0	0
Share of profits (losses) of associates		774	774
Operating income	**405 918**	**342 627**	**(63 291)**
Interest revenue	20 434	20 784	350
Interest expense	(444)	(444)	0
Foreign exchange gains (losses)	(53)	(51)	2
Finances costs, net	**19 937**	**20 289**	**352**
Equity in net income (loss) of affiliates	774		(774)
Other non-operating income (expense), net	(9 817)		9 817
Employee profit-sharing	(29 926)		29 926
Goodwill amortisation	(4 168)		4 168
Income tax expense	(149 300)	(149 314)	(14)
Net income	**233 418**	**213 602**	**(19 816)**
Minority interests		0	
Attributable net income	**233 418**	**213 602**	**(19 816)**
Earnings per share (in euros)			
Attributable net income			
- basic	0,84	0,77	(0,07)
- diluted	0,84	0,77	(0,07)

(*) of which 1,150 of top-up contributions booked under non-operating income under French GAAP but considered to be share-based payment under IFRS

2.4 Effects on the opening balance sheet at 1 January 2004

Opening balance sheet at 1 January 2004 - Assets

French GAAP balance sheet		Reclassifications	IFRS adjustments	IFRS	IFRS balance sheet
Goodwill, net	**1 198**			**1 198**	Goodwill, net
Intangible assets, net	**558**	3 049		**3 607**	Other intangible assets, net
Property, plant and equipment, net	**18 370**	(3 049)		**15 321**	Property, plant and equipment, net
Investments accounted for under the equity method	**2 504**			**2 504**	Interests in associates
Net consolidated investments	**388**	(388)		**0**	Assets available-for-sale
Other long-term assets, net	**1 352**	388		**1 740**	Other non-current financial assets
Deferred income taxes, net (long-term)	**6 508**	18 034		**24 542**	Deferred tax assets, net
Total long-term assets	**30 878**	**18 034**	**0**	**48 912**	**Total non-current assets**
Inventories, net	**7 112**		(276)	**6 836**	Inventories, net
Total accounts receivable, less provisions	**371 791**			**371 791**	Trade receivables, net
Deferred income taxes, net	**18 034**	(18 034)		**0**	
Prepaid expenses and other current assets	**102 745**	(102 745)			
		20 695		**20 695**	Other receivables
		26 979		**26 979**	Current tax assets
		54 214	132	**54 346**	Prepaid expenses and other current assets
Marketable 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**

Opening balance sheet at 1 January 2004 – Liabilities

French GAAP balance sheet		Reclassifications	IFRS adjustments	IFRS	IFRS balance sheet
Share capital	**54 810**			**54 810**	Share capital
Additional paid-in capital	**42 249**			**42 249**	Additional paid-in capital
Retained earnings (losses carried forward)	**235 299**	4	**(144)**	**235 159**	Retained earnings (deficit)
Foreign currency translation adjustment	**0**			**0**	Foreign currency translation adjustment
Shareholders' equity	**332 358**	**4**	**(144)**	**332 218**	**Total equity**
Bonds	**0**			**0**	Exchangable or convertible bonds
Other long- and medium-term debt less current portion	**0**			**0**	Financial long-term debt
Other long-term liabilities	**24 805**	(24 805)			
		17 176		**17 176**	Provision for employee benefit costs
		7 690		**7 690**	Provisions
				0	Other non-current liabilities
				0	Deferred tax liabilities
Total long-term liabilities	**24 805**	**61**		**24 866**	**Total non-current liabilities**
Current portion of long- and medium-term debt	**3 822**	(10)		**3 812**	Current portion of long-term debt
Bank overdrafts and other short-term borrowings	**11 559**			**11 559**	Bank overdrafts and other short-term borrowings
		15		**15**	Accured interest payable
		4 145		**4 145**	Provisions
Trade accounts payable	**107 312**	(61)		**107 251**	Trade payables
		78 673		**78 673**	Employee liabilities
Accrued expenses and other payables	**177 247**	(177 247)			
		78 458		**78 458**	Other payables
		1 654		**1 654**	Other current liabilities
		15 966		**15 966**	Current tax payable
Other current liabilities	**1 654**	(1 654)			
Deferred income	**465 338**	(4)		**465 334**	Deferred income
Total current liabilities	**766 932**	**(65)**		**766 867**	**Total current liabilities**
Total liabilities and shareholders' equity	**1 124 095**	**0**	**(144)**	**1 123 951**	**Total equity and liabilities**

2.5 Effects on the closing balance sheet at 31 December 2004

Closing balance sheet at 31 December 2004 – Assets

French GAAP balance sheet		Reclassifications	IFRS adjustments	IFRS	IFRS balance sheet
Goodwill, net	**73 307**		4 168	**77 475**	Goodwill, net
Intangible assets, net	**2 092**	6 327		**8 419**	Other intangible assets, net
Property, plant and equipment, net	**23 143**	(6 327)		**16 816**	Property, plant and equipment, net
Investments accounted for under the equity method	**15 493**			**15 493**	Interests in associates
Net consolidated investments	**2 263**	(2 263)		**0**	Assets available-for-sale
Other long-term assets, net	**1 521**	2 263		**3 784**	Other non-current financial assets
Deferred income taxes, net (long-term)	**9 016**	17 128		**26 144**	Deferred tax assets, net
Total long-term assets	**126 835**	**17 128**	**4 168**	**148 131**	**Total non-current assets**
Inventories, net	**12 373**			**12 373**	Inventories, net
Total accounts receivable, less provisions	**430 793**			**430 793**	Trade receivables, net
Deferred income taxes, net	**17 128**	(17 128)		**0**	
Prepaid expenses and other current assets	**84 924**	(84 924)			
		26 784		**26 784**	Other receivables
		133		**133**	Current tax assets
		57 410		**57 410**	Prepaid expenses and other current assets
Marketable 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**

Closing balance sheet at 31 December 2004 – Liabilities

French GAAP		Reclassements	Retraitements IFRS	IFRS	Bilan IFRS
Share capital	**55 758**			**55 758**	Share capital
Additional paid-in capital	**52 610**		**15 725**	**68 335**	Additional paid-in capital
Retained earnings (losses carried forward)	**41 589**		**8 259**	**49 848**	Retained earnings (deficit)
Net income for the period	**233 418**		**(19 816)**	**213 602**	Net income (loss) for the year
Foreign currency translation adjustment	**0**			**0**	Foreign currency translation adjustment
Shareholders' equity	**383 375**	**0**	**4 168**	**387 543**	**Total equity**
Bonds	**0**			**0**	Exchangable or convertible bonds
Other long- and medium-term debt less current portion	**32**			**32**	Financial long-term debt
Other long-term liabilities	**30 391**	(30 391)			
		22 062		**22 062**	Provision for employee benefit costs
		8 329		**8 329**	Provisions
				0	Other non-current liabilities
		0		**0**	Deferred tax liabilities
Total long-term liabilities	**30 423**	**0**	**0**	**30 423**	**Total non-current liabilities**
Current portion of long- and medium-term debt	**3 822**			**3 822**	Current portion of long-term debt
Bank overdrafts and other short-term borrowings	**10 730**			**10 730**	Bank overdrafts and other short-term borrowings
		18		**18**	Accured interest payable
		236		**236**	Provisions
Trade accounts payable	**107 026**			**107 026**	Trade payables
		82 021		**82 021**	Employee liabilities
Accrued expenses and other payables	**241 543**	(241 543)			
		87 157		**87 157**	Other payables
		4 104		**4 104**	Other current liabilities
		72 112		**72 112**	Current tax payable
Other current liabilities	**4 104**	(4 104)			
Deferred income	**535 371**	(1)		**535 370**	Deferred income
Total current liabilities	**902 596**	**0**		**902 596**	**Total current liabilities**
Total liabilities and shareholders' equity	**1 316 394**	**0**	**4 168**	**1 320 562**	**Total equity and liabilities**

2.6 Description of the main IFRS adjustments

2.6.1 Revenue

The effect on equity in the opening IFRS balance sheet at 1 January 2004 is €6 million lower than the French GAAP figure due to a change in the presentation of certain costs to be deducted from revenue:

- Reclassification as a deduction from revenue of advertising barters: negative effect of €2 million,
- Reclassification as a deduction from revenue of fees to the Europages advertising agency: negative impact of €4 million.

All these items are recognised as expenses under French GAAP and therefore have no effect on the gross operating margin or consolidated net income.

2.6.2 Goodwill amortisation and impairment losses

In accordance with the exemption provided for in IFRS 1, the Group has opted not to restate past business combinations that occurred prior to 1 January 2004. Under IFRS 3 – Business Combinations, effective from 1 January 2004, goodwill is not amortised, leading to a €4 million positive effect on 2004 net income (€6 million on a pro-forma basis due to the acquisition of QDQ Media, see Note 4).

2.6.3 Stock options and employee share issues

Stock options

Under French GAAP, no compensation expense is recognised on stock options grants.

Application of IFRS 2 (Share-based Payment) leads to the recognition of an expense for France Telecom stock options, some of which were issued to Pages Jaunes employees. In the 2004 IFRS income statement, the expense related to stock options amounts to €10 million. The counterparty to this has been booked under equity.

Employee share issues

Following the sale of shares to outside investors, Pages Jaunes Groupe carried out an employee rights issue.

Following the sale by the State of 10.85% of France Telecom SA's capital, the State offered shares to current and former France Telecom and Pages Jaunes Groupe employees in accordance with the Privatisation Act of 6 August 1986.

Under IFRS, the compensation related expense (concerning current and former Group employees) has been determined based on the fair value of the rights to shares at the grant date, taking into account the restriction period. In the 2004 IFRS income statement, the effect is an additional charge of (i) €11 million in respect of the France Telecom share offer and (ii) €3 million in respect of the Pages Jaunes rights issue.

The total impact of stock options and employee share issues is therefore €24 million, while the total amount booked in the income statement under "Share Payment" is €25 million as an expense of €1 million had already been booked under French GAAP.

2.6.4 Main balance sheet reclassifications

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

- Software, which is included in property, plant and equipment in the French GAAP balance sheet, has been reclassified as an intangible asset for €3 million (€6 million at 31 December 2004).
- Other receivables and prepaid expenses in the French GAAP balance sheet have been analysed mainly between four captions;
    - Other Receivables, for €21 million (€27 million at 31 December 2004),
    - Current Tax Assets , for €27 million (€0 at 31 December 2004),
    - Prepaid Expenses and Other Current Assets, for €54 million (€57 million at 31 December 2004),
    - Other Current Financial Assets for €1 million (€1 million at 31 December 2004).
- Other long-term liabilities in the French GAAP balance sheet has been analysed mainly between two captions:
    - Non-Current Provision for Employee Benefit Costs, for €17 million (€22 million at 31 December 2004),
    - Long-term Provisions for €8 million (€8 million at 31 December 2004),
- Accrued expenses and other payables in the French GAAP balance sheet have been analysed mainly between four captions:
    - In Short-Term Provisions, for €4 million (0 at 31 December 2004),
    - In Current Employee Benefit liabilities for €79 million (€82 million at 31 December 2004),
    - In Other Payables for €78 million (€87 million at 31 December 2004),
    - in Current Tax Payable for €16 million (€72 million at 31 December 2004).
- Deferred income tax assets and liabilities have been classified as non-current. Therefore, the "deferred tax assets short-term, net" caption in the French GAAP balance sheet has been reclassified in "deferred tax assets and liabilities".

2.6.5 Main income statement reclassifications

In addition to the IFRS adjustment restatements described above (concerning revenue recognition, goodwill amortisation and impairment losses, share-based payment), certain presentation changes have been made to the income statement to comply with the IFRS format. The main reclassifications in 2004 concern profit from operations, as follows:

- Employee profit sharing is reported under "Employee Benefit Expenses",

- Net expenses of €10 million reported under "Other non-operating income/(expense), net" in the French GAAP income statement has been reclassified mainly among the following captions:

- Other operating income and expenses for (€5 million), mainly as a result of flotation costs,
- Wages and employee benefit expenses for (€4 million),
- Share-based compensation for (€1 million).

2.7 Effects on the 2004 statement of cash flows

	Period ended 31 December 2004		
(in thousands of euros)	French GAAP	IFRS	Adjustments
Net cash provided by operating activities	**362,234**	**362,234**	**-**
Net cash used in investing activities	**(32,133)**	**(32,133)**	**-**
Net cash used in financing activities	**(267,959)**	**(267,959)**	**-**
Net change in cash and cash equivalents	62,142	62,142	-
Effect of exchange rate on cash and cash equivalents	0	0	-
Cash and cash equivalents at beginning of period	581,935	581,935	-
Cash and cash equivalents at end of period	**644,077**	**644,077**	**-**

Applying IFRS has no effect on the balance of, or change in, cash and cash equivalents.

NOTE 3 - ACCOUNTING POLICIES

3.1 Basis of preparation of the financial statements

The preparation of the financial statements pursuant to IFRS requires the management of PagesJaunes Groupe to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent liabilities at the date of preparation of the financial statements and the reported income and expenses for the period.

Management reviews these estimates and assumptions on a continuous basis, by reference to past experience and various other factors considered reasonable which form the basis for assessing the carrying amount of assets and liabilities. Actual results may differ significantly from these estimates, as a result of different assumptions or circumstances.

Certain IASB accounting standards provide for options with regard to the measurement and recognition of assets and liabilities. The Group has thus elected:

- To continue recognising inventories at their original cost, determined in accordance with the weighted average unit cost method, in accordance with IAS 2 – Inventories;
- To measure property, plant and equipment and intangible assets using historical depreciated cost rather than remeasuring its property, plant and equipment and intangible assets at each closing.
- Recognise actuarial gains and losses on pension and other post-employment benefit obligations using the corridor method. This method consists of recognising the gains and losses that exceed 10% of the higher of the value of the obligation and the value of plan assets, over the remaining working lives of the employees participating in the plan;
- Continue to consolidate jointly-controlled companies using the proportionate method, as provided for in IAS 31 - Interests in Joint Ventures.

Lastly, where a specific transaction is not covered by any standards or interpretations, management must use its best judgment to define and apply accounting policies that will allow relevant and reliable information to be obtained, so that the financial statements:

- Give a fair presentation of the Group's financial position, financial performance and cash flows,
- Reflect the economic substance of transactions,
- Are neutral,
- Are prudent,
- Are complete in all material respects.

3.2 Consolidation

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

Companies that PagesJaunes Groupe jointly controls with a limited number of other shareholders are consolidated using the proportionate method.

Companies which PagesJaunes Groupe doesn’t control but over which it exercises significant influence (generally involving an ownership interest of between 20% and 50%) are accounted for using the equity method.

When assessing the level of control or significant influence exercised over an entity, account is taken of the existence and impact of any exercisable or convertible potential voting rights at the balance sheet date.

Pursuant to IFRS 5, the assets and liabilities of controlled entities that are deemed to be held for sale are reported on separate lines in the balance sheet. Profits or losses from discontinued operations are also reported on a separate line in the income statement. IFRS 5 defines a discontinued operation as a component of an entity with cash flows that are independent of the rest of the entity, that has either been disposed of or is held for sale, and that represents a separate major line of business or geographical area of operations.

Material inter-company transactions and balances are eliminated.

3.3 Foreign currency transactions

The principles relating to the measurement and recognition of foreign currency transactions are set out in IAS 21 - The Effects of Changes in Foreign Exchange Rates. In accordance with this standard, transactions denominated in foreign currencies are converted by the subsidiary into its functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities in the balance sheet are remeasured at the closing rate at each balance sheet date. And resulting differences are recorded in the income statement:

- In operating income for commercial transactions;
- In financial income or finance costs for financial transactions.

3.4 Presentation of the financial statements

As allowed under IAS 1 - Presentation of Financial Statements, the Group presents its income statement by nature. The presentation of the income statement is significantly different under IFRS, with the concept of non-operating income and expenses being eliminated and goodwill related charges being included in operating income.

Operating income corresponds to net income before:

- Financial income;
- Finance costs;
- Current and deferred income taxes;
- Profits and losses from discontinued operations and operations held for sale.

Gross operating margin corresponds to operating income before:

- Employee profit-sharing;
- Share-based compensation;
- Depreciation and amortisation expenses;
- Impairment of goodwill and other non-current assets;
- Gains and losses on asset disposals;
- Restructuring costs;
- Share of profits (losses) of associates;
- Impairment of goodwill on associates.

3.5 Revenues

Revenues from PagesJaunes Groupe activities are recognised and presented as follows, in accordance with the principles set out in IAS 18 - Revenue:

- Income from the sale of advertisement placements in printed directories is recognised in the income statement upon publication. As a result, where advertisement placement sales are invoiced for directories that are not yet published, they are included in the balance sheet under the “Deferred Income” heading.

- Income from advert placements in online directories is staggered over the period in which they are posted, which is generally 12 months.
- Expenses directly attributable to the publication of directories in a period are matched to the corresponding revenue recognised for that period; this affects sales and telesales commission fees as well as editorial royalties.

3.6 Advertising and related costs

Advertising, promotion, sponsoring, communication and brand development costs are fully expensed as incurred.

3.7 Goodwill

Goodwill represents the difference between the purchase price of shares in consolidated companies, including transaction costs, and the Group's share in the fair value of the underlying net assets at the date of acquisition.

In accordance with IFRS 3 – Business Combinations, goodwill is not amortized. It is tested for impairment at least once a year and whenever 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 and in certain cases, in order to test the goodwill, these 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 identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets. PagesJaunes Groupe generally measures the present value of goodwill at the level of each of its consolidated companies.

To determine whether there is an impairment loss, the consolidated carrying amount of assets and liabilities is compared to their recoverable amount. The recoverable amount is the higher of the fair value net of costs of disposal and its value in use.

Fair value net of costs of disposal is determined as the best estimate of the sales value net of costs of disposal in an arm's length transaction between knowledgeable, willing parties. This estimate is determined on the basis of available market information taking account of special circumstances.

The value in use used by the PagesJaunes Groupe corresponds to the discounted cash flows of the CGUs including goodwill. Cash flow projections are based on economic and regulatory assumptions, and forecast trading conditions used by PagesJaunes management in the following manner:

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

Goodwill impairment losses are recorded in the operating income.

If it has been decided to sell the business, the recoverable amount is determined on the basis of the fair value net of costs of disposal.

3.8 Other intangible assets

Other intangible assets primarily include trade marks, licences and patents, research and development costs and software. They are recognised at their purchase or production cost.

When intangible assets are acquired in a business combination, their cost is generally determined when allocating the purchase price on the basis of their respective market values, or in the absence thereof, by using generally accepted valuation methods based on revenues or costs.

Trade marks developed internally are not recognised in the balance sheet.

Trade marks

Trade marks with an indefinite useful life are not amortised, but rather tested for impairment (see Note 3.10).

Licences and patents

Licenses and patents are amortised on a straight-line basis over the expected period of use, and not more than twenty years.

Research and development costs

Under IAS 38 - Intangible Assets, development costs must be capitalised when the following can be demonstrated:

- The intention as well as the financial and technical resources to complete the development project;
- It is probable that the future economic benefits resulting from the development expenditure will flow to the Group;
- And the cost of the asset can be reliably measured.

Research costs and development costs not fulfilling the above criteria are expensed as incurred. Significant development costs that have been capitalised are amortised on a straight-line basis over their useful life, which is generally not more than three years.

Software

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

3.9 Property, plant and equipment

Cost

The cost of an item of property, plant and equipment corresponds to its purchase or production cost. This includes costs that are directly attributable to bringing the asset to the location and condition necessary for it to operate 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, the obligation being incurred either when the Group acquires the item of property, plant and equipment or as a result of having used the item for a specific length of time for purposes other than to produce inventory during the period.

Finance leases

Finance leases transferring the risks and rewards of ownership (finance leases) to PagesJaunes Groupe are recorded in property, plant and equipment and an obligation for the same amount is recorded in liabilities.

Similarly, assets leased by PagesJaunes Groupe as lessor under leases that transfer the risks and rewards of ownership to the lessee are treated as having been sold.

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

Depreciation

The depreciation of an item of property, plant and equipment is calculated on the basis of the expected rate of consumption of the economic benefits in accordance with its purchase cost, less its residual value, where applicable. In this regard, the straight-line basis is usually applied over the following estimated periods: 25 to 30 years for buildings, 5 to 10 years for fixtures and between 1 and 5 years for other items of property, plant and equipment.

These depreciation periods are reviewed annually and are adjusted if the estimates differ from previous estimates. These changes in accounting estimates are recognised prospectively.

3.10 Impairment of non-current assets

Under IAS 36 - Impairment of Assets, items of property, plant and equipment must be tested for impairment when there are indications that they may be impaired. Indicators are reviewed at each closing date.

In the event that the recoverable amount of an item of property, plant and equipment or an intangible asset seems to have permanently fallen below its net carrying amount, due to events or circumstances occurring during the period (obsolescence, physical deterioration, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) an impairment loss is recognised. The recoverable amount is the higher of the fair value net of costs of disposal and the value in use.

Each asset or group of assets is tested for impairment by comparing the recoverable amount to the net carrying amount. When an asset or group of assets is found to be impaired, the recognised impairment loss is equal to the difference between the net carrying amount 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 estimated by, in particular, using the discounted cash flows method, based on economic assumptions and forecast trading conditions used by PagesJaunes Groupe management.

3.11 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 accounts payable.

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

Measurement and recognition of financial assets

Held-to-maturity assets

Held-to-maturity investments are assets with fixed or determinable income and with fixed maturity, other than loans and receivables, that the Group has the intention and ability to hold to maturity. They are initially recognised at fair value and are subsequently measured and recognised at depreciated cost using the effective interest rate method.

Held-to-maturity assets are monitored for objective indications of impairment. A financial asset is impaired where its carrying amount exceeds its recoverable amount as estimated during 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 qualify for any other financial asset category. They are measured at fair value and gains and losses resulting from remeasurement are recognised in equity.

Fair value represents the market price for listed securities or an estimate of the value in use for unlisted securities, determined according to the most appropriate financial criteria in each case.
Where there are objective indications that these securities have been impaired, the accumulated loss which had been recognised in equity is recorded in income.

Loans and receivables

Loans and receivables include receivables from non-consolidated companies, other loans and receivables and trade receivables. These instruments are initially recognised at fair value and are subsequently measured at depreciated cost using the effective interest rate method. Short-term receivables with no stated interest rate are measured at the amount of the original invoice unless the application of an implicit interest rate would be material. Cash flows on variable rate loans and receivables are remeasured periodically, so as to take account of changes in market interest rates, changing the effective interest rate and as a result the valuation of the loan or receivable.

Loans and receivables are monitored for objective indications of impairment. A financial asset is impaired where its carrying amount exceeds its recoverable amount as estimated during impairment tests. The impairment loss is recognised in the income statement.

Assets held for trading

Assets deemed to be held for trading include assets that the Group intends to resell in the near term in order to realise a gain, that form part of a portfolio of financial instruments that are managed together and for which there is an established pattern of short-term profit-taking. Assets held for trading may also include assets that the Group has opted to include in this category, independently of the above criteria (Fair Value option).

Assets held for trading are carried in the balance sheet under "Other current financial assets" and consist mainly of mutual fund units.

Cash and cash equivalents

Cash equivalents are held to meet the Group's 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 loss of value. 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 realizable value.

Measurement and recognition of financial liabilities

With the exception of financial liabilities held for trading that are measured at fair value, borrowings and other financial liabilities are initially recognised at fair value and subsequently at depreciated cost, calculated using the effective interest rate.

Transaction costs that are directly attributable to the acquisition or issue of a financial liability are deducted from this financial liability. In fact, liabilities are initially recognised at cost, which is the fair value of the consideration paid or received for this financial liability. The costs are subsequently actuarially amortised over the life of the liability, using the effective interest rate method.

The effective interest rate is the rate that discounts expected future cash outflows to maturity or up to the subsequent date of readjustment to market rates, to the net present carrying amount of the financial liability. The calculation includes all fees and spreads paid or received between the parties to the contract.

Financial liabilities held for trading

Financial liabilities held for trading are measured at fair value.

3.12 Inventories

Inventories are stated at the lower of cost and probable net realisable value, taking account in particular of expected future revenues from the sale of packages comprising a mobile handset and a subscription. Cost represents the purchase or production cost determined using the weighted average cost method.

3.13 Deferred taxes

In accordance with IAS 12 - Income Taxes, deferred taxes are recognised for all temporary differences between the carrying values of assets and liabilities and their tax bases, as well as for unused tax losses, using 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, advertiser lists,…).

A deferred tax liability is recognised for all temporary taxable differences between the carrying amount of investments in subsidiaries and joint ventures or equity method investments and their tax basis, except where:

- The Group is able to control the timing of the reversal of the temporary difference (for example: dividend distribution); 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 the Group.

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

3.14 Provisions

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

This obligation may be legal, regulatory or contractual. It may also arise from Group practices or public commitments creating a valid expectation amongst those concerned as to the assumption by the Group of certain responsibilities.

The amount recognised as a provision corresponds to the probable outflow of resources that the Group will be required to make to settle its obligation. If a reliable estimate cannot be made of the amount of the obligation, no provision is recorded but the obligation must be disclosed in the notes to the financial statements.

Contingent liabilities are possible obligations arising from past events, the existence of which will only be confirmed by the occurrence of uncertain future events not wholly within the Group's control, or probable obligations for which an outflow of resources is not certain. They are disclosed in the notes to the financial statements.

In the case of restructuring, an obligation arises once the restructuring is announced and the Group has drawn up or has started to implement a detailed formal plan, prior to the balance sheet date.

Provisions are discounted when the discounting adjustment is material.

Statutory training rights (DIF)

Expenditure incurred relating to statutory training rights is recognised as an expense in the period and is not provided for, though the cumulative number of hours of training entitlement at the balance sheet date and the unused portion of the vested entitlement must be disclosed in the notes to the consolidated financial statements.

In a limited number of cases (requests for training leave (CIF), or in the event of redundancy or resignation) where these costs cannot be considered as remuneration for future services, the resulting short-term obligation is provided for in the financial statements for the period, once the obligation vis-à-vis the employee becomes probable or certain.

3.15 Pension and other post-employment benefit obligations

Retirement indemnities and other retirement benefits

In France, employees are legally entitled to a lump sum payment when they retire based on their years of service and their end-of-career salary. The actuarial cost of this obligation is recognised as an expense each year over the working lives of employees.

The impact of changes in assumptions is recognised in income over the remaining working lives of employees.

Other pension plans

These benefits are granted to employees either under defined contribution or defined benefit plans.

The Group's obligation under defined contribution plans is limited to the payment of contributions, which are expensed as incurred.

Other long-term benefits

Other long-term benefits that may be granted by PagesJaunes Groupe primarily include long-service awards and paid long-term leaves of absence, which are also measured on an actuarial basis.

Termination benefits

As the case may be, termination benefits are also determined on an actuarial basis and are provided for in the income statement up to the amount of the obligation.

For all these commitments resulting in the payment of termination benefits, the impact of changes in assumptions is recognised in profit or loss for the period in which the assumptions are revised.

3.16 Share-based compensation

In accordance with IFRS 2 - Share-Based Payment, stock options, employee share issues and share grants without consideration given to PagesJaunes Groupe employees are measured on the grant date.

For these offers, the grant date was taken by the Group to be the date on which the main terms of the plan were announced to employees, as stipulated in the press release issued by the French standards setting body (CNC) on 21 December 2004 on the topic of employee share ownership plans.

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

The value of stock options is generally determined 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 on the shares and the risk-free interest rate over the life of the options. The amount so determined is recognised in personnel costs 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 employee debt 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 US GAAP (FAS 123) using the Black-Scholes model. From 1 January 2004, all new plans are valued in accordance with IFRS 2 using a binomial model.

NOTE 4 - ADDITIONAL PRO FORMA INFORMATION

The pro forma consolidated information for the 2004 financial year is intended to show the impact on the historical consolidated information of the PagesJaunes Groupe of the acquisitions of QDQ Media and Mappy (formerly Wanadoo Maps), Wanadoo subsidiaries acquired during the 1st half of 2004.

This pro forma information was drawn up on the basis of the historical consolidated information of the PagesJaunes Groupe and of its acquired subsidiaries restated in the manner set out in the following paragraphs.

The main bases used to prepare the pro forma information are as follows:

The income statement includes:

- the consolidated operating results of the PagesJaunes Groupe together with those of its acquired subsidiaries
- the finance costs generated by the financing of the purchase price.

The current tax recognised in the pro forma consolidated information relates to that reported by Group companies. It was corrected for the change in income resulting from the restatement of financial income.

The calculation of profit-sharing was revised to take account of the items listed below.

No adjustment for fixed costs was recognised, to the extent that the entities already include these costs on an individual basis:

	2 004	Adjustments	**2004 Pro forma**
Net revenue	967 160	10 966	978 126
External purchases	(317 582)	(5 709)	(323 291)
Other operating income and expenses	26 896	(766)	26 130
Wages and employee benefit expenses	(268 992)	(6 857)	(275 849)
Gross operating margin	**407 482**	**(2 366)**	**405 116**
- Employee profit-sharing	(29 926)	0	(29 926)
- Share-based payment *(*)*	(25 274)	0	(25 274)
Depreciation and amortisation	(10 066)	(238)	(10 304)
Impairment of goodwill	0	0	0
Impairment of assets	0	0	0
Losses on disposal of assets	(363)	0	(363)
Restructuring costs	0	0	0
Share of the profit (losses) of associates	774	0	774
Operating income	**342 627**	**(2 604)**	**340 023**
Interest revenue	20 784	(1 464)	19 320
Interest expense	(444)	(2)	(446)
Foreign exchange gains (losses)	(51)	0	(51)
Financial income	**20 289**	**(1 466)**	**18 823**
Income tax	(149 314)	546	(148 768)
Net income	**213 602**	**(3 524)**	**210 078**
Minority interests	0	0	0
Consolidated attributable net income	**213 602**	**(3 524)**	**210 078**

(*) of which 1,150 of top-up contributions booked under non-operating income according to French GAAP but under share-based payment according to IFRS

4.1 Analysis by business segment

The following table shows the breakdown of the main aggregates by business segment for the period ended 31 December 2004:

Amounts in thousands of euros	**PagesJaunes in France**	**International & Affiliates**	**Eliminations**	**Total PagesJaunes Groupe**
At 31 December 2004				
Net revenue	**903 937**	**65 017**	**(1 841)**	**967 113**
External purchases	(288 408)	(30 968)	1 841	(317 535)
Other operating income and expense	29 787	(2 891)		26 896
Wages and employee benefit expenses	(231 376)	(37 616)		(268 992)
Gross operating margin	**413 940**	**(6 458)**	**0**	**407 482**
- Employee profit-sharing	(29 408)	(518)		(29 926)
- Share-based compensation *(*)*	(23 522)	(1 752)		(25 274)
Depreciation and amortisation	(6 670)	(3 396)		(10 066)
Impairment of goodwill				0
Impairment of assets				0
Losses on disposal of assets	(360)	(3)		(363)
Restructuring costs				0
Share of the profit (losses) of associates		774		774
Operating income	**353 980**	**(11 353)**	**0**	**342 627**
Interest revenue				20 784
Interest expenses				(444)
Foreign exchange gains (losses)				(51)
Discounting				(149 314)
Net income				**213 602**
Capex	**6 211**	**1 466**		**7 677**

(*) of which 1,150 of top-up contributions booked under non-operating income according to French GAAP but under Share-based compensation according to IFRS