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GROUP MANAGEMENT REPORT

Year ended 31 December 2006 (M€ = million euros)

1• KEY EVENTS IN 2006 AND MAIN CHANGES IN CONSOLIDATION SCOPE

As of 31 December 2006, 384 hypermarkets and 717 supermarkets were consolidated, compared to 360 and 654 respectively at 31 December 2005.

The Group opened 24 hypermarkets in 2006: 11 in Europe of which 7 in Russia, 1 in Spain, 1 in Italy, 1 in Poland and 1 in Romania in partnership, 12 in mainland China of which 3 under the Auchan brand and 9 RT Mart stores, and 1 in Morocco.

The number of supermarkets increased by a net total of 16 units (8 in France, of which 6 following the acquisition of a franchisee, 2 in Italy, 4 in Russia and 2 in Morocco).

In mid-December 2006, Auchan and Casino announced the termination of the partnership arrangement set up within IRTS, an international service provider company held on a 50/50 basis, effective on 1 January 2007. In accordance with IFRS 5 – *Non-current assets held for sale and discontinued operations* –, the assets and liabilities of this business at 31 December 2006 are presented on specific lines of the balance sheet.

With regards to financing, Banque Accord issued a bond in Luxembourg for M€ 200 at 5 years in June 2006, as part of its EMTN program.

2• ACTIVITIES AND RESULTS

2.1 Hypermarket and Supermarket activities

As of 31 December 2006, the Group operates in 12 countries and region, through 384 hypermarkets (and 5 under management contracts) and 717 supermarkets.

The consolidated network of stores is as follows at 31 December 2006:

Country	Hypermarkets	Supermarkets	Notes
France	120	286	
Spain	47	123	
Italy	43	267	
Portugal	17		
Luxembourg	1		
Poland	20	14	
Hungary	10		
Russia	14	5	
Mainland China	84		16 Auchan and 68 RT Mart
Taiwan	14		+ 5 under management contracts
Morocco	13	22	
Romania	1		Accounted for using the equity method

Revenue from the Hypermarket and Supermarket activities in 2006 was € 27.6 billion (+4.9% compared with 2005) and € 6.7 billion (stable) respectively.

2.2 Property management activity (Immochan)

As of 31 December 2006, Immochan and its subsidiaries manage 269 shopping centres (shopping malls and business parks), of which 250 are wholly owned or leased and 19 are operated under management contracts, in 11 countries.

Revenue for 2006, including billings to Group companies, was M€ 331 of which 53% are realised in France.

2.3 Customer credit activity (Banque Accord)

As of 31 December 2006, Banque Accord operates in 9 countries (France, Spain, Italy, Portugal, Poland, Hungary, Russia, mainland China and Romania).

Total production of 2006 amounted to € 6.8 billion with 4.8 million customers.

2.4 Comments on 2006 financial statements

Restatement of 2005 figures

Change in accounting policy: amendment to IAS 19 – *Employee benefits*.

The Group has applied the amendment to IAS 19 as from 1 January 2006.

This change in accounting policy has been applied retrospectively in accordance with the transitional provisions of the amendment.

The option for immediate recognition in equity of all actuarial gains and losses on defined benefit pension plans has no impact on the result of the 2005 financial year, as the corridor method previously applied did not lead to recognition of any amortisation of actuarial gains or losses since they were below the 10% limit stipulated in IAS 19.

Comments on the income statement

Group revenue totals € 35.0 billion, up 4.1% compared to 2005, and up 3.7% on a comparable basis in terms of exchange rates and consolidation scope ⁽¹⁾.

The Hypermarket division accounts for 78% of revenue, the Supermarket division 19%, and other activities, 3%. These figures are practically identical to those of 2005.

(1) Acquisitions of subsidiaries were not material in 2005 and 2006.

By geographical area, 53% of revenue are generated in France, 31% in Western Europe excluding France (Spain, Italy, Portugal and Luxembourg) and 16% in the rest of the world (Poland, Hungary, Russia, mainland China, Taiwan and Morocco). Comparable figures for 2005 were 55%, 31% and 14%.

Gross profit is up 4% in absolute value, and the margin ratio is stable at 23.2%.

Recurring operating expenses (payroll expenses, external expenses, depreciation, amortisation and provisions, and other recurring operating income and expenses) are up 4.5%, or slightly more than the increase in revenue and gross margin.

EBITDA, which means recurring operating income excluding other recurring operating income and expenses, depreciation, amortisation and provisions⁽²⁾, represents M€ 2,143, down 0.2%.

Recurring operating income totals M€ 1,293, up 1.1%.

The net cost of financial debt is M€ (150) compared with M€ (132) in 2005. The decrease in average debt (impact + M€ 34) is partially offset by the increase in interest rates (impact M€ (12)). Other financial income and expenses are nil in 2006. In 2005, they corresponded to reversals of provision on investments and gains on disposal of financial assets for an amount of M€ 19.

The effective tax rate is 34.5% for 2006, compared to 34.6% in 2005.

Net income from continuing operations is M€ 759 (compared to M€ 750 in 2005).

Net income attributable to equity holders of the parent is M€ 746. This figure is not comparable with the 2005 amount (M€ 964) which included net income from activities sold (non-food and DIY in Italy and hypermarkets in Argentina).

Cash flows from operations are stable at M€ 1,590.

Comments on the balance sheet and financial structure

Assets:

Investments other than business combinations (acquisitions of intangible assets, property, plant and equipment, investment property and shares) amounted to M€ 1,319 in 2006, compared to M€ 1,177 in 2005, for cash flows from operations exceeding € 1.5 billion.

Liabilities:

As of 31 December 2006, equity totals M€ 6,118, compared to M€ 5,558 at 31 December 2005.

Equity attributable to equity holders of the parent is M€ 5,982, which represents an increase of M€ 557.

The main changes (in M€) are as follows:

2006 income	746
dividends	(60)
capital reduction by cancellation of treasury shares ⁽³⁾	(106)
change in foreign currency translation adjustments (essentially due to depreciation of the Chinese yuan and Taiwan dollar)	(28)

Minority interests amount to M€ 136, compared to M€ 133 as at 31 December 2005.

Net indebtedness, including borrowings and other financial liabilities net of cash (cash and cash equivalents), and net of derivative financial instruments (assets and liabilities), and excluding the debt financing the credit activity, represents M€ 1,964 at 31 December 2006, compared to M€ 2,430 at 31 December 2005.

Net indebtedness amounts to 32% of total equity, compared to 44% at 31 December 2005, representing 1.2 years' cash flows from operations.

The good Standard & Poor's rating for the Group, stable for the last 4 years (long-term A and short-term A1), confirms its financial strength.

3• POST-BALANCE SHEET EVENTS

In January 2007, the Casablanca Court of Arbitration, to which the Auchan Group had submitted its dispute with ONA, its partner in two companies held at 49%, Marjane (Hypermarkets and Property management) and Acima (Supermarkets), gave an unfavourable judgment against the Auchan Group. The dispute concerns the appointment of a third Director, who is a member of ONA, to the Boards of Directors of Marjane and Acima. Marjane and Acima continue to be consolidated proportionately in the 2006 financial statements. The Auchan Group considers that strategic and financial decisions are taken by the Supervisory Board on the basis of two-thirds majority, and that eventual disagreements between the partners would necessarily have to be submitted to an Extraordinary General Meeting of Shareholders, voting on a two-thirds majority basis, which consequently requires Auchan's approval.

(2) Excluding charges and reversals of impairment, apart from charges and reversals of impairment on inventories.

(3) Shares acquired from FCPE Valauchan for an amount of M€ 107 were subsequently cancelled.

4• PERSPECTIVES

Perspectives are encouraging in the four businesses in which the Group operates.

The hypermarkets and supermarkets should continue to confirm their discount positioning, and win new modernity-oriented markets. For the supermarkets, it is essential to confirm the success of the new Simply Market chain, corresponding to a new commercial model.

It is planned to accelerate organic growth, in particular for the hypermarkets. The international share in total sales should exceed 50%.

With its expertise in the monetics domain, Banque Accord possesses the best possible advantages for addressing the European payment market. The banking subsidiary will continue its growth, setting up partnerships with new brands and introducing innovative products.

Immochan should achieve sustained organic growth, and launch a major program in the environmental and energy-saving domains. The sustainable development dimension will generally be strengthened in each of these businesses.

5• MANAGEMENT OF FINANCIAL RISKS

In the normal course of its business, the Group is exposed to interest rate, currency and credit risks. Derivative financial instruments are used to reduce these risks.

The Group has set up an organisation for central management of market risks (liquidity, interest rate and currency risks).

5.1 Credit risks

Operational activity

The Auchan Group works exclusively with leading banks for its financial activities and interest rate and currency derivative transactions. The counterparty risk is consequently not material.

With regards to investments, Group policy is to invest its cash surplus in counterparties with monetary management A1 or P1 rating.

Specific activity of Banque Accord and its subsidiaries: customer risk management

The year was marked by continued tension concerning over-borrowing risks, which remained at sustained levels throughout 2006. Card and loan acceptance levels increased substantially as a result of targeted direct marketing operations with the retail companies. General risk levels were inside budget forecasts as a result of permanent adaptation of the collection processing chains set up repeatedly throughout the year.

The cost of risk in other countries was at the expected level.

Credit risk control will be strengthened, in parallel with the continued development of the Bank, with progressive adoption of the Basle 2 project IRBA standards by all Banque Accord Group companies.

5.2 Interest rate risk

Interest rate derivative instruments are used solely to reduce Group exposure to fluctuations in interest rates on his debt.

Transactions on the derivative markets are undertaken solely for hedging purposes.

5.3 Currency risk

The Group is exposed to foreign currency risk on purchases, sales and borrowings denominated in a currency other than the euro, and the value of the net assets of its subsidiaries in foreign currencies. Derivative foreign exchange instruments are used to limit fluctuations in exchange rates for the Group's currency requirements, and the value of the net assets of certain Group subsidiaries.

Transactions on the derivative markets are conducted solely for the purpose of hedging.

Foreign exchange transactions only concern the US dollar, Polish zloty, Hungarian forint, Russian rouble, Taiwan dollar and Japanese yen.

5.4 Liquidity risk

Group policy is to maintain sufficient medium- and long-term funding on a permanent basis, to finance its requirements at the bottom end of the seasonal cycle, and cover a safety margin.

6• ENVIRONMENTAL POLICY

The Group strengthened its actions in favour of the environment with three particular targets in 2006.

6•1 Reduction of the environmental impact of Group activity

Reduction of pollution created by his activity continues to be a priority for the Group. Management and enhancement of the value of waste, reduced energy consumption, product eco-design, and the increased awareness and training of staff in environment-friendly practices represent some of the many key areas addressed by the Group chains.

For example, over 54% of the waste generated by the hypermarkets in France are used or recycled. In 2006, the Western Europe chains introduced "green checkout" no longer using non-reusable plastic bags. In France, 113 of the 120 Auchan hypermarkets and all Simply Market supermarkets are fully equipped along with these lines. This new supermarket chain has also adopted the use of trolleys and baskets manufactured in recycled plastic.

Optimisation of journey distances also led to a 5% reduction in greenhouse gas emission in France in 2006.

In recognition of the Group's commitment, EMAS and ISO 14001 environmental standards certification has been obtained by 4 Alcampo hypermarkets in Spain. This takes the number of Group hypermarkets holding ISO 14001 certification to 13: 7 in France, 5 in Spain and 1 in Hungary.

6•2 Incentives for environment-friendly consumption

The chains are developing an extensive selection of environment-friendly quality products. In particular, they have created their own ranges of biological and industry-developed items. These include 76 "Vida Auchan" products in Portugal and 60 "Auchan Sélection" fresh food products in China. Following on from Auchan Italy, which developed its biological range several years back, an *Auchan Bio* brand has been launched in France, and is already marketing 80 out of a total of 130 products targeted for the end of 2007. The chain was the first supermarket operator to obtain Ecocert certification. Rigorous measures have been taken to contribute to the preservation of fish reserves by adopting a responsible approach to seafood product sales.

The eco-design strategy is being pursued, with marketing of products taking full advantage of environmental certification and reduced packaging for Auchan and Pouce products. In France, Atac is selling wooden garden furniture with FSC certification, and more than 3,400 tonnes of packaging materials have been saved by Auchan in the last 4 years. The self-discount departments deployed in 173 European hypermarkets are now offering products in bulk or with packaging reduced to a minimum.

6•3 Environmental integration of shopping centres

The Group and its real-estate subsidiary, Immochan, are working on optimisation of natural resources, and the integration of each shopping centre in his immediate environment. The use of local materials is privileged, and emphasis is placed on green areas. Immochan formalised its environmental approach in a charter in 2006. This charter sets out requirements and recommendations for garden spaces. The emphasis placed on environmental considerations by the Group's real-estate subsidiary was rewarded this year on two occasions at Noyelles-Godault (62) in France.

CONSOLIDATED BALANCE SHEET

as at 31 december 2006

ASSETS (in M€)		2006	2005 restated ⁽¹⁾
Goodwill	note 17	3,389	3,383
Other intangible assets	note 18	48	42
Property, plant and equipment	note 19	7,372	7,268
Investment property	note 20	2,018	1,855
Investments in associates	note 21	83	52
Customer loans – Credit activities	note 22	831	706
Other non-current financial assets	note 23	451	527
Derivative financial instruments (non-current)	note 35	31	26
Deferred tax assets	note 24	85	75
Non-current assets		14,308	13,934
Inventories	note 25	2,617	2,690
Customer loans – Credit activities	note 22	1,662	1,463
Trade receivables		361	314
Current tax assets	note 26	27	62
Other current receivables	note 27	2,054	2,067
Derivative financial instruments (current)	note 35	27	39
Cash and cash equivalents	note 28	2,308	1,605
Assets classified as held for sale	note 8	17	-
Current assets		9,073	8,240
Total ASSETS		23,381	22,174

LIABILITIES (in M€)		2006	2005 restated ⁽¹⁾
Share capital	note 29	628	635
Share premiums		1,836	1,936
Reserves and net income attributable to equity holders of the parent	note 29	3,518	2,854
Equity attributable to equity holders of the parent		5,982	5,425
Minority interests	note 29	136	133
Total equity		6,118	5,558
Long-term provisions	note 32	344	370
Non-current borrowings and other financial liabilities	note 33	3,219	3,412
Debts financing the credit activities	note 34	952	688
Derivative financial instruments (non-current)	note 35	51	21
Other non-current liabilities	note 37	79	63
Deferred tax liabilities	note 24	559	555
Non-current liabilities		5,204	5,109
Short-term provisions	note 32	175	164
Current borrowings and other financial liabilities	note 33	1,045	660
Debts financing the credit activities	note 34	1,200	1,195
Derivative financial instruments (current)	note 35	15	7
Trade payables	note 38	7,051	6,976
Current tax liabilities	note 38	61	74
Other current liabilities	note 38	2,506	2,431
Liabilities classified as held for sale	note 8	6	-
Current liabilities		12,059	11,507
Total LIABILITIES		23,381	22,174

(1) The balance sheet at 31 December 2005 has been restated (described in note 4), following application of the amendment to IAS 19.

CONSOLIDATED INCOME STATEMENT

year ended 31 december 2006

(in M€)		2006	2005
Revenue	note 9	34,990	33,608
Cost of sales	note 10	(26,869)	(25,796)
Gross profit		8,121	7,812
Payroll expenses	note 11	(3,846)	(3,684)
External expenses		(2,068)	(1,893)
Depreciation, amortisation and provisions	note 12	(942)	(983)
Other recurring operating income and expenses		28	27
Recurring operating income		1,293	1,279
Other operating income and expenses	note 14	0	(1)
Operating income		1,293	1,278
<i>Income from cash and cash equivalents</i>		23	23
<i>Gross cost of financial debt</i>		(155)	(173)
Net cost of financial debt		(132)	(150)
Other financial income and expenses	note 15	0	19
Income before taxes		1,161	1,147
Income taxes	note 16	(401)	(397)
Share in earnings of associates		(1)	0
Net income from continuing operations		759	750
Net income from assets held for sale and discontinued operations	note 8	0	226
Net income		759	976
of which attributable to minority interests		13	12
of which attributable to equity holders of the parent		746	964
Earnings per share from continuing operations attributable to equity holders of the parent (in €)			
– basic	note 6	23.61	23.35
– diluted	note 6	23.60	23.33

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CONSOLIDATED STATEMENT OF NET CASH FLOWS

(in M€)	2006	2005
Consolidated net income (including minority interests)	759	976
Share in earnings of associates	1	0
Dividends received (non-consolidated investments)	(2)	0
Net cost of financial debt	132	150
Current and deferred taxes	401	398
Net increase/decrease in depreciation, amortisation and provisions (other than on current assets)	856	887
Income and expenses on share-based payment plans	2	2
Other non-cash or non-operating items	1	8
Capital gains/losses net of tax and negative goodwill	(15)	(249)
Cash flows from operations before net cost of financial debt and tax	2,135	2,172
Income taxes paid	(413)	(433)
Interests paid	(159)	(172)
Other financial items	27	22
Cash flows from operations after net cost of financial debt and tax	1,590	1,589
Changes in working capital	165	85
<i>Inventories</i>	60	(182)
<i>Trade receivables</i>	(55)	33
<i>Trade payables</i>	115	370
<i>Other assets and liabilities</i>	45	(136)
Changes in items relating to the credit activities	(55)	(4)
<i>Customer loans – Credit activities</i>	(324)	(316)
<i>Debts financing the credit activities</i>	269	312
Net cash flow from operating activities	1,700	1,670
Acquisition of property, plant and equipment, intangible assets and investment property	(1,191)	(1,288)
Proceeds from sale of property, plant and equipment, intangible assets and investment property	77	88
Acquisition of shares in non-consolidated companies	(17)	(27)
Proceeds from sale of shares in non-consolidated companies	0	56
Impact of change in consolidation scope (acquisition of subsidiaries net of cash acquired) ⁽¹⁾	(83)	(86)
Impact of change in consolidation scope (sales of subsidiaries net of cash disposed of) ⁽¹⁾	39	577
Dividends received (non-consolidated companies)	2	0
Changes in loans and advances	56	19
Net cash flow used in investment activities	(1,117)	(661)
Sums received from shareholders on capital increases	1	26
<i>Paid by parent company shareholders</i>	0	0
<i>Paid on exercise of stock options</i>	0	25
<i>Paid by minority shareholders in consolidated companies</i>	1	1
Purchases and sales of treasury shares	(106)	(21)
Dividends paid during the financial year	(66)	(9)
<i>Dividends paid to parent company shareholders</i>	(60)	0
<i>Dividends paid to minority shareholders in consolidated companies</i>	(6)	(9)
Debt: proceeds (repayments) including finance leases	(13)	(741)
<i>Proceeds from borrowings</i>	291	1,009
<i>Repayments of borrowings (including finance leases)</i>	(304)	(1,750)
Net cash flow used in financing activities	(184)	(745)
Effect of changes in foreign exchange rates	0	(9)
Change in net cash	399	255
Net cash at beginning of period (see note 28)	1,160	905
Net cash at end of period (see note 28)	1,559	1,160
Change in net cash	399	255

(1) Including change in put options granted to minority shareholders.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(before appropriation of net income)

(in M€)	Share capital	Share premiums ⁽¹⁾	Treasury shares	Consolidated reserves and net income	Total equity		
					Attributable to equity holders of the parent	Attributable to minority interests	Total
Balance at 01.01.2005 as previously reported	633	1,913	-	1,847	4,393	200	4,593
Change in accounting policy (amendment to IAS 19)				(10)	(10)	-	(10)
Balance at 01.01.2005 restated⁽²⁾	633	1,913	-	1,837	4,383	200	4,583
Capital increases	2	23			25	1	26
Treasury shares			(21)		(21)	-	(21)
Dividends					-	(6)	(6)
Net income of the period				964	964	12	976
Income and expenses recognized directly in equity				63	63	4	67
Changes in consolidation scope and other changes				11	11	(78)	(67)
Balance at 31.12.2005 restated⁽²⁾	635	1,936	(21)	2,875	5,425	133	5,558
Capital increases/decreases					-	1	1
Treasury shares ⁽³⁾	(7)	(100)	1		(106)	-	(106)
Dividends				(60)	(60)	(6)	(66)
Net income of the period				746	746	13	759
Income and expenses recognised directly in equity				(30)	(30)	(4)	(34)
Changes in consolidation scope and other changes				7	7	(1)	6
Balance at 31.12.2006	628	1,836	(20)	3,538	5,982	136	6,118

(1) Share premiums include premiums paid for stock issued, mergers and other capital contributions.

(2) Equity at 1 January 2005 and 31 December 2005 as previously reported have been restated (described in note 4) following application of the amendment to IAS 19.

(3) See note 29.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

(in M€)	2006	2005 restated
Foreign currency translation differences for foreign operations	(33)	61
Change in fair value of financial instruments:		
<i>Change in fair value of available-for-sale financial assets</i>	<i>note 29</i> (10)	2
<i>Cash flow hedge</i>	<i>note 29</i> (4)	10
Actuarial gains and losses for defined benefit plans	<i>note 4</i> 13	(6)
Income and expense recognised directly in equity	(34)	67
Net income for the period	759	976
Total recognised income and expense for the period	725	1,043
Attributable to:		
Equity holders of the parent	716	1,027
Minority interests	9	16
Total recognised income and expense for the period	725	1,043
Impact of changes in accounting policy on reserves at 1 January	<i>note 4</i> -	(10)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(all amounts expressed in millions of euros – M€)

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note 17	Goodwill	28	note 39	Finance leases and operating leases	53
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note 1 GENERAL DESCRIPTION OF THE GROUP

The Auchan Group (hereinafter referred to as “the Group”) is a retailer of food and other consumer products.

As of 31 December 2006, the Group operates 384 hypermarkets (of which 383 are fully consolidated or consolidated by the proportionate method and 1 in Romania is accounted for using the equity method), 5 under the terms of management contracts, and 717 supermarkets in 12 countries (France, Spain, Italy, Portugal, Luxembourg, Poland, Hungary, Russia, mainland China, Taiwan, Morocco and Romania).

The Group also manages a significant network of shopping centres, malls and business parks. In addition, Auchan has had its own banking subsidiary for many years, which deals exclusively with individual customers.

note 2 SIGNIFICANT EVENTS AND PRINCIPAL CHANGES IN THE SCOPE OF CONSOLIDATION

The Group opened 24 hypermarkets in 2006: 11 in Europe, of which 7 in Russia, 1 in Spain, 1 in Italy, 1 in Poland and 1 in Romania in partnership, 12 in mainland China, of which 3 under the Auchan brand and 9 RT Mart stores, and 1 in Morocco.

The number of supermarkets increased by a net total of 16 units (8 in France, of which 6 following acquisition of a franchisee, 2 in Italy, 4 in Russia and 2 in Morocco).

In mid-December 2006, Auchan and Casino announced the termination of the partnership arrangement set up within IRTS, an international service provider company held on a 50/50 basis, effective on 1 January 2007. In accordance with IFRS 5 – *Non-current assets held for sale and discontinued operations* –, the assets and liabilities of this business at 31 December 2006 are presented on specific lines of the balance sheet (see note 8).

With regards to financing, Banque Accord issued a bond in Luxembourg for M€ 200 at 5 years in June 2006, as part of its EMTN program.

note 3 ACCOUNTING RULES AND METHODS

The consolidated financial statements of Groupe Auchan SA were prepared by the Executive Board on 20 February 2007.

3.1 Statement of compliance

In application of European Regulation No. 1606/2002 of 19 July 2002, and edict No. 2004-1382 of 20 December 2004, allowing unlisted French companies to prepare their consolidated financial statements in accordance with International Financial Reporting Standards, the consolidated financial statements of Groupe Auchan SA have been

prepared in accordance with IAS (International Accounting Standards)/IFRS (International Financial Reporting Standards) issued by the IASB (International Accounting Standards Board), as well as their interpretations and as approved by the European Union on 31 December 2006.

With the exception of the elements mentioned below, amendments to published standards (amendment to IAS 21 and IAS 39) and interpretations (IFRIC 4 – *Determining whether an arrangement contains a lease*) which came into force on 1 January 2006, have had no impact on the Group financial statements.

On 1 January 2006, the Group adopted the amendment to IAS 19 – *Employee benefits: Actuarial gains and losses, Group plans and disclosures*. As such, the Group now recognises actuarial gains and losses under defined-benefit plans immediately in equity. Previously, the Group applied the corridor method for recognition of actuarial gains and losses in the income statement, over the expected average remaining working lives of employees in the plan.

The change in accounting policy has been applied retrospectively, in accordance with the transitional provisions of the amendment and comparative data have been restated.

The impact of this change in accounting method on the consolidated financial statements for the 2005 financial year are described in note 4.

Standards, amendments to existing standards and interpretations that are not mandatory at 31 December 2006 have not been anticipated. Standards, amendments to standards and interpretations already published but not yet in force at 31 December 2006 that might have an impact on the Group financial statements are as follows:

- amendment to IAS 1 on capital disclosures;
- IFRS 7 – *Financial instruments: disclosures*;
- IFRS 8 – *Operating segments*;
- IFRIC 10 – *Interim financial reporting and impairment*.

3.2 Scope and methods of consolidation

The financial statements of all significant subsidiaries under the direct or indirect exclusive control of Groupe Auchan SA have been fully consolidated. Control exists when the Group holds half or less of voting rights in a company and has the power to govern, directly or indirectly, the financial and operating policies of the entity in order to obtain the benefits of its assets. It is stipulated that the existence and effect of potential voting rights that are exercisable or convertible immediately are taken into account when assessing control.

Companies over which Groupe Auchan SA exercises significant influence, directly or indirectly, over management and financial policies, without exercising control, are accounted for using the equity method.

Where Groupe Auchan SA shares joint control of a company, directly or indirectly (in which case strategic and financial decisions require the mutual consent of the partners), with a limited number of other shareholders, and under a contractual agreement, this entity is consolidated using the proportionate method.

In mainland China, the income statements for 19 hypermarkets referred to as "independent franchises" together with the financial statements of a company operating a hypermarket have been consolidated using the proportionate method since 2001, in accordance with the substance of agreements associating these companies with the Group, and to give a fair view of the Group's business operations in this country.

Companies for which Groupe Auchan SA has control or significant influence, but that are not, individually or jointly, significant to the Group's financial statements, have not been consolidated.

Consolidation is based on financial statements dated as of 31 December for all entities.

The consolidated financial statements include the financial statements of companies acquired as from the date of transfer of control and those of companies sold up to the date of loss of control by the Group.

All significant transactions and balances between Group companies are eliminated.

3.3 Use of estimates

The preparation of financial statements under IFRS requires estimates to be used and assumptions to be made that may affect the amounts reported in the financial statements, in particular with regards to the following items:

- the period over which assets are depreciated;
- the measurement of provisions and retirement benefit obligations;
- values used in impairment tests;
- the fair value assessment of identifiable assets and liabilities for business combinations.

These estimates assume the operation is a going concern and are made on the basis of historical experience and other factors that are believed to be reasonable under the circumstances and the information available at the time. Estimates may be revised if the circumstances on which they were based have changed or if new information becomes available. Actual results may be different from estimated results.

3.4 Foreign currency transactions

Translation of the financial statements of foreign subsidiaries

The Group has no subsidiaries operating in countries with hyperinflationary economies. The financial statements of all foreign entities where the functional currency is not the euro

have been translated into euros in accordance with the following method:

- balance-sheet items, except for equity which is maintained at the historical exchange rate, are translated at the closing rate;
- income statement items are translated at the average rate for the period;
- cash flows are translated at the average rate for the period.

Foreign currency translation adjustments resulting from application of this method are reported as "Foreign currency translation adjustments" included in consolidated equity and are recognised in the income statement on disposal of the net investment.

Goodwill and fair value adjustments resulting from a business combination with an activity for which the functional currency is not the euro, are considered as part of the assets and liabilities of the subsidiary. They are expressed in the functional currency of the entity acquired and then translated at the closing rate. Any resulting currency translation adjustments are recognised in consolidated equity.

Foreign currency transactions

Transactions denominated in foreign currencies are translated into euros at the exchange rate at the transaction date.

Monetary assets and liabilities denominated in foreign currencies, whether hedged or not, are translated into euros at the closing rate and the resulting exchange adjustments are recognised in the income statement of the period.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the initial transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the exchange rate ruling at the date the fair value was determined.

3.5 Consolidation of the financial statements of the credit activity

The financial statements of Banque Accord and its subsidiaries, prepared in accordance with the banking chart of accounts, and the financial statements of Comfactor Commercio Factoring S.p.A, a captive factoring entity operating in Italy, are fully consolidated in the Group's financial statements as follows:

- assets and liabilities are allocated, according to their nature, to the relevant captions in the consolidated balance sheet, with customer loans and the refinancing of customer loans presented separately;
- in the income statement, banking revenues are included in "Revenue", banking expenses in "Cost of sales", and net banking income in "Gross profit".

3.6 Goodwill

The Group applies the purchase method for business combinations made as from 1 January 2004.

In application of this method, all identifiable assets acquired, liabilities and contingent liabilities assumed are measured and recognised at fair value at the date when control was acquired, in accordance with the global reassessment method.

In the absence of specific provisions in the standards, and by analogy with the accounting treatment under IFRS 3 – *Business Combinations* – for business combinations achieved in stages by successive share purchases, the Group has decided to apply the global reassessment method to all transactions involving entities under joint control.

In the case of acquisition of minority interests in a controlled company, the Group recognises in goodwill the difference between the purchase cost of the minority interests and the share in the net equity acquired, without revaluing the assets and liabilities acquired.

The cost of a business combination is the fair value, at the date of acquisition, of assets given, liabilities incurred or presumed, and/or equity instruments issued by the acquirer in exchange for control of the acquiree.

When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the Group includes the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

The excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets and liabilities at the acquisition date is recorded under "Goodwill" in assets in the consolidated balance sheet. Any negative amount of goodwill is recognised immediately in the income statement.

The Group has a period of one year from the date of acquisition to finalise the initial assessment of identifiable assets, liabilities and contingent liabilities.

In accordance with IFRS 3 – *Business Combinations* –, goodwill is not amortised. Goodwill is tested for impairment annually, at each year-end, or whenever events or circumstances indicate that it may be impaired. Such events or circumstances are associated with material, unfavourable changes of a permanent nature affecting either the economic environment, or assumptions or objectives adopted at the date of acquisition.

All impairment losses are recognised in "Other operating expenses" included in "Operating income" in the income statement.

The methods used by the Group to test goodwill for impairment are detailed in note 3.13.

3.7 Other intangible assets

In accordance with IAS 38 – *Intangible assets* –, acquired intangible assets are recognised in the balance sheet at cost, less any accumulated amortisation and impairment losses.

Under current accounting standards and their interpretation at 31 December 2006, the Group has qualified its French commercial leases as intangible assets with an indefinite useful life. These assets are consequently not amortised. They are subject to impairment tests when the occurrence of events suggests a risk of impairment, and in all cases at least once per year. When their recoverable amounts, based on criteria applied at the time of acquisition, fall below their carrying amounts on a permanent basis, an impairment loss is recognised (see note 3.13).

For preparation of the IFRS opening balance sheet, and considering the difficulties in restating historical values, in particular on acquisition of the Docks de France group, French commercial leases prior to 1 January 2004 and recognised as intangible assets in the Group's balance sheet under French GAAPs, have been reclassified as goodwill on an exceptional basis.

Other intangible assets with a definite useful life are amortised straight-line over their expected useful lives.

Software acquired and software internally developed by the Group which meet all criteria imposed by IAS 38, are capitalised and amortised over a useful life of 3 years. As an exception, ERP type software are amortised over 5 years, these software having a highly structuring function for the business and possessing a functional and technical architecture with a longer probable useful life.

3.8 Property, plant and equipment

Property, plant and equipment acquired since 1 January 1997

Property, plant and equipment are recorded at cost less cumulative depreciation and any cumulative impairment loss. Land is stated at cost less any impairment loss.

The various components of an item of property, plant and equipment are recognised separately when their estimated useful lives, and thus their depreciation period, are significantly different. The cost of an item of property, plant and equipment includes costs which can be directly attributed to the acquisition of the asset, but excludes borrowing costs.

Subsequent costs are included in the carrying amount of an item of property, plant and equipment, or recognised as a separate component where appropriate, if it is probable that the future economic benefits embodied with the item will flow to the Group, and the cost of this asset can be measured reliably. All other costs are recognised as expenses of the period during which they are incurred.

Items of property, plant and equipment are depreciated using the straight-line method as from the asset's entry into service, adopting a component-based approach, over their useful lives and without taking into account any residual value.

Buildings (structure)	30 years
Roof waterproofing, drainage and floor covering	20 years
Improvements and fixtures	6 and 2/3 years and 8 years
Technical installations, machinery and equipment	3 years to 8 years
Other assets	3 years to 5 years

Property, plant and equipment acquired before 1 January 1997

As of 31 December 1996, following the acquisition of Docks de France and Pão de Açúcar, the Group revalued its tangible assets for reasons of consistency and coherence.

Land, buildings and improvements used by stores, head-office premises, warehouses, shopping centres and business parks were revalued on the basis of their value in use.

This value in use was generally determined according to the Group's knowledge of the market. In certain cases, it was determined on the basis of independent appraisals.

Technical installations, machinery and equipment and other assets have been recognised, for their gross amount, at cost of acquisition corresponding to their value in use after carry-over of previous depreciation.

On first-time adoption of IFRS, the Group elected to use this revaluation at fair value as deemed cost at the date of revaluation, namely 31 December 1996.

Items of property, plant and equipment existing at 1 January 1997 have been depreciated as from the revaluation date.

In particular, stores, warehouses and shopping centre buildings are depreciated over a useful life of 20 years, to take into account the age of these items at the revaluation date.

For improvements to shopping centres in France, and improvements to stores and shopping centres in Spain revalued at 31 December 1996, the Group has decided to maintain a useful life of 20 years as from the revaluation date, given the particular situation of these items.

Property, plant and equipment of the Italian subsidiaries

The revaluation of the Rinascente's food branch in Italy, acquired to almost 100% on 17 December 2004, has led to the reestimation of the value of property, plant and equipment, and the reassessment of the useful lives as at 31 December 2004. In particular, new depreciation periods for buildings are between 28 and 31 years for hypermarkets and shopping centres, and between 22 and 31 years for supermarkets.

3.9 Investment property

An investment property is a property held to earn rentals or for capital appreciation or both. Such properties are shown on a separate line on the balance sheet.

In the Group, shopping centres, business parks and undeveloped land are classified as investment property.

They are measured at cost less accumulated depreciation and any impairment loss, in the same way as items of property, plant and equipment.

A property in construction for future use as investment property is classified as an item of property, plant and equipment until completion of construction, at which time the property is classified as investment property.

In accordance with IAS 40, the fair value of investment property at 31 December 2006 is given in note 20.

3.10 Recognition of entry fees collected from tenants of shopping centres and business parks – lease contracts

In accordance with IAS 17 – *Leases* –, the financial impact of terms set out in the lease agreement are spread over the fixed duration of the lease starting from the date the premises are made available. This applies to entry fees collected.

3.11 Recognition of eviction costs paid to tenants of shopping centres and business parks

If the lessor terminates a current lease, he will make an eviction payment to the resident lessee. This is capitalised in the cost of the property, if the payment leads to a change in the performance of the asset (new lease under improved financial terms, in the event of recovery of the premises for extension work or transfer of former tenants to a new site). In other cases, the eviction costs are recognised as prepaid expenses and spread over the residual period of the lease.

3-12 Finance leases

The Group's leases are recorded in accordance with IAS 17 – *Leases* – which identifies finance leases and operating leases, and in application of IFRIC 4 – *Determining whether an arrangement contains a lease* – which sets out the circumstances under which the contracts which do not have the legal form of an operating lease must nevertheless be recognised as such, in accordance with IAS 17.

A lease is qualified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the asset to the lessee. All other leases are classified as operating leases.

Items leased by the Group as lessee under financial leases are recognised as an item of property, plant and equipment. They are stated at an amount equal to the lower of the fair value and the present value of the minimum lease payments, and an obligation of the same amount is recorded in debt.

The capitalised asset is then depreciated in accordance with the rules governing the depreciation of assets, or over the lease term if this is shorter. The related liability is amortised in accordance with the maturity schedule determined at the inception of the lease and calculated using a fixed effective annual rate over the remaining balance of the liability due for each period.

At the same time, assets for which the risks and economic rewards incidental to ownership are transferred by the Group to third parties under the terms of a lease are considered as having been sold.

3-13 Impairment of assets

IAS 36 – *Impairment of assets* – defines the procedures to be followed by a company to ensure that the carrying amount of its property, plant and equipment, and intangible assets including goodwill does not exceed their recoverable amount, namely the amount which will be recovered through their use or disposal.

The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell is defined as the amount obtained from the sale of an asset in an arm's length transaction between knowledgeable, willing parties less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from continuing use of an asset and from its ultimate disposal.

Cash flows after tax are estimated on the basis of 3-year forecasts. Cash flows beyond this period are estimated by extrapolating the projections based on the forecasts using a steady growth rate over a period corresponding to the estimated useful life of the asset. For tests of country assets (including goodwill), cash flows are extrapolated over a period of 9 years, taking account of a terminal value, calculated by discounting 9th year data over an indefinite period.

Cash flows are discounted at the weighted average cost of capital after tax, plus a risk premium specific to each country. Weighted average cost of capital is determined on the basis of the rate of return observed in the French retail sector equity market.

The recoverable value of items of property, plant and equipment and intangible assets (including goodwill) is tested for impairment when there is an indication of a loss of value. This test is also performed at least annually (on 31 December 2006 given the seasonable nature of the activity) for assets with an indefinite useful life (goodwill and French commercial leases).

Assets to be tested for impairment are grouped within cash-generating units (CGUs). The CGUs correspond the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets. The Group has defined stores (hypermarkets or supermarkets) and shopping centres as CGUs. An impairment loss is recognised when the carrying amount of an asset or the CGU to which it belongs exceeds his recoverable amount. Goodwill is tested by country and business, and the CGU assets then include property, plant and equipment, intangible assets, goodwill allocated to the country and business, and working capital.

Any impairment loss is allocated first to goodwill. Impairment losses on goodwill cannot be reversed. Impairment losses recognised for other assets are reversed if there has been a change in the estimates used to determine the asset's recoverable amount. The increased carrying amount of an asset attributable to a reversal of impairment loss may not exceed the carrying amount that would have been determined had no impairment loss been recognised.

3-14 Borrowing costs

Borrowing costs are recognised as an expense when incurred in accordance with the benchmark treatment under IAS 23 – *Borrowing costs*.

3-15 Non-current assets (or groups of assets) held for sale and discontinued operations

In accordance with IFRS 5, significant non-current assets or groups of assets held for sale are recognised on separate asset and liability lines in the balance sheet, and are stated at the lower of their carrying amount and fair value net of disposal costs.

Non-current assets appearing on the balance sheet as held for sale are no longer depreciated once they are presented as such.

An asset is classified as "held for sale" only if its sale is highly probable within one year, if the asset is available for immediate sale in its present condition and a program to locate a buyer has been initiated by management.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations.

Classification as a discontinued operation occurs when the operation meets the criteria to be classified as held for sale or when Auchan has sold the entity. Discontinued operations are shown on a single line of the income statement, comprising the total of the post-tax profit or loss-up to the date of sale, and the post-tax gain or loss recognised on the disposal.

3-16 Financial assets and liabilities

Financial assets and liabilities are recognised and measured in accordance with the requirements of IAS 39 and IAS 32. The following recognition and measurement principles have been applied:

Trade receivables, trade payables and other current liabilities

These financial assets and liabilities are measured at their nominal value, as this represents a reasonable estimate of their fair value given their short-term nature.

Trade receivables are recognised at an amount net of any impairment loss taking into account the collectability risk.

Available-for-sale financial assets

Available-for-sale financial assets include participating interests in non-consolidated entities. They are measured at fair value.

Changes in fair value are recognised in equity under "Reserves of available-for-sale financial assets", and are transferred to profit and loss when the asset is sold. However, if there is a material and permanent indication of loss in value, an impairment loss is recognised in the income statement. Impairment losses can only be reversed when the assets are sold.

For listed securities, fair value corresponds to the last stock-market price. For unlisted securities, fair value is determined on the basis of the Group's share in the company's net asset value (adjusted where appropriate), its profitability and earnings outlook or its appraisal value.

If the fair value cannot be reliably determined, shares are recognised at cost. If there is an objective indication of permanent impairment, an irreversible impairment loss is recognised in the income statement.

Loans and receivables

This category mainly includes receivables related to non-consolidated investments, guarantee deposits, prepaid expenses, other loans and other receivables. Assets are measured initially at fair value and then at amortised cost, using the effective interest rate method.

The fair values of loans and receivables are estimated on the basis of the present value of the expected cash flows discounted using the zero-coupon curves effective

at closing dates, and integrating a spread determined by the Group. For guarantee deposits and other loans, the carrying amount represents a reasonable estimate of fair value. An impairment loss is recognised if it will not be possible to recover the total amounts (principal and interest) due under the terms of the contract.

The impairment loss recognised in the income statement corresponds to the difference between the carrying amount of the asset and his recoverable amount.

If the recoverable amount of the asset then increases as a result of an event occurring after the impairment loss was recognised, the impairment loss is reversed. However an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the amortised initial cost that would have been determined if no impairment loss had been recognised.

Financial assets held for trading

Financial assets held for trading comprise mutual or similar funds. These assets are measured at fair value. This value is determined on the basis of the last quotation given by the bank. Any changes in fair value are recognised in the income statement.

Held-to-maturity investments

This item mainly includes customer loans (principally consumer credits of the personal and revolving loan type) conducted by Group financial companies and credit institutions. They are recognised at amortised cost. The use of the effective interest rate was considered non-material following tests concerning the averaging of commissions and contributions. These calculations are made annually to emphasize the non-material nature of the assets.

At each balance-sheet date, the Group determines whether there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (loss events), and whether those loss events have an impact on the estimated future cash flows that can be reliably estimated.

If there is an objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value (using the original contract rate) of recoverable estimated future cash flows, taking account of the impact of any guarantees. The impairment loss is recognised in profit or loss, and the value of the financial asset is reduced by the same amount.

Cash and cash equivalents

This item comprises cash in hand and current accounts at bank that are not subject to any restrictions. It also includes short-term cash management financial assets (less than 3 months), easily convertible into a known cash amount, and with a negligible risk of change in value. As they are realisable or transferable at any time, they are measured at fair value. Any changes in value are recognised in profit and loss.

Borrowings and other financial liabilities, debts financing the credit activity

Financial liabilities are mainly bonds, bank borrowings, bank overdrafts and obligation under finance leases.

Borrowings and other financial liabilities at floating rates are measured at amortised cost using a straight-line amortisation of issuance costs as this has no material impact by comparison with actuarial amortisation.

Two methods are used for fixed-rate borrowings.

- Fixed-rate borrowings qualified as hedged items as part of fair value hedging relationships are recognised at fair value. The fair value is determined on the basis of expected future cash flows discounted using the zero-coupon curves in force at the balance sheet dates, and integrating a spread equal to the spread at the inception of the financing.

- Other fixed-rate borrowings are recognised at amortised cost using the effective interest method, integrating an actuarial amortisation of issuance costs and premiums.

Obligation under finance leases are recognised at amortised historical cost. Their fair value is determined by discounting future cash flows.

Derivative instruments

The Group uses firm or optional financial instruments, qualified as derivative instruments in accordance with IAS 39, to hedge its exposure to market risks (interest rates, exchange rates and equity prices).

Derivative instruments are measured and recognised at fair value. Fair values are determined from valuations communicated by the banking counterparts.

Changes in the fair value of derivatives are always recognised in income, except for cash flow hedges.

For derivatives eligible for hedge accounting, recognition as hedging instruments makes it possible to reduce income volatility linked to changes in the value of the derivatives concerned.

Hedge accounting is applicable if:

- the hedging relationship is clearly defined and documented at the date when it is set up;
- the effectiveness of the hedging relationship is demonstrated from the outset, and regularly while it is in place.

There are three models of hedge accounting set out in IAS 39: fair value hedges, cash flow hedges, and hedges of net investments in foreign operations.

The majority of derivatives used by the Group are eligible for hedge accounting. Accordingly:

- for derivatives documented as hedging of asset or liability items recognised in the balance sheet (fair value hedge), hedge accounting makes it possible to recognise changes in the fair value of the derivatives in the income statement. This is offset by the impact on profit and loss of the changes in the fair value of the hedged item recognised in the balance sheet, in connection with the risk hedged.

These two measurements offset each other within the same line item in the income statement. If the hedge is fully effective, the loss or gain on the hedged debt is offset by the gain or loss on the derivative.

- For derivatives documented as highly probable future cash flow hedges, the changes in the value of the derivative are recognised in reserves (Cash flow hedge reserve) for the effective portion. Changes in the value of the estimated ineffective portion are recognised in profit and loss.

- For derivatives documented as foreign net investment hedges, the change in value of the hedging instrument is recognised in equity, the purpose of these hedges being to neutralise the change in the value in euros of part of the net currency assets of subsidiaries.

For derivatives that are not documented as hedging instruments, changes in fair value are recognised in profit and loss.

Derivative instruments considered as hedges of which the maturity is greater than one year are shown in the balance sheet as non-current assets or liabilities. Other financial instruments are classified as current assets or liabilities.

3.17 Put options granted to minority shareholders in controlled companies

The Group has committed to repurchase the minority interests of shareholders of certain fully-consolidated subsidiaries. The strike price of these options may be set or determined according to a predefined calculation formula. The options may be exercised at any time or on a specific date.

While awaiting clarification of the IFRS standards, the following accounting treatment has been adopted by the Group:

- in accordance with IAS 32, the Group records a financial liability with respect to the put options granted to minority shareholders of the entities concerned at the present value of the strike price;
- the corresponding entry for this liability is deducted from minority interests and the balance from goodwill;
- when the put option has not been granted in the context of a business combination, subsequent changes in the debt are recognised in financial income. If the put option has been granted in the context of a business combination, it is recognised through an adjustment to goodwill. The effect of discounting is recognised in profit or loss.

However, these accounting treatments may be reviewed according to clarification of the IFRS standards.

3-18 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost is net of annual rebates and commercial cooperation fees and includes handling and warehousing costs directly attributable to the acquisition of products and transport costs incurred in bringing the inventories to the stores. Inventories are measured either on the basis of the last purchase price, a method comparable with the FIFO ("First in, First out") method for inventory with rapid turnover, or at the weighted average unit cost, or at the selling price less profit margin. Inventories are written down if their net realisable value is below cost.

3-19 Income taxes

Income taxes include current and deferred taxes, including tax adjustments with respect to previous years.

Income taxes, whether current or deferred, are recognised directly in equity when they relate to an item initially recognised in equity.

Deferred taxes are recorded for all temporary differences between the tax basis of assets and liabilities and their accounting values, with the exception of goodwill not deductible for tax purposes and temporary differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Deferred taxes are calculated using tax rates enacted or substantially enacted at the balance sheet date and using the liability method. The effect of any changes in tax rates is recognised in the income statement, apart from changes relating to items initially recognised directly in equity.

Deferred tax assets and liabilities are offset when an enforceable legal offset right exists and when the same tax authority is involved. They are not discounted and are classified in the balance sheet under non-current assets and liabilities.

Tax losses and other temporary differences only give rise to deferred tax assets when their use against future taxable income is probable within a reasonable period of time or when they can be realised against deferred tax liabilities.

3-20 Provisions

Provisions are recorded when the Group is under an obligation to a third party at the end of the year, as a result of a past event, that it is likely or certain to trigger an outflow of resources to the third party, without any equivalent benefit being anticipated by the Group. The relevant obligation may be legal, regulatory or contractual in nature. Provisions are estimated according to their nature, taking account of the most probable assumptions.

Provisions for restructuring are recognised when the Group has a detailed formal plan to restructure of which the interested parties have been informed.

A number of the Group's companies offer warranty extension contracts, for which revenue and margin are recognised over the period of the service delivered. Foreseeable costs relating to the warranty are accrued when the corresponding sales are recorded, on the basis of statistics of the costs incurred in previous years.

Provisions directly linked to the normal operating cycle of the business, and the part of other provisions that matures in less than one year, are classified as current liabilities. Provisions not meeting these criteria are classified as non-current liabilities.

3-21 Treasury shares

All treasury shares held by the Group are deducted from equity at cost. The gain or loss, net of tax, from any sales of treasury shares is recognised directly under equity with the result that any disposal gains or losses have no impact on income for the period.

3-22 Share subscription and purchase plans at agreed unit price

IFRS 2 – *Share-based payments* – requires an entity to recognise an expense when it grants share options to employees. The amount of this expense is determined as follows:

- determination of the fair value of the option on the date of grant using an option pricing model;
- application of a probability ratio according to specific conditions of presence.

For equity-settled share-based payment transactions, the entity recognises a corresponding increase in equity. It is spread over the period during which the employees become unconditionally entitled of the options.

The fair value of the option is a call value determined using the binomial model on the basis of the following elements:

- the life of the option (established by the option plan);
- the exercise price of the option;
- the interest rate (the rate adopted is that for 4-year OAT);
- the share price at grant date;
- the volatility of the retail sector (in the absence of any quotation for the underlying shares).

The value of the underlying shares includes the impact of dividends paid.

In accordance with IFRS 2, only plans issued after 7 November 2002 and for which rights had not been vested at 1 January 2005, are measured and recognised in payroll expenses.

3-23 Retirement and other long-term employee benefits

In accordance with IAS 19 – *Employee benefits* –, the Group lists and records all benefits provided to employees. Based on the laws and practices of each country, the Group has set up pension plans for employees.

The Group's obligations arising from defined benefit plans are determined using the projected unit credit method. External actuarial assessments are made each year for the major plans, and at regular intervals for other plans. The actuarial assumptions used to determine the obligations vary depending on the particular characteristics of each company (staff turnover rate, increase in salaries) and the economic conditions of the countries where the plans are operated (discount rate, inflation).

These plans can be funded, in which case their assets are managed separately and independently from those of the Group, or non-funded.

For non-funded defined benefit plans, the liability recognised in the balance sheet corresponds to the present value of the obligations after deduction of unrecognised past service costs. For funded defined benefit plans, the shortfall or surplus of the fair value of the assets compared with the present value of obligations is recognised as a liability or asset in the balance sheet, taking account of any past service costs not yet recognised in profit or loss. However, assets can only be recognised in the balance sheet to the extent that they represent future economic benefits effectively available to the Group. If such assets are not available, or do not represent future economic benefits, the amount of assets recognised in the balance sheet is limited.

Actuarial gains and losses can result from changes in assumptions or from experience differences (differences between estimated results based on actuarial assumptions and actual results). As indicated in note 3.1, the Group applies the amendment to IAS 19 – *Employee benefit: Actuarial gains and losses, Group plans and disclosures* – since 1 January 2006, and recognises all actuarial gains and losses immediately in equity.

For defined benefit plans, the actuarial expense recognised in the income statement comprises the current service cost, the interest cost, the expected yield on plan assets and the past service costs recognised in the period. The cost of discounting and the expected yield on plan assets are recognised under other financial income and expenses. The past service costs relating to increases in obligations are recognised on a straight-line basis until the benefits are fully vested.

Some benefits are also provided through defined contribution plans. Contributions to these plans are expensed as incurred.

3-24 Earnings per share

The Group presents basic earnings per share and diluted earnings per share, calculated on earnings for continuing activities.

This information is also presented for net income.

Basic earnings per share are calculated by dividing net income of the year (attributable to equity holders of the parent) by the weighted average number of outstanding shares during the year, less treasury shares. The average number of outstanding shares during the year is the number of outstanding shares at the beginning of the year adjusted by the number of shares issued during the year.

Diluted earnings per share are calculated by dividing net income of the year (attributable to equity holders of the parent) by the weighted average number of outstanding shares plus potentially dilutive shares to be created. For the Group, this concerns share purchase and subscription options. The dilution attached to these options is determined using the share purchase method.

If any significant non-current items have occurred which could impair the understanding of the earnings per share, net earnings per share for continuing activities excluding non-current items is calculated by adjusting net income from continuing operations after minority interests for other operating income and expenses, net of taxes and after minority interests.

3-25 Segment reporting

IAS 14 requires the reporting of financial information by line of business and geographical area in respect of primary and secondary segments. Segments are identified by analysing risks and returns to form standard segments.

Auchan discloses primary segment reporting under line of business and secondary segment reporting under geographical area. This presentation is based on Group's internal organisation systems and management structure. The two segments cover the following:

Primary segment – line of business: Hypermarkets, Supermarkets, Property Management (shopping centres and business parks), Bank (credit activity).

Secondary segment – geographical areas: France, Western Europe excluding France (Spain, Portugal, Italy and Luxembourg), and the rest of the world (Poland, Hungary, Russia, Morocco, mainland China, Taiwan and Romania).

3•26 Presentation of financial information

3•26•1 Income statement

Revenue

Net sales include sales of goods and services by the stores, rental revenues from shopping centres and business parks, and banking revenues from the credit activity.

Other income includes franchise revenues, entry fees collected by the shopping centres and business parks, commissions for the sale of services and warranty extension premiums.

Gross profit

Cost of sales comprises the cost of purchases net of discounts and commercial cooperation fees, changes in inventories net of any impairment loss, logistic costs, cash discounts, exchange gains and losses on the purchase of goods, and banking expenses from the credit activity.

Pre-opening costs

Pre-opening costs for stores are recognised in operating expenses when incurred.

Other operating income and expenses

Non-recurring transactions for material amounts and which could impair the understanding of current operating performance are classified in "Other operating income and expenses".

This line includes in particular any impairment loss recognised on goodwill, major and exceptional impairment losses recognised on other assets, and items which are both exceptional, rare and material but do not relate to current operations, such as restructuring expenses.

Net cost of financial debt

The net cost of financial debt comprises:

- the gross cost of financial debt, which includes interest expenses, gains and losses on interest rate and foreign exchange hedges in respect of debt;
- the "Income from cash and cash equivalents" line which includes cash investment income.

Other financial income and expenses

This item corresponds to financial income and expense that is not generated by net debt. It consists mainly of dividends from non-consolidated companies, gains and losses arising from the measurement at fair value of financial assets other than cash and cash equivalents, gains and losses on the disposal of financial assets other than cash and cash equivalents, the impact of discounting adjustments and exchange gains and losses on items other than components of net debt and cost of sales.

3•26•2 Balance sheet

Assets and liabilities are classified, by nature, as current or non-current items, depending on whether their expected date of recovery or payment occurs within a period of twelve months from the balance sheet date.

3•26•3 Definition of net indebtedness

The concept of net indebtedness used by the Group comprises gross indebtedness less net cash.

Gross indebtedness comprises current and non-current borrowings and other financial liabilities, derivative financial instruments (current and non-current assets and liabilities) and related accrued interests.

In accordance with IAS 7, net cash, the change of which is presented in the statement of cash flows, comprises cash and cash equivalents not subject to any restrictions, and short-term investments at less than 3 months easily convertible into a known cash amount and with a negligible risk of change in value, less bank overdrafts.

Accrued interests relating to items included in net cash and gross indebtedness are incorporated in net indebtedness.

Net indebtedness excludes the financing of customer loans by credit activities.

3•26•4 Statement of cash flows

The Group determines the cash flows from operating activities using the indirect method.

note 4 RESTATEMENT OF 2005 FINANCIAL STATEMENTS

Change in accounting policy: application of the amendment to IAS 19 revised in December 2004 – *Employee benefits: Actuarial gains and losses, Group plans and disclosures*.

In accordance with this standard, the option for immediate recognition of actuarial gains and losses on defined-benefit pension plans in equity modifies the 2005 comparative data previously published, as indicated in the following tables.

This change in accounting method has no impact on the result of the 2005 financial year, as the corridor method previously applied did not lead to recognition of any amortisation of actuarial gains or losses since they were below the 10% limit stipulated in standard IAS 19.

Restatement of the balance sheet at 31 December 2005

ASSETS (in M€)	31.12.2005 published	Amendment to IAS 19	31.12.2005 restated
Goodwill	3,383		3,383
Other intangible assets	42		42
Property, plant and equipment	7,268		7,268
Investment property	1,855		1,855
Investments in associates	52		52
Customer loans – credit activities	706		706
Other non-current financial assets	527		527
Derivative financial instruments (non-current)	26		26
Deferred tax assets	75		75
Non-current assets	13,934	-	13,934
Inventories	2,690		2,690
Customer loans – credit activities	1,463		1,463
Trade receivables	314		314
Current tax assets	62		62
Other current receivables	2,067		2,067
Derivative financial instruments (current)	39		39
Cash and cash equivalents	1,605		1,605
Assets classified as held for sale	-	-	-
Current assets	8,240	-	8,240
Total ASSETS	22,174		22,174

LIABILITIES (in M€)	31.12.2005 published	Amendment to IAS 19	31.12.2005 restated
Share capital	635		635
Share premiums	1,936		1,936
Reserves and net income attributable to equity holders of the parent	2,870	(16)	2,854
Equity attributable to equity holders of the parent	5,441	(16)	5,425
Minority interests	133		133
Total equity	5,574	(16)	5,558
Long-term provisions	345	25	370
Non-current borrowings and other financial liabilities	3,412		3,412
Debts financing the credit activities	688		688
Derivative financial instruments (non-current)	21		21
Other non-current liabilities	63		63
Deferred tax liabilities	564	(9)	555
Non-current liabilities	5,093	16	5,109
Short-term provisions	164		164
Current borrowings and other financial liabilities	660		660
Debts financing the credit activities	1,195		1,195
Derivative financial instruments (current)	7		7
Trade payables	6,976		6,976
Current tax liabilities	74		74
Other current liabilities	2,431		2,431
Liabilities classified as held for sale	-		-
Current liabilities	11,507	-	11,507
Total LIABILITIES	22,174	-	22,174

The impact of M€ 16 on "Equity attributable to equity holders of the parent" can be broken down as follows:

- impact on 2005 opening M€ (10)
- impact for 2005 financial year M€ (6)

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note 5 **SEGMENT REPORTING**

The primary and secondary reporting segments of the Group are the “business segment” and “geographical segment” respectively. These are presented in note 3.25.

Financial data reported as segment information are prepared in accordance with the same accounting rules and methods as those adopted for preparation of the consolidated financial statements.

The performance of each business is measured based on recurring operating income.

Segment assets are those assets employed by a segment in its operating activities and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those liabilities that result from the operating activities of a segment and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment assets include goodwill, other intangible assets, property, plant and equipment, investment property, investments in associates, current and non-current customer loans, inventories, trade receivables and other current and non-current receivables.

Segment liabilities include long-term and short-term provisions, current and non-current debts financing the credit activity, other current liabilities and trade payables.

Investments in intangible assets and property, plant and equipment correspond to gross asset purchases excluding cash timing differences, and including assets purchased under finance leases.

Segment information by business

Segment revenue and income (in M€)	Hypermarkets		Supermarkets		Property		Bank		Other		Eliminations		Group total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
External revenue	27,631	26,333	6,721	6,733	321	294	317	248	0	0	0	0	34,990	33,608
Inter-segment revenue	643	636	58	42	11	11	22	22	1	1	(735)	(712)	0	0
Revenue	28,274	26,969	6,779	6,775	332	305	339	270	1	1	(735)	(712)	34,990	33,608
Recurring operating income	(1)	(1)	(1)	(1)	145	132	57	53	32	11	0	0	1,293	1,279
Other operating income and expenses													0	(1)
Operating income													1,293	1,278
Net financial expenses													(132)	(131)
Income taxes													(401)	(397)
Share in earnings of associates													(1)	0
Net income from continuing operations													759	750
Net income from assets held for sale and discontinued operations													0	226
Net income													759	976

(1) Current operating income from hypermarket and supermarket segments:
 2006: M€ 1,059
 2005: M€ 1,083

Segment assets and liabilities (in M€)	Hypermarkets		Supermarkets		Property		Bank		Other		Group total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Segment assets	12,281	12,159	3,384	3,408	2,413	2,251	2,350	2,012	7	10	20,435	19,840
<i>Of which investments in associates</i>	18	0	2	2	63	50	0	0	0	0	83	52
Unallocated assets											2,946	2,334
Total assets											23,381	22,174
Segment liabilities	7,997	7,944	1,792	1,841	272	216	1,939	1,613	228	259	12,228	11,873
Unallocated liabilities											11,153	10,301
Total liabilities											23,381	22,174

Other information (in M€)	Hypermarkets		Supermarkets		Property		Bank		Other		Group total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Investments:												
Intangible assets	(1)	(1)	(1)	(1)	1	8	2	2	0	0	33	25
Property, plant and equipment	(1)	(1)	(1)	(1)	64	28	1	2	0	0	1,011	880
Investment property	(1)	(1)	(1)	(1)	166	140	0	0	0	0	170	140
Depreciation and amortisation allowance	560	565	150	150	108	109	3	2	0	0	821	826
Impairment losses on intangible assets, PP&E and investment property for the year	4	7	6	12	0	5	0	0	0	0	10	24
Reversal of impairment losses on intangible assets, PP&E and investment property for the year	3	11	0	1	4	1	0	0	0	0	7	13
Other non-cash operating expenses ⁽²⁾	50	90	24	23	7	9	29	20	3	11	113	153

(1) Investments in hypermarket and supermarket segments:

2006: M€ 980

2005: M€ 865

(2) Significant expenses: charges/reversals of provisions other than impairment losses on intangible assets, PP&E and investment properties (mainly for impairment losses on current assets and for provisions for contingent liabilities).

Segment information by geographic area

Information is reported by geographical area, on the basis of the geographical location of its customers for revenue, and on the basis of the geographical location of its assets for segment assets.

(in M€)	France		Western Europe excluding France		Rest of the world		Eliminations		Group total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue	18,553	18,450	10,938	10,650	5,867	4,887	(368)	(379)	34,990	33,608
Segment assets	9,593	9,375	7,924	7,740	2,918	2,673	0	0	20,435	19,788
Investments (intangible assets, property, plant and equipment and investment property)	433	397	419	357	362	291	0	0	1,214	1,045

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

note 6 EARNINGS PER SHARE

In accordance with IAS 33, the weighted average number of outstanding shares has been adjusted to take into account the cancellation of 365,994 shares in December 2006.

6•1 Calculation of weighted average number of shares

	2006	2005
Number of shares outstanding at 1 January	31,785,431	31,667,211
Number of treasury shares at 1 January	(74,871)	–
Weighted average number of share subscription options exercised	–	59,110
Weighted average number of other capital increases	–	–
Weighted average number of treasury shares acquired	(125,772)	(12,478)
Weighted average number of treasury shares sold or cancelled	135,636	–
Weighted average number of capital reductions (by cancellation of treasury shares)	(121,998)	–
Weighted average number of outstanding shares (excluding treasury shares) used for calculation of earnings per share	31,598,426	31,713,843
Potentially dilutive shares to be created (share purchase or subscription options)	5,793	5,739
Weighted average number of outstanding shares (excluding treasury shares) used for calculation of diluted earnings per share	31,604,219	31,719,582

6•2 Calculation of earnings per share

Earnings per share

	2006	2005
Weighted average number of outstanding shares:	31,598,426	31,713,843
Net income attributable to equity holders of the parent (in M€)	746	964
<i>Per share (in €)</i>	23.61	30.41
Net income from discontinued operations attributable to equity holders of the parent (in M€)	–	224
<i>Per share (in €)</i>	–	7.06
Net income from continuing operations attributable to equity holders of the parent (in M€)	746	740
<i>Per share (in €)</i>	23.61	23.35
Net income from continuing operations excluding other operating income and expenses attributable to equity holders of the parent (in M€)	746	741
<i>Per share (in €)</i>	23.61	23.39

Diluted earnings per share

	2006	2005
Weighted average number of diluted shares:	31,604,219	31,719,582
Net income attributable to equity holders of the parent (in M€)	746	964
<i>Per share (in €)</i>	23.60	30.39
Net income from discontinued operations attributable to equity holders of the parent (in M€)	–	224
<i>Per share (in €)</i>	–	7.06
Net income from continuing operations attributable to equity holders of the parent (in M€)	746	740
<i>Per share (in €)</i>	23.60	23.33
Net income from continuing operations excluding other operating income and expenses attributable to equity holders of the parent (in M€)	746	741
<i>Per share (in €)</i>	23.60	23.36

note 7 PRINCIPAL ACQUISITIONS OF EQUITY INTERESTS IN 2006

Only one equity interest for an amount exceeding M€ 20 was acquired in 2006. This concerned the real-estate company Commerciale XIII, acquired by the Italian company SIDM in March 2006, exercising its call option for an amount of M€ 34. This company owns the Ancona shopping centre, previously held by the Hypermarket and Property divisions under the terms of a finance lease.

Other Group acquisitions in consolidated subsidiaries had no material impact on the financial statements for the year.

note 8 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

The Group sold no operations in 2006, but announced the termination, in December 2006, of its partnership with Casino in IRTS, effective 1 January 2007 (see note 2).

Non-Group assets and liabilities in this operation, consolidated using the proportionate method (50%) at 31 December 2006, have been reclassified under "Assets held for sale" and "Liabilities related to assets held for sale".

Details of assets and liabilities by nature are as follows:

(in M€)	Non-Group	Group ⁽¹⁾	Total
Other current receivables	16	1	17
<i>Deferred income from suppliers</i>	15	1	16
<i>Other</i>	1	0	1
Cash and cash equivalents	1	0	1
Total assets	17	1	18
Other current liabilities	6	12	18
Total liabilities	6	12	18

(1) This concerns inter-company assets and liabilities eliminated for consolidation purposes.

Operations sold in 2005 concerned non-food and do-it-yourself activities in Italy, and activities in Argentina. In accordance with IFRS 5, these activities are presented on a single line of the income statement, covering the post-tax income/loss-up to the date of sale, and the post-tax gain or loss recognised on the disposal, amounting to M€ 229 for Italy and M€(3) for Argentina respectively.

The change in the cash position for activities classified as "Operations sold" included in the Group consolidated statement of cash flows can be broken down as follows at 31 December 2005:

(in M€)	Argentina	Italy (non-food and DIY activities)	Total 31 December 2005
Net cash flows from (used in) operating activities	0	(9)	(9)
Net cash flows from (used in) investment activities	32	525	557
<i>Of which impact of disposals</i>	32	530	562
Net cash flows from (used in) financing activities	0	11	11
Change in net cash for operations sold	32	527	559

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

note 9 REVENUE

(in M€)	2006	2005
Net sales	34,875	33,489
Other services	92	93
Other revenue	23	26
Revenue	34,990	33,608

note 10 COST OF SALES

(in M€)	2006	2005
Purchases net of discounts, commercial cooperation services and logistics costs	26,806	25,970
Change in inventories (net of impairment loss)	63	(174)
Cost of sales	26,869	25,796

Internal logistics costs

Internal logistics costs deducted from gross profit are detailed by expense type as follows:

(in M€)	2006	2005
Payroll expenses	167	161
External expenses	231	219
Depreciation, amortisation and provisions	28	25
Internal logistics costs	426	405

note 11 PAYROLL EXPENSES

(in M€)	2006	2005
External labour expenses	242	224
Wages and salaries, including social security costs	3,424	3,309
Employee incentives and profit-sharing	306	274
Employee benefits	41	38
Total	4,013	3,845
Payroll expenses transferred to logistics costs	(167)	(161)
Net amount in income statement	3,846	3,684

note 12 DEPRECIATION, AMORTISATION AND PROVISIONS

(in M€)	2006	2005
Depreciation and amortisation expenses, net of reversals ⁽¹⁾	849	851
Provision expenses, net of reversals unused ⁽²⁾	121	157
Total	970	1,008
Depreciation, amortisation and provision expenses transferred to logistics costs	(28)	(25)
Net amount in income statement	942	983

(1) Of which M€ 25 for amortisation and depreciation of other intangible assets in 2006 (see note 18).

(2) Of which M€ 8 concerning the net amount of impairment losses for goodwill, other intangible assets, property, plant and equipment and investment property recognised in the 2006 income statement (see note 13).

note 13 IMPAIRMENT LOSSES

Income statement caption (in M€)	Nature of assets	Goodwill	Other intangible assets	Property, plant and equipment	Investment property	Total 2006	Total 2005
Depreciation, amortisation and provisions:							
	impairment losses	1	-	8	-	9	24
	reversal of impairment losses	-	-	(1)	-	(1)	(2)
	net	1	-	7	-	8	22
Other operating income and expenses:							
	impairment losses	-	-	-	-	-	-
	reversal of impairment losses ⁽¹⁾	-	-	(2)	(4)	(6)	(11)
	net	-	-	(2)	(4)	(6)	(11)
Total		1	-	5	(4)	2	11

(1) Reversal of impairment losses on asset disposals.

Impairment losses recognised on property, plant and equipment in 2006 amounted to M€ 4 for the Hypermarkets division (M€ 2 for China, M€ 1 for France and M€ 1 for Italy) and M€ 4 for the Supermarkets division (M€ 2 for France and M€ 2 for Spain). Impairment losses recognised on property, plant and equipment in 2005 (M€ 17) essentially concerned Supermarkets division buildings in Italy for M€ 9 and Hypermarkets division land in Italy for M€ 4.

Impairment tests conducted in accordance with the method described in note 3.13 did not identify any impairment loss on goodwill, other intangible assets, property, plant and equipment or investment property associated with CGUs other than those described above.

note 14 OTHER OPERATING INCOME AND EXPENSES

(in M€)	2006	2005
Other	-	(1)
Total	-	(1)

note 15 OTHER FINANCIAL INCOME AND EXPENSES

(in M€)	2006	2005
Net gains (losses) on disposal of other non-current financial assets	-	8
Foreign exchange gains on financial operations not qualified for hedge accounting	6	8
Provisions net of reversals:		
<i>Reversal of provisions for other financial assets</i>	2	11
<i>Provision expenses for other financial assets</i>	-	(2)
<i>Provision expenses for contingent liabilities</i>	(2)	(1)
Cost of discounting pension commitments net of the expected yield on plan assets	(7)	(8)
Other	1	3
Other financial income and expenses	0	19

note 16 INCOME TAXES

Analysis of the net tax expense

(in M€)	2006	2005
Current tax expense/income		
Income tax payable	(412)	(438)
Tax adjustments with respect to previous years	(1)	8
Total income tax payable	(413)	(430)
Deferred tax expense/income		
Change in temporary differences	17	34
Impact of changes in tax rates	(2)	0
Other	(3)	(1)
Total deferred tax expense	12	33
Total tax expense	(401)	(397)

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Reconciliation of the effective tax rate (ETR)

The difference between the tax calculated using the standard tax rate in France (34.43%, compared with 34.93% in 2005) and the amount of tax effectively recognised in the year can be analysed as follows:

(in M€)	2006 amounts	2006 ETR	2005 amounts	2005 ETR
Income before tax	1,161		1,147	
<i>Theoretical tax rate (current French rate)</i>		34.4%		34.9%
Theoretical tax expense	400		400	
Difference in tax rates for foreign companies	24	2.0%	20	1.7%
Tax reduction, tax credits and reduced rate taxation	(23)	(1.9%)	(14)	(1.2%)
Tax losses for the year not recognised	10	0.9%	14	1.2%
Use of previously unrecorded tax losses carried forward	(6)	(0.5%)	(10)	(0.9%)
Non-taxable items / deferred tax not recognised	9	0.8%	6	0.5%
Tax savings generated by tax consolidation	(3)	(0.3%)	(9)	(0.8%)
Tax effect of elimination of provisions for investments in subsidiaries and current accounts	(3)	(0.3%)	(1)	NS
Other differences	(7)	(0.6%)	(9)	(0.8%)
Tax expense recognised	401		397	
Effective tax rate (ETR)		34.5%		34.6%

note 17 **GOODWILL**

Changes in gross carrying amounts

(in M€)	Gross carrying amount
Gross carrying amount at 1 January 2005	3,537
Change relating to business combinations	39
Disposals ⁽¹⁾	(157)
Foreign currency translation adjustments	22
Other movements and transfers	(13)
Gross carrying amount at 31 December 2005	3,428

(1) Disposals mainly concerned textile and do-it-yourself activities in Italy to an amount of M€ 155.

(in M€)	Gross carrying amount
Gross carrying amount at 1 January 2006	3,428
Change relating to business combinations ⁽¹⁾	23
Other changes in consolidation scope ⁽²⁾	2
Foreign currency translation adjustments	(19)
Gross carrying amount at 31 December 2006	3,434

(1) The change relating to business combinations in 2006 mainly includes the acquisition of supermarket companies in France for M€ 22.

(2) Other changes in consolidation scope concern the acquisition of shares in Valsuper International for M€ 2.

Changes in impairment losses

(in M€)	Impairment losses
Impairment losses at 1 January 2005	41
Impairment losses of the period	2
Foreign currency translation adjustments	2
Impairment losses at 31 December 2005	45
Impairment losses at 1 January 2006 ⁽¹⁾	45
Impairment losses of the period	1
Foreign currency translation adjustments	(1)
Impairment losses at 31 December 2006 ⁽¹⁾	45

(1) See details by business/country below.

Net carrying amounts

(in M€)	
1 January 2005	3,496
31 December 2005	3,383
1 January 2006	3,383
31 December 2006	3,389

The main goodwill items by business/country are as follows (net carrying amounts):

(in M€)	2006	2005
Hypermarkets France	1,119	1,118
Hypermarkets Italy	611	611
Hypermarkets Portugal (of which impairment losses of M€ 2 in 2006 and 2005)	171	171
Other hypermarkets (of which Taiwan impairment losses of M€ 8 in 2006 and M€ 9 in 2005)	209	223
Supermarkets France (of which impairment losses of M€ 17 in 2006 and M€ 16 in 2005)	463	444
Supermarkets Italy	581	582
Other supermarkets (of which Poland impairment losses of M€ 18 in 2006 and 2005)	60	58
Property Italy	73	73
Other property	79	82
Other goodwill items	23	21
Total	3,389	3,383

note 18 OTHER INTANGIBLE ASSETS

Changes in gross carrying amounts

(in M€)	Licences	Internal IT development costs	Total
Gross carrying amount at 1 January 2005	157	7	164
Acquisitions and internal development	17	0	17
Disposals and retirements ⁽¹⁾	(80)	0	(80)
Foreign currency translation adjustments	1	0	1
Other movements and transfers	17	0	17
Gross carrying amount at 31 December 2005	112	7	119

(1) Mainly disposal of activities in Argentina and the non-food activity in Italy.

(in M€)	Licences	Internal IT development costs	Total
Gross carrying amount at 1 January 2006	112	7	119
Acquisitions and internal development	26	7	33
Acquisitions as part of business combinations	1	0	1
Disposals and retirements	(14)	0	(14)
Foreign currency translation adjustments	0	0	0
Other movements and transfers	(4)	1	(3)
Gross carrying amount at 31 December 2006	121	15	136

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Changes in amortisation and impairment losses

(in M€)	Licences	Internal IT development costs	Total
Amortisation and impairment losses at 1 January 2005	111	0	111
Amortisation for the year	24	1	25
Accumulated amortisation recognised as part of business combinations	0	0	0
Disposals and retirements ⁽¹⁾	(68)	0	(68)
Other movements and transfers	9	0	9
Amortisation and impairment losses at 31 December 2005	76	1	77

(1) Mainly disposal of activities in Argentina and the non-food activity in Italy.

(in M€)	Licences	Internal IT development costs	Total
Amortisation and impairment losses at 1 January 2006	76	1	77
Amortisation for the year	21	4	25
Accumulated amortisation recognised as part of business combinations	0	0	0
Disposals and retirements	(12)	0	(12)
Other movements and transfers	(3)	1	(2)
Amortisation and impairment losses at 31 December 2006	82	6	88

Net carrying amounts

(in M€)	Licences	Internal IT development costs	Total
1 January 2005	46	7	53
31 December 2005	36	6	42
31 December 2006	39	9	48

No intangible asset has been assigned in guarantee for liabilities.

note 19 PROPERTY, PLANT AND EQUIPMENT

Changes in carrying amounts

(in M€)	Land, buildings and improvements	Equipment and other PP&E	PP&E under construction	Total
Gross carrying amount at 1 January 2005	8,397	2,297	475	11,169
Acquisitions as part of business combinations	34	43	28	105
Other acquisitions	282	316	285	883
Disposals and retirements ⁽¹⁾	(425)	(397)	(51)	(873)
Foreign currency translation adjustments	53	35	9	97
Transfers to investment property	33	(11)	(70)	(48)
Other movements and transfers	80	44	(85)	39
Gross carrying amount at 31 December 2005	8,454	2,327	591	11,372

(1) Mainly disposal of activities in Argentina and the non-food activity in Italy.

(in M€)	Land, buildings and improvements	Equipment and other PP&E	PP&E under construction ⁽¹⁾	Total
Gross carrying amount at 1 January 2006	8,454	2,327	591	11,372
Acquisitions as part of business combinations	2	9	0	11
Other acquisitions	301	235	475	1,011
Disposals and retirements	(88)	(97)	(4)	(189)
Foreign currency translation adjustments	(17)	(16)	(2)	(35)
Transfers to investment property ⁽²⁾	(104)	0	(49)	(153)
Other movements and transfers	200	5	(184)	21
Other	(26)	0	7	(19)
Gross carrying amount at 31 December 2006	8,722	2,463	834	12,019

(1) At 31 December 2006, PP&E under construction concerned the Hypermarket activity for M€ 636, the Supermarket activity for M€ 94, and the Property activity for M€ 104.

(2) Assets complying with the definition of investment property.

Changes in amortisation and impairment losses

(in M€)	Land, buildings and improvements	Equipment and other PP&E	PP&E under construction	Total
Amortisation and impairment losses at 1 January 2005	2,406	1,334	15	3,755
Amortisation for the year	426	300	0	726
Accumulated amortisation recognised as part of business combinations	0	0	0	0
Impairment losses	15	0	2	17
Reversals of impairment losses	(11)	0	(1)	(12)
Disposals and retirements ⁽¹⁾	(149)	(317)	0	(466)
Foreign currency translation adjustments	16	15	0	31
Transfers to investment property	(1)	(3)	0	(4)
Other movements and transfers	9	34	0	43
Other	1	13	0	14
Amortisation and impairment losses at 31 December 2005	2,712	1,376	16	4,104

(1) Mainly disposal of activities in Argentina and the non-food activity in Italy.

(in M€)	Land, buildings and improvements	Equipment and other PP&E	PP&E under construction	Total
Amortisation and impairment losses at 1 January 2006	2,712	1,376	16	4,104
Amortisation for the year	434	288	0	722
Accumulated amortisation recognised as part of business combinations	0	6	0	6
Impairment losses	6	2	0	8
Reversals of impairment losses	(2)	0	(1)	(3)
Disposals and retirements	(63)	(94)	0	(157)
Foreign currency translation adjustments	(4)	(8)	0	(12)
Transfers to investment property	(37)	1	0	(36)
Other movements and transfers	28	(10)	0	18
Other	(3)	0	0	(3)
Amortisation and impairment losses at 31 December 2006	3,071	1,561	15	4,647

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Net carrying amounts

(in M€)	Land, buildings and improvements	Equipment and other PP&E	PP&E under construction ⁽¹⁾	Total
1 January 2005	5,991	963	460	7,414
31 December 2005	5,742	951	575	7,268
31 December 2006	5,651	902	819	7,372

(1) At 31 December 2006, PP&E under construction concerned the Hypermarket activity for M€ 621, the Supermarket activity for M€ 94 and the Property activity for M€ 104.

Net carrying amounts of property, plant and equipment held under finance leases

(in M€)	Land, buildings and improvements	Equipment and other PP&E	Total
31 December 2005	438	12	450
Hypermarkets France	135	3	138
Hypermarkets Italy	173	0	173
Other Hypermarkets	58	3	61
Supermarkets	35	5	40
Alinéa	37	1	38
31 December 2006	322	9	331
Hypermarkets France	102	3	105
Hypermarkets Italy	127	0	127
Other Hypermarkets	24	1	25
Supermarkets	21	3	24
Alinéa	48	2	50

Securities

RT Mart China PP&E for an amount of M€ 15 have been pledged to secure liabilities.

Commitments

Commitments relating to property, plant and equipment are detailed in note 44.

note 20 INVESTMENT PROPERTY

Changes

(in M€)	Gross carrying amounts	Amortisation and impairment	Net carrying amounts
1 January 2005	2,301	495	1,806
Acquisitions as part of business combinations	0	0	0
Other acquisitions	131	0	131
Disposals and retirements ⁽¹⁾	(53)	(17)	(36)
Amortisation for the year	0	103	(103)
Impairment losses	0	5	(5)
Reversals of impairment losses	0	(1)	1
Foreign currency translation adjustments	19	4	15
Transfers from "Property, plant and equipment"	48	4	44
Other movements and transfers	9	7	2
31 December 2005	2,455	600	1,855

(1) Mainly disposal of activities in Argentina and the non-food activity in Italy.

(in M€)	Gross carrying amounts	Amortisation and impairment	Net carrying amounts
1 January 2006	2,455	600	1,855
Acquisitions as part of business combinations	5	1	4
Other acquisitions	170	0	170
Disposals and retirements	(35)	(10)	(25)
Amortisation for the year	0	104	(104)
Impairment losses	0	0	0
Reversals of impairment losses	0	(4)	4
Foreign currency translation adjustments	(7)	(3)	(4)
Transfers from "Property, plant and equipment"	153	36	117
Other movements and transfers	(1)	0	(1)
Other	2	0	2
31 December 2006	2,742	724	2,018

Net carrying amounts of investment property held under finance leases

(in M€)	
31 December 2005	146
France	16
Italy	128
Other	2
31 December 2006	114
France	7
Italy	107

Investment properties have been pledged to secure liabilities in Italy for M€ 276 and in mainland China for M€ 17.

Commitments relating to investment property are detailed in note 44.

Investment property generated rental income of M€ 319 in 2006, (M€ 287 in 2005) and direct operating expenses of M€ 170, of which M€ 7 generated no rental income (M€ 161 and M€ 15 respectively in 2005).

At 31 December 2006, the estimated fair value of the investment property was M€ 4,018 for a net carrying amount reported in the balance sheet of M€ 2,018 (M€ 3,558 and M€ 1,855 respectively for 2005).

This fair value was determined partially by external valuations and partially by internal valuations. Internal valuations consisted of applying a capitalisation rate, which reflected the country, location and size of the buildings concerned to the net annualised rent generated by each shopping centre and business park.

note 21 INVESTMENTS IN ASSOCIATES

(in M€)	2006	2005
At 1 January	52	65
Increases in capital and share in 2006 income	13	0
Disposals by Hypermarkets Italy	0	(13)
Initial consolidation of Valauchan International ⁽¹⁾	18	0
Romania (MGV Distri-Hiper)	NS	0
At 31 December	83	52

(1) In 2005, the shares in this company were included in "Other non-current financial assets".

The company was consolidated for the first time by the equity method as from 1 January 2006. Goodwill generated amounted to M€ 3.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Details of investments in associates are as follows:

Companies	Country	% interest	Value of the shares at 31.12.2006
Galleria Commerciale Porta di Roma S.p.A	Italy	20	27
Innova Costruzioni Srl	Italy	20	7
Il Mulino Srl	Italy	20	2
Immobiliare Commerciale Xxi Srl	Italy	20	1
Vulcano S.p.A	Italy	23	23
Iniziative commerciali Napoli S.p.A	Italy	25	3
Centro commerciale C'E' SA	Italy	49	2
Business Advisor Srl	Italy	49	NS
Centro commerciale C'E' 2 Srl	Italy	49	NS
Valauchan International	Luxembourg	13	18
MGV Distri-Hiper	Romania	29	NS
Total			83

NS: not significant.

Investments in associates comprise shares in companies which have no significant impact on Group equity and income, or over which the Group exercises significant influence.

The principal financial data for investments in associates at 31 December 2006 are as follows (100% and in M€):

Company	2006				2005			
	Total assets	Equity	Revenue	Net income	Total assets	Equity	Revenue	Net income
Galleria Commerciale Porta di Roma S.p.A	179	46	NS	NS	45	5	NS	NS
Innova Costruzioni Srl	35	4	8	3	78	NS	NS	NS
Il Mulino Srl	28	NS	2	NS	17	NS	NS	NS
Immobiliare Commerciale Xxi Srl	40	NS	2	NS	28	NS	NS	NS
Vulcano S.p.A	161	24	6	5	116	6	4	NS
Iniziative commerciali Napoli S.p.A	31	14	5	NS	25	13	1	NS
Centro commerciale C'E' SA	2	1	NS	NS	1	1	NS	NS
Business Advisor Srl	NS	NS	NS	NS	NS	NS	NS	NS
Centro commerciale C'E' 2 Srl	NS	NS	NS	NS	NS	NS	NS	NS
Valauchan International	114 ⁽¹⁾	114	NS	NS	not consolidated			
MGV Distri-Hiper Romania	27	(1)	19	(4)	not consolidated			

NS: not significant.

(1) Essentially Groupe Auchan SA shares.

note 22 CUSTOMER LOANS – CREDIT ACTIVITY

This item reflects receivables held by Banque Accord, its subsidiaries and Comfactor on their customers. It includes personal loans, revolving credit and deferred payment facilities on Accord credit cards, and receivables held by Comfactor, the captive factoring company in Italy.

(in M€)	2006	2005
Gross carrying amount	2,696	2,351
Impairment losses	(203)	(182)
Net carrying amount	2,493	2,169
Of which non-current	831	706
current	1,662	1,463

note 23 OTHER FINANCIAL ASSETS

Classification of non-current financial assets by category (net carrying amount)

(in M€)	2006	2005
Financial assets held for trading ⁽¹⁾	7	34
Held-to-maturity investments	None	None
Available-for-sale financial assets ⁽²⁾	153	199
Loans and receivables issued by the company ⁽³⁾	291	294
<i>Financial receivables</i> ⁽⁴⁾	91	137
<i>Receivables relating to PP&E at over 1 year</i>	3	3
<i>Other non-operating receivables</i>	49	49
<i>Prepaid expenses</i> ⁽⁵⁾	148	105
Other non-current financial assets (net)	451	527
Of which accumulated impairment losses	12	14

(1) Financial assets held for trading correspond to marketable securities.

(2) Available-for-sale financial assets mainly comprise shares in companies which are neither controlled nor under significant influence (including Mexican shares: see note below). They also include participation in subsidiaries for which the impact is negligible on the Group financial statements.

(3) Of which maturing in over 5 years at 31 December 2006: M€ 168.

(4) Financial receivables mainly comprise security deposits.

(5) Prepaid expenses mainly comprise land use rights in Poland, Russia and China.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Mexican shares:

The Auchan Group sold its shopping centres in Mexico to Comerci in 2003, subject to the suspensive condition of full payment of the agreed price. This payment is spread over the period 2003 to 2008. Definitive transfer of the shares will only occur at the time of the final payment. However, the Group has not had control over these real-estate companies since 28 February 2003. Consequently, the total number of shares, considered as assets available-for-sale, is recognised as an asset at its fair value for an amount of M€ 92 (of which M€ (1) for fair value adjustment). The amount of payments so far received is recognised under "Other non-current liabilities" for M€ 64, and the equivalent value of payments receivable is M€ 30. The balance represents \$/€ exchange differences.

Classification of current financial assets by category (net carrying amount)

(in M€)	2006	2005
Financial assets held for trading ⁽¹⁾	1,275	833
Held-to-maturity investments	None	None
Available-for-sale financial assets	None	None
Loans and receivables issued by the company:		
<i>Financial receivables</i>	17	27
<i>Other receivables</i>	2,037	2,040
Other current receivables (net carrying amount)	2,054	2,067
Of which accumulated impairment losses	60	65

(1) Financial assets held for trading correspond to marketable securities. They are recognised under "Cash and cash equivalents".

note 24 DEFERRED TAX ASSETS AND LIABILITIES

Breakdown of deferred tax assets and liabilities

2005 figures have been restated (see note 4).

(in M€)	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
On temporary differences	85	71	561	556	(476)	(485)
Non-deductible provisions	26	10	(88)	(86)	114	96
Intangible assets, PP&E, amortisation and depreciation	50	41	474	505	(424)	(464)
Investment property	23	8	108	101	(85)	(93)
Finance leases	(19)	(1)	38	51	(57)	(52)
Inventories	6	11	(71)	(82)	77	93
Employee benefits	0	0	(8)	(13)	8	13
Tax regulated provisions	(2)	(1)	66	49	(68)	(50)
Other	1	3	42	31	(41)	(28)
On losses carried forward	0	4	(2)	(1)	2	5
Deferred tax assets/liabilities	85	75	559	555	(474)	(480)

Deferred taxes not recognised

Deferred tax assets of M€ 68 relating to tax losses carried forward, tax credits and other temporary differences, are not recognised as their recovery is not considered probable.

Non-recognised deferred tax assets expires as follows:

(in M€)	2006
Between 2007 and 2011	43
Between 2012 and 2016	7
After 2016	18
Total at 31 December 2006	68

Changes in deferred tax assets and liabilities (+: asset or expense, (): liability or income)

The situation at 1 January 2006 takes into account the restatement described in note 4.

(in M€)	01.01.2006	Recognised in income	Recognised in equity	Reclassification	Changes in consolidation scope	Foreign currency translation adjustments	31.12.2006
On temporary differences	(485)	15	2		(6)	(2)	(476)
Non-deductible provisions	96	6		12			114
Intangible assets, PP&E, amortisation and depreciation	(464)	50	6	(13)	(1)	(2)	(424)
Investment property	(93)	10	1	(3)			(85)
Finance leases	(52)	(13)		12	(4)		(57)
Inventories	93	(10)		(6)			77
Employee benefits	13	2	(7)				8
Tax regulated provisions	(50)	(18)					(68)
Other	(28)	(12)	2	(2)	(1)		(41)
On tax losses carried forward generated during the year	6	(3)		(1)			2
On tax losses used during the year	(1)			1			0
Deferred tax assets/liabilities	(480)	12	2	0	(6)	(2)	(474)

note 25 INVENTORIES

Inventories essentially comprise merchandise.

(in M€)	2006	2005
Gross carrying amount	2,695	2,776
Accumulated impairment losses	(78)	(86)
Net carrying amount	2,617	2,690

No inventory amounts have been pledged to secure liabilities.

Change in impairment losses

(in M€)	2006	2005
At 1 January	(86)	(82)
Charge	(62)	(63)
Reversal	68	52
Change in consolidation scope and foreign currency translation adjustments	2	7
At 31 December	(78)	(86)

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note 26 CURRENT TAX ASSETS

(in M€)	2006	2005
Gross carrying amount	32	67
Accumulated impairment losses	(5)	(5)
Net carrying amount	27	62

note 27 OTHER CURRENT RECEIVABLES

(in M€)	2006	2005
Other receivables	1,986	2,020
Prepaid expenses	128	112
Gross carrying amount	2,114	2,132
Accumulated impairment losses	(60)	(65)
Net carrying amount	2,054	2,067

Other receivables mainly comprise tax and social security receivables and deferred income from suppliers.

Eurauchan, a Groupe Auchan SA subsidiary, has a trade receivables securitisation program. At 31 December 2006, the amount of receivables sold but not derecognised under this program was M€ 235 (M€ 210 at 31 December 2005), while financing granted was M€ 210 (M€ 188 at 31 December 2005). Eurauchan remains subject to the risk of non-payment of these receivables.

note 28 CASH AND CASH EQUIVALENTS

Net cash presented in the cash flow statement corresponds to the following items:

(in M€)	2006	2005
Marketable securities with a maturity of less than 3 months	1,275	833
Cash	1,033	772
Cash and cash equivalents	2,308	1,605
Bank overdrafts (see note 33)	(749)	(445)
Net cash	1,559	1,160

note 29 EQUITY

29.1 Number of shares representing share capital

	2006	2005
At 1 January	31,785,431	31,667,211
Issue of new share	0	118,220
Capital reduction by cancellation of treasury shares	(365,994)	-
At 31 December	31,419,437	31,785,431

Share capital as of 31 December 2006 amounts to € 628,388,740 (€ 635,708,620 at 31 December 2005), comprising fully paid up ordinary shares with a par value of € 20 each.

29.2 Treasury shares

In 2006, 388,192 treasury shares were purchased for an amount of M€ 114 (of which M€ 107 from FCPE Valauchan in August 2006), and 27,276 shares were sold for M€ 7, in connection with settlement of share purchase plans. Following cancellation of 365,994 shares in December 2006, resulting in a capital reduction for an amount of M€ 7 and a share premium reduction of M€ 100, Groupe Auchan SA held 69,793 treasury shares at 31 December 2006 for an amount of M€ 20. These shares are allocated to cover share purchase options granted to Group executives.

29.3 Legal reserve

The legal reserve of Groupe Auchan SA amounts to M€ 62 at 31 December 2006.

29.4 Reserves detailed by nature

Currency translation reserve

This amounts to M€ 67 at 31 December 2006, compared with M€ 96 at 31 December 2005.

Breakdown (attributable to equity holders of the parent) is as follows:

(in M€)	2006	2005
Poland	64	61
Hungary	6	5
Mainland China	(2)	11
Taiwan	(1)	14
Russia	1	4
Morocco	(1)	1
Total	67	96

Revaluation reserve of available-for-sale financial assets

Change (in M€)	2006	2005
At 1 January	8	6
Change	(10)	2
At 31 December	(2)	8

The amount recognised in income for disposal of these assets is nil for 2006 (M€ 11 for 2005).

Cash flow hedge reserve

Change (in M€)	2006	2005
At 1 January	7	1
Change	(4)	6
At 31 December	3	7

29.5 Minority interests

Minority interests comprise minority interests in ISMS and its subsidiaries (Supermarkets business), and subsidiaries in Taiwan and mainland China. In 2006, minority interests in Soparimmofonds, consolidated since 2005, are reported in non-Group interests for an amount of M€ 12, following disappearance of the share purchase commitment to minority shareholders in 2006 (see note 33).

29.6 Proposed dividend

On 27 March 2007, a dividend of M€ 200, corresponding to € 6.36 per share, was proposed by the Executive Board

to the Ordinary General Meeting convened to approve the financial statements for the year ended on 31 December 2006. A dividend of € 1.89 per share, for a total amount of M€ 60, was paid in respect of 2005.

Appropriation of 2006 net income has not been recognised in the financial statements at 31 December 2006.

note 30 EMPLOYEE BENEFITS

According to the rules and practices in each country, Group employees receive long-term or post-employment benefits. Provisions (non-current and current) for employee benefit obligations amounted to M€ 224 at 31 December 2006 (compared with M€ 247 at 31 December 2005), of which M€ 2 for other long-term benefit obligations, and M€ 222 for post-employment benefit obligations. In accordance with the option proposed in the amendment to IAS 19 revised, actuarial gains and losses are recognised immediately in equity for all actuarial gains and losses relating to defined benefit plans. 2005 comparative data have been restated accordingly (see note 4).

These additional benefits take the form of defined contribution or defined benefice plans.

Defined contribution plans

These plans are characterised by the payments of periodic contributions to external organisations providing an administrative and financial management function. Contributions to these plans are expensed as incurred. They amounted to M€ 283.

Defined benefit plans

For the main plans, an actuarial valuation is performed by independent experts on an annual basis. Defined benefit plans primarily consist of retirement termination payments in France, and statutory dismissal compensation in Italy (TFR).

The main actuarial assumptions used to estimate the above obligations are as follows:

Actuarial assumptions	2006		2005	
	France	Italy	France	Italy
Discount rate at 1 January	4.00%	4.00%	4.50%	4.25%
Discount rate at 31 December	4.35%	4.00%	4.00%	4.00%
Expected rate of return on plan assets at 1 January	4.00%	NA	4.50%	NA
Expected rate of increase in salaries	2.50%	2.00%	2.00%	2.00%

NA = not applicable, as no assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The increase in the present value of the obligation in respect of defined benefit plans breaks down as follows:

Change (in M€)	2006	2005 restated
Present value of obligation at 1 January	336	310
Interest cost	11	12
Current service cost	41	38
Benefits paid	(52)	(33)
Actuarial gains and losses	(19)	8
Other	2	1
Present value of obligation at 31 December	319	336

The change in the fair value of defined benefit plan assets breaks down as follows:

(in M€)	2006	2005 restated
Fair value of assets at 1 January	91	93
Expected return on plan assets	4	4
Contributions paid	1	0
Benefits paid	(3)	(6)
Actuarial gains and losses	1	0
Other	3	0
Fair value of assets at 31 December	97	91

Breakdown of defined benefit plan assets in France by major category is as follows:

(in M€)	2006	2005
Shares	20%	16%
Bonds	68%	74%
Real-estate	12%	10%

Estimated contributions payable for 2007 amount to M€ 29.

Balance-sheet data can be reconciled with the actuarial obligation in respect of defined benefit plans as follows:

(in M€)	2006	2005 restated
Present value of the non-funded obligations	194	216
Present value of the funded obligations	125	120
Fair value of assets	(97)	(91)
Deficit/(excess)	222	245
Net liability recognised in the balance sheet	222	245

The net provision recognised in the balance sheet has changed as follows:

(in M€)	2006	2005 restated
Provision recognised in the balance sheet at 1 January	245	201
Actuarial gains and losses recognised in equity (2005: see note 4):	(20)	25
<i>of which experience adjustments arising on plan liabilities</i>	(8)	
<i>of which experience adjustments arising on plan assets</i>	0	
Net expense of the period	48	46
Contributions paid	(1)	0
Benefits paid for the period	(50)	(27)
Provisions recognised in the balance sheet at 31 December	222	245

The aggregate amount of actuarial gains and losses recognised in equity amounted to M€ 5 at 31 December 2006 (M€ 3 net of taxes).

Charges recognised with respect to defined benefit plans can be broken down as follows:

(in M€)	2006	2005 restated
Current service cost	41	38
Interest cost	11	12
Expected return on plan assets	(4)	(4)
Charges recognised	48	46
of which recognised in payroll expenses	41	38
recognised in other financial income and expenses	7	8

note 31 SHARE-BASED PAYMENTS

In return for services rendered, Groupe Auchan SA has granted certain employees option plans settled in shares.

In accordance with the provisional measures of IFRS 2, the Group has opted to apply the standard solely to those plans issued after 7 November 2002, and for which the rights are not vested as of 1 January 2005.

Characteristics of option plans issued by Groupe Auchan SA:

- the options are unavailable for a period of 4 years from the date of grant;
- they can be exercised over the period from 15 May to 20 June of the vesting date;
- to exercise the options, the effective and continuous presence of the employee is required within the issuer company or one of its subsidiaries. Any suspension of the employment contract occurring for any reason other than illness or maternity results in cancellation of the option rights (and any other condition specific to the issuer company).

For expatriate beneficiaries, the period of expatriate duty must have been completed. Any advance return to the country of origin results in cancellation of option rights;

- the exercise price is considered to be a price with detached coupons. Exercise of options occurs in all cases after the detachment of coupons;
- shares subscribed by option beneficiaries are recorded in the Groupe Auchan SA share register.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Summary of residual option plans issued before 7 November 2002 and for which the rights were not vested at 1 January 2005 (options exercised in 2006)

Type of plan and employee concerned	Grant date	Exercise price (in €)	Number of options	Conditions of acquisition	Duration of the option
Stock-option plan Management, local senior or expatriate management staff	31.05.2002	251.33	27,276	Effective and continuous presence throughout the period of non-availability: completion of expatriation duties for expatriate beneficiaries	4 years

Change in number of options and weighted average exercise price for 2005 and 2006

	2006		2005	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Options outstanding at the beginning of the year	278.35	111,722	277.54	75,430
Options granted during the year	294.05	40,155	280.03	37,454
Options exercised during the year		0		0
Options cancelled or lost	278.63	2,958	279.95	1,162
Options expired		0		0
Options outstanding at the end of the year	282.58	148,919	278.35	111,722
Price range	272.98/294.05		272.98/282.11	
Weighted average contractual duration	24 months		30 months	
Options exercisable at the end of the year		0		0

Weighted average values of the different plans granted in 2003, 2004, 2005 and 2006

	Plan granted during year			
	2006	2005	2004	2003
Fair value of options	70.23 €	61.77 €	61.05 €	59.07 €
Share price	294.05 €	280.03 €	272.98 €	282.11 €
Exercise price	294.05 €	280.03 €	272.98 €	282.11 €
Expected volatility	25.62%	26.49%	27.12%	28.07%
Duration of the option	4 years	4 years	4 years	4 years
Expected dividends	1.03%	1.24%	1.88%	2.29%
Risk-free interest rate	3.81%	2.63%	3.56%	2.82%
Type of model	binomial	binomial	binomial	binomial

Volatility has been measured based on an analysis of the implicit volatility of companies related to the business activity of Groupe Auchan SA over a period of 5 years preceding grant date.

Impact on the income statement (payroll expenses)

The annual impact per plan is less than M€ 1. Total cumulative impact of plans recognised was M€ 2 for 2006 and 2005.

note 32 PROVISIONS

Long-term

(in M€)	Tax disputes	Meat purchase tax ⁽¹⁾	Other litigation	Employee benefits	Other	Total
At 31 December 2005 (restated, see note 4)	60	47	29	221	13	370
Charges	22	0	2	54	11	89
Reversals used ⁽²⁾	(15)	0	(2)	(57)	(2)	(76)
Reversal of provisions unused or reconstituted	(5)	0	(4)	0	(1)	(10)
Actuarial gains and losses recognised in equity				(20)		(20)
Reclassification and other movements ⁽³⁾	(1)	0	(2)	(3)	(3)	(9)
At 31 December 2006	61	47	23	195	18	344

(1) Given the progress of the dispute with the French tax authorities, tax rebates received or receivable for 2001 to 2003 have not been recognised in income for the sake of prudence. Tax rebates for 2001 have been accrued for M€ 47 (see above) and those for 2002 and 2003 have been recognised as an accrued liability for M€ 96.

(2) Mainly concerns:

– tax disputes: M€ 12 for tax adjustments have been recognised under “External expenses” following settlement of tax litigation in France and Spain;
– employee benefits: M€ 57 for retirement termination payments, of which M€ 50 recognised under “Employee benefits”, were paid during 2006, the greater part of this amount concerns Italy.

(3) Of which reclassification of the part at less than one year as short-term provisions.

Short-term

(in M€)	Tax disputes	Other litigation	Provisions for warranties	Employee benefits	Other	Total
At 31 December 2005	8	81	31	26	18	164
Charges	3	30	32	0	10	75
Reversals used ⁽¹⁾	(1)	(12)	0	0	(13)	(26)
Reversal of provisions unused or reconstituted ⁽²⁾	(2)	(13)	(31)	0	0	(46)
Reclassification and other movements ⁽³⁾	1	0	0	3	4	8
At 31 December 2006	9	86	32	29	19	175

(1) Reversals of provisions used: mainly reversals of provisions of amounts that are always less than M€ 6.

(2) Reversals of provisions unused or reconstituted. The provision for warranties is reconstituted in full at each balance sheet date, the expense being recognised principally under “External expenses”. Reversals of unused provisions mainly concern the settlement of risks and litigation to the amount of the excess provision compared with the expense recognised. This concerns litigation with suppliers for M€ 5, and litigation with employees for M€ 4.

(3) Reclassification of the part at less than one year as long-term provisions.

note 33 BORROWINGS AND OTHER FINANCIAL LIABILITIES

Non-current borrowings and other financial liabilities

(in M€)	Maturing in 1 to 5 years	Maturing in more than 5 years	2006 Total	2005 Total
Bonds	1,611	75	1,686	1,824
Bank loans and borrowings	824	130	954	983
Obligations under finance leases	105	140	245	334
Other borrowings and financial liabilities	307	27	334	271
Total	2,847	372	3,219	3,412

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Current borrowings and other financial liabilities

(in M€)	2006	2005
Bonds	80	0
Bank loans and borrowings	104	84
Obligations under finance leases	30	35
Other borrowings and financial liabilities	82	96
Bank overdrafts	749	445
Total	1,045	660

Accrued interests are recognised under "Other borrowings and financial liabilities", apart from those relating to bonds.

Main characteristics of borrowings and other financial liabilities

Bonds⁽¹⁾

Borrower company	Nominal interest rate	Effective interest rate	Issue date	Hedge	Maturity	31.12.2006 in M€	31.12.2005 in M€
Groupe Auchan SA	3.5000%	3.6316%	22.07.2003	Floating rate swap maturing in 3 months for the entire issue	22.07.2008	750	750
Groupe Auchan SA	4.1250%	4.2520%	04.05.2004	Floating rate swap maturing in 3 months for the entire issue	04.05.2011	300	300
Groupe Auchan SA	3.0000%	3.0144%	28.06.2005	Floating rate swap maturing in 3 months for the entire issue	28.06.2010	600	600
Groupe Auchan SA	EURIBOR 3M + 0.14%	EURIBOR 3M + 0.14%	20.04.2004	none	20.04.2007	50	50
Groupe Auchan SA	EURIBOR 3M + 0.18%	EURIBOR 3M + 0.18%	09.03.2005	none	09.03.2012	75	75

(1) Bonds issued in Luxembourg in connection with the EMTN (Euro Medium Term Notes) program.

Bank loans and borrowings

Borrower company	Nominal interest rate	Effective interest rate	Issue date	Hedge	Maturity	31.12.2006 in M€	31.12.2005 in M€
Groupe Auchan SA	3.4640%	3.2368%	15.05.2003	Floating rate swap maturing in 6 months for the entire issue	15.05.2008	236	236
Erregest S.p.A	EURIBOR 3M + 0.475%	EURIBOR 3M + 0.475%	30.06.2005	none	25.06.2010	80	80
Erregest S.p.A	EURIBOR 3M + 0.390%	EURIBOR 3M + 0.390%	03.10.2005	none	30.03.2007	55	55
Auchan S.p.A	EURIBOR 3M + 0.150%	EURIBOR 3M + 0.150%	15.03.2003	none	15.03.2013	130	135
G.C.I.	EURIBOR 3M + 1.050%	EURIBOR 3M + 1.050%	22.12.2004	Fixed rate swap for the entire issue	09.12.2009	127	125
G.C.I.	EURIBOR 3M + 1.150%	EURIBOR 3M + 1.150%	22.12.2004	Fixed rate swap for the entire issue	09.12.2011	125	130

The Group has other borrowings and credit lines for unit amounts of less than M€ 50.

The amount of long and medium-term lines of credit obtained and confirmed by the banks but unused at 31 December 2006 is given in note 44.

Details concerning risks of repayability of debts

Medium- and long-term bank loans and borrowings are subject to the standard commitment and default clauses customarily included in those types of agreements: pari-passu, negative pledge, limitations on substantial disposal of assets, cross-default and material adverse changes.

The Euro Medium Term Note (EMTN) program of Groupe Auchan SA and Banque Accord covering bond issues, includes a negative pledge and a cross-default clause.

None of the Group's borrowings include covenants or default clauses applicable in the event of a downgrade of the Group's credit rating.

Only medium- and long-term bank loans and borrowings have a default clause in the event of failure to satisfy the following covenant at the balance sheet date:

Consolidated net debt / Recurring operating income excluding other recurring operating income and expenses, and excluding amortisation, depreciation and provisions = < 3.

The Group was in compliance with this covenant at 31 December 2006.

It should be noted that Gallerie Commerciali Italia (51% held by Groupe Auchan SA and 49% by Simon Property Group), considering the real-estate nature of its business, has specific financial covenants for its financing, including the following ratios: loan to value ratio, interest hedge ratio, debt service ratio and repayment capacity ratio (net debt / EBITDA). The company was in compliance with these covenants at 31 December 2006.

Put options granted to minority shareholders

The Group has committed to repurchase the minority interests of shareholders in certain fully-consolidated subsidiaries. These commitments are measured and classified as debts, due to the existence of a put option at fair value. The value of these commitments is determined according to the appraisal value of the underlying asset, and amounted to M€ 46 at 31 December 2006.

Change (in M€)	31.12.2005	Increase	Decrease	31.12.2006
Soparimmo Fonds (real-estate) see note 29	21		(21)	0
Valsuper France	12	5		17
Valauchan Italie		21		21
Other		8		8
Total	33	34	(21)	46

note 34 DEBTS FINANCING THE CREDIT ACTIVITY

(in M€)	2006	2005
Bonds	571	418
Bank loans and borrowings	649	947
Other financial liabilities	565	308
Other (including bank overdrafts)	367	210
Total	2,152	1,883
Of which non-current	952	688
current	1,200	1,195

Non-current debts mature at between 1 and 5 years.

Accrued interests, apart from those relating to bonds, are included under "Other financial liabilities".

Characteristics of main bonds⁽¹⁾

Borrower company	Nominal interest rate	Effective interest rate	Issue date	Hedge	Maturity	31.12.2006 in M€	31.12.2005 in M€
Banque Accord SA	EURIBOR 3M + 0.220%	EURIBOR 3M + 0.220%	30.09.2004	-	30.09.2009	150	150
Banque Accord SA	EURIBOR 3M + 0.180%	EURIBOR 3M + 0.180%	30.09.2005	-	30.09.2010	200	200
Banque Accord SA	EURIBOR 3M + 0.175%	EURIBOR 3M + 0.175%	16.06.2006	-	16.06.2011	200	-

(1) Bonds issued in Luxembourg in connection with the EMTN (Euro Medium Term Notes) program.

Characteristics of main bank loans and borrowings

Borrower company	Nominal interest rate	Effective interest rate	Issue date	Hedge	Maturity	31.12.2006 in M€	31.12.2005 in M€
Banque Accord SA	EURIBOR 3M + 0.10%	EURIBOR 3M + 0.10%	27.12.2005	-	27.12.2010	100	100
Banque Accord SA	3.46%	3.26%	15.05.2003	Floating rate swap, maturing in 6 months for the entire issue	15.05.2008	177	177

The Group has other borrowings and lines of credit for unit amounts of less than M€ 50.

The amount of long- and medium-term lines of credit obtained and confirmed by the banks but unused at 31 December 2006 is given in note 44.

note 35 **FINANCIAL INSTRUMENTS**

In the normal course of its business, the Group is exposed to interest rate, currency and credit risks. Derivative financial instruments are used to reduce these risks.

The Group has set up an organisation for central management of market risks (liquidity, interest rate and currency risks).

At 31 December 2006, these derivatives are recognised in the balance sheet at their fair value under current and non-current assets and liabilities.

Derivatives qualifying for fair value hedge accounting are recognised in the balance sheet for M€ 24 at 31 December 2006. The majority are used to hedge long-term borrowings issued in the form of bonds.

35-1 Breakdown of financial instruments by type and accounting treatment

(in M€)	Value of derivative instruments – assets				Value of derivative instruments – liabilities			
	Interest rate derivatives	Currency derivatives	Embedded derivatives	Total	Interest rate derivatives	Currency derivatives	Embedded derivatives	Total
Net asset hedge	0	0	0	0	0	0	0	0
Future cash flow hedge	14	0	0	14	1	1	0	2
Fair value hedge	24	0	0	24	44	3	2	48
Derivative instruments not considered as hedges	10	7	2	19	0	13	2	16
Total	49	7	2	58	45	18	4	66
Of which non-current				31				51
current				27				15

35.2 Credit risk

The Auchan Group works exclusively with leading banks for its financial activities (see counterparty risk for confirmed but unused lines of credit) and interest rate and currency derivative transactions. The counterparty risk is consequently not material.

With regards to investments, Group policy is to invest its cash surplus in counterparties with monetary management A1 or P1 rating.

35.3 Management of customer risks by Banque Accord

The year was marked by continued tension concerning over-borrowing risks, which remained at sustained levels throughout 2006. Card and loan acceptance levels increased substantially as a result of targeted direct marketing operations with the retail companies. General risk levels were inside budget forecasts as a result of permanent adaptation of the collection processing chains set up repeatedly throughout the year.

The cost of risk in other countries was at the expected level.

Credit risk control will be strengthened, in parallel with the continued development of the Bank, with progressive adoption of the Basle 2 project IRBA standards by all Banque Accord Group companies.

35.4 Interest rate risk

Interest rate derivative instruments are used solely to reduce Group exposure to fluctuations in interest rates on his debt.

Transactions on the derivative markets are undertaken solely for hedging purposes. The recognition date for derivative instruments is the transaction date. The recognition date for other financial assets and liabilities is the payment date.

35.5 Interest rate hedging

Fair value hedge:

Interest rate transactions designated as fair value hedges concern swap operations where Auchan is a fixed-rate lender and floating rate borrower (Euribor 3 or 6 months). These hedges were set up at the inception of the fixed-rate bonds or bank borrowings, to convert them into floating-rate debt.

The currency for these transactions is the euro.

The net fair value of these instruments recognised in the balance sheet is M€ (20) at 31 December 2006.

Cash flow hedge:

Interest rate transactions designated as cash flow hedges concern swap operations, where Auchan is a fixed-rate borrower and floating-rate lender. The purpose of these hedges is to set the interest rate level of part of the forecast floating rate debt, and thus secure future financial income (N+1 to N+3 maximum) by limiting possible volatility. The maturity for these hedges does not exceed 3 years.

Currencies for these transactions at 31 December 2006 are the euro, zloty and forint.

The net fair value of these instruments recognised in the balance sheet are M€ 13 at 31 December 2006.

The amount recognised in reserves at 31 December 2006 for interest rate transactions designated as cash flow hedges are M€ 13.

Income of the year for transactions designated as cash flow hedges, and for which cash flows have occurred was M€ (0.6) excluding the credit activity.

35•6 Maturity of interest rate transactions

35•6•1 Excluding credit activity

Transactions in € (EUR) (average annual outstanding in M€) at 31 December 2006

	2007		2008		2009		2010		2011	
	Outst.	Rate	Outst.	Rate	Outst.	Rate	Outst.	Rate	Outst.	Rate
SIMPLE SWAPS										
Fixed rate borrower and floating-rate lender (6 months)										
Fixed rate borrower and floating-rate lender (3 months)	243	2.89%	40	2.80%	2	2.75%				
Fixed rate borrower and floating-rate lender (<= 1 month)	354	2.84%	319	3.25%	1	3.25%				
SIMPLE SWAPS										
Floating rate borrower (6 months) and fixed-rate lender										
Floating rate borrower (3 months) and fixed-rate lender	1,650	3.43%	1,316	3.41%	900	3.38%	593	3.57%	101	4.13%
Floating rate borrower (<= 1 month) and fixed-rate lender										
PURCHASES OF CAPS										
Against floating rate (6 months)										
Against floating rate (3 months)	756	3.01%	238	3.24%	6	3.30%				
Against floating rate (<= 1 month)	1,202	5.00%	602	5.20%	2	5.20%				

Transactions in zlotys (PLN) (average annual outstanding in PLN million) at 31 December 2006

	2007		2008		2009		2010		2011	
	Outst.	Rate	Outst.	Rate	Outst.	Rate	Outst.	Rate	Outst.	Rate
SIMPLE SWAPS										
Fixed rate borrower and floating-rate lender (6 months)										
Fixed rate borrower and floating-rate lender (3 months)	340	4.61%	19	4.64%						
Fixed rate borrower and floating-rate lender (<= 1 month)										
SIMPLE SWAPS										
Floating rate borrower (6 months) and fixed-rate lender										
Floating rate borrower (3 months) and fixed-rate lender										
Floating rate borrower (<= 1 month) and fixed-rate lender										
PURCHASES OF CAPS										
Against floating rate (6 months)										
Against floating rate (3 months)	10	8.00%								
Against floating rate (<= 1 month)	234	4.70%	563	5.22%	41	5.27%				

Transactions in forints (HUF) (average annual outstanding in HUF million) at 31 December 2006

	2007		2008		2009		2010		2011	
	Outst.	Rate	Outst.	Rate	Outst.	Rate	Outst.	Rate	Outst.	Rate
SIMPLE SWAPS										
Fixed rate borrower and floating-rate lender (6 months)										
Fixed rate borrower and floating-rate lender (3 months)										
Fixed rate borrower and floating-rate lender (<= 1 month)										
SIMPLE SWAPS										
Floating rate borrower (6 months) and fixed-rate lender										
Floating rate borrower (3 months) and fixed-rate lender										
Floating rate borrower (<= 1 month) and fixed-rate lender										
PURCHASES OF CAPS										
Against floating rate (6 months)										
Against floating rate (3 months)	43,811	8.71%	20,447	8.45%	1,819	8.43%				
Against floating rate (<= 1 month)										

35•6•2 Credit activity

Transactions in € (EUR) (average annual outstanding in M€) at 31 December 2006

	2007		2008		2009		2010		2011	
	Outst.	Rate	Outst.	Rate	Outst.	Rate	Outst.	Rate	Outst.	Rate
SIMPLE SWAPS										
Fixed rate borrower and floating-rate lender (6 months)										
Fixed rate borrower and floating-rate lender (3 months)										
Fixed rate borrower and floating-rate lender (<= 1 month)	316	3.15%	190	3.23%	82	3.60%	22	3.75%	5	3.69%
SIMPLE SWAPS										
Floating rate borrower (6 months) and fixed-rate lender	169	3.46%	64	3.46%						
Floating rate borrower (3 months) and fixed-rate lender										
Floating rate borrower (<= 1 month) and fixed-rate lender										
PURCHASES OF CAPS										
Against floating rate (6 months)										
Against floating rate (3 months)										
Against floating rate (<= 1 month)	485	3.95%	3	3.95%						
SALES OF CAPS										
Against floating rate (6 months)										
Against floating rate (3 months)										
Against floating rate (<= 1 month)	15	3.98%								
BASIS CHANGE SWAPS	661		213		112					

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35.7 Exposure to interest rate risk

35.7.1 Before management (excluding credit activity)

(in M€)	31.12.2006	2006 maturities		
		Less than 1 year	1 to 5 years	More than 5 years
Fixed rate financial assets	1,134	1,048	49	37
Bonds	1,641	30	1,611	0
Bank loans and borrowings	384	80	261	43
Obligations under finance leases	233	23	96	114
Other borrowings and financial liabilities	57	4	29	24
Fixed rate financial liabilities	2,315	137	1,997	181

(in M€)	31.12.2006	2006 maturities		
		Less than 1 year	1 to 5 years	More than 5 years
Floating rate financial assets	1,288	1,277	11	0
Bonds	125	50	0	75
Bank loans and borrowings ⁽¹⁾	1,423	772	564	87
Obligations under finance leases	42	7	9	26
Other borrowings and financial liabilities	359	79	277	3
Floating rate financial liabilities	1,949	908	850	191

(1) Including bank overdrafts.

35.7.2 After management (excluding credit activity)

(in M€)	
Fixed rate financial assets	1,134
Fixed rate financial liabilities	3,314
Floating rate financial assets	1,288
Floating rate financial liabilities	950

35.7.3 Sensitivity analysis

A 1%-increase in interest rates for all currencies (excluding credit activity) would generate a M€ 3-increase in the cost of financial debt, on the basis of the financial position at 31 December 2006.

A 1%-decrease in interest rates for all currencies (excluding credit activity) would generate a M€ 1-decrease in the cost of financial debt, on the basis of the financial position at 31 December 2006.

35.8 Foreign currency risk

The Group is exposed to foreign currency risk on purchases, sales and borrowings denominated in a currency other than the euro, and the value of the net assets of its subsidiaries in foreign currencies. Currencies for these transactions at 31 December 2006 were primarily the US dollar, zloty, forint, rouble, Taiwan dollar and yen.

Recognition date for derivative instruments is the transaction date. Recognition date for other financial assets and liabilities is the settlement date.

35.8.1 Foreign exchange hedges

Derivative foreign exchange instruments are used to limit fluctuations in exchange rates for the Group's currency requirements, and the value of the net assets of certain Group subsidiaries.

Transactions on the derivative markets are undertaken solely for hedging purposes.

Foreign exchange transactions only concern the currencies indicated in the following table.

Fair value hedge

Financial exchange instruments are not documented for the purposes of hedge accounting, since a natural offset is recognised in the income statement by matching the fair value gains or losses with the assets and liabilities.

The net fair value of these instruments recorded in the balance sheet at 31 December 2006 is M€ (3).

Cash flow hedge

Foreign exchange transactions qualified as cash flow hedges include currency swaps, forward currency purchases/sales or currency options. These transactions are used to hedge forecast merchandise purchase cash flows which will be denominated in foreign currencies.

The risks hedged by these transactions are principally €//\$ risks.

The net fair value of these instruments recognised in the balance sheet at 31 December 2006 is M€ (1).

The amount recognised in reserves for foreign exchange transactions designated as cash flow hedges at 31 December 2006 is M€ (9).

Hedge of net assets

Hedges are set up to hedge part of the net assets of subsidiaries in foreign currencies against the exchange risk.

The purpose of these hedges is to neutralise fluctuations in the carrying amount in euros of part of net assets (defined as the sum of the equity of the subsidiaries concerned and goodwill).

These hedges are set up in the form of deliverable or non-deliverable forward sales if standard forward sales are not possible.

Hedges of this type have a maturity of 2 years.

The net fair value of these instruments recognised in the balance sheet at 31 December 2006 is not material.

35•8•2 Maturity of foreign exchange derivative instruments

Foreign exchange derivative transactions (excluding credit activity)

CURRENCY	USD	PLN	HUF	JPY	RUB	TWD	TOTAL
Buyer							
Forward contract	13	0	0	0	0	0	13
of which less than 1 year	13	0	0	0	0	0	13
of which 1 to 5 years	0	0	0	0	0	0	0
of which more than 5 years	0	0	0	0	0	0	0
Cross-currency swap	292	0	0	20	0	0	312
of which less than 1 year	292	0	0	0	0	0	292
of which 1 to 5 years	0	0	0	20	0	0	20
of which more than 5 years	0	0	0	0	0	0	0
Option	26	0	0	0	0	0	26
of which less than 1 year	26	0	0	0	0	0	26
of which 1 to 5 years	0	0	0	0	0	0	0
of which more than 5 years	0	0	0	0	0	0	0
Seller							
Forward contract	8	0	1	0	0	100	109
of which less than 1 year	8	0	1	0	0	0	9
of which 1 to 5 years	0	0	0	0	0	100	100
of which more than 5 years	0	0	0	0	0	0	0
Cross-currency swap	30	175	186	20	17	0	428
of which less than 1 year	15	175	186	0	0	0	376
of which 1 to 5 years	15	0	0	20	17	0	52
of which more than 5 years	0	0	0	0	0	0	0
Net position	293	(175)	(187)	0	(17)	(100)	(186)

Foreign exchange derivative transactions for credit activity

None.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35-9 Other risks

The Group is not engaged in any hedge transactions other than foreign exchange and interest rate derivative transactions.

35-10 Table of market values

(in M€)	Market value	Carrying amount
Investments in non-consolidated companies	136	136
Other financial assets	315	315
Derivative financial instruments – assets	58	58
Bonds ⁽¹⁾	1,766	1,766
Bank loans, borrowings, other financial liabilities and bank overdrafts ⁽¹⁾	2,223	2,223
Obligations under finance leases	311	275
Cash and cash equivalents ⁽¹⁾	2,308	2,308
Derivative financial instruments – liabilities	66	66

(1) Excluding credit activity.

The fair value of financial instruments (including the credit activity) recognised in the income statement at 31 December 2006 is M€ (50) for derivative instruments, +M€ 50 for borrowings recognised at fair value and +M€ 0.5 for cash investments.

note 36 NET FINANCIAL INDEBTEDNESS

(in M€)	2006	2005
Borrowings and other financial liabilities		
Non-current	3,219	3,412
Current	1,045	660
Derivatives		
Liabilities		
Non-current	51	21
Current	15	7
Assets		
Non-current	(31)	(26)
Current	(27)	(39)
Cash and cash equivalents	(2,308)	(1,605)
Net financial indebtedness	1,964	2,430

note 37 OTHER NON-CURRENT LIABILITIES

(in M€)	2006	2005
Amounts due on investments	11	7
Tax liabilities	–	6
Other debts	68	50
Total	79	63

note 38 **TRADE PAYABLES, CURRENT TAX LIABILITIES AND OTHER CURRENT LIABILITIES**

(in M€)	2006	2005
Trade payables	7,051	6,976
Trade payables, merchandises	6,531	6,515
Trade payables, general expenses	520	461
Current tax liabilities	61	74
Other current liabilities	2,506	2,431
Amounts due on investments	366	344
Tax and social security	1,555	1,565
Other payables	365	329
Deferred income	220	193
Total	9,618	9,481

note 39 **FINANCE LEASES AND OPERATING LEASES**

The Group leases a number of stores, warehouses, shopping centres and head office premises under finance leases. The leases typically run for a period of 10 years, with an option to renew the lease after that date.

39-1 Finance leases as lessee

Minimum future lease payments under finance lease agreements

(in M€)	2006			2005		
	Total	Interests	Principal	Total	Interests	Principal
Less than 1 year	46	16	30	88	10	78
1 to 5 years	153	42	113	149	33	116
More than 5 years	176	44	132	225	51	174
Total	375	102	275	462	94	368

Total contingent rents (based on actual sales) amount to M€ 6 for 2006.

At 31 December 2006, total future minimum lease payments under sublease agreements that the Group expects to receive on sublease agreements that cannot be cancelled is M€ 51 (M€ 51 at 31 December 2005).

39-2 Operating leases as lessee

Minimum future lease payments under non-cancellable operating lease agreements

(in M€)	2006	2005
Less than 1 year	183	182
1 to 5 years	517	461
More than 5 years	656	480
Total	1,356	1,123

Total minimum future lease payments that the Group expects to receive under non-cancellable sublease agreements

(in M€)	2006	2005
Total minimum future sublease payments	46	30

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39.3 Lease and sublease expenses recognised in the income statement

(in M€)	2006	2005
Minimum payments	222	173
Contingent rents (based on actual sales)	22	16
Sublease revenue	(16)	(19)
Total	228	170

39.4 Operating leases as lessor

The Group leases out part of its investment property under operating leases.

Minimum future lease payments under non-cancellable leases

(in M€)	2006	2005
Less than 1 year	213	214
1 to 5 years	786	660
More than 5 years	567	445
Total	1,566	1,319

The amount of contingent rents included in the income statement of the year is M€ 36.

note 40 TRANSACTIONS WITH RELATED PARTIES

The Group has related party relationships with its subsidiaries, associates and joint ventures (see notes 46 and 21 for associates).

• **Transactions with the Groupe Auchan SA parent company**

No material transactions were conducted with the Groupe Auchan SA parent company, apart from the dividend amounting to M€ 34 for 2005.

• **Management compensation**

Total compensation (including Directors' fees) paid to the responsible officers ("*mandataires sociaux*") of Groupe Auchan SA and the parent companies of the Group's four businesses in 2006 amounted to M€ 2.7. In addition, these responsible officers were allocated stock options for a total amount of M€ 0.6 in 2006.

• **Associates (note 21)**

Transactions with associates were immaterial. There are no significant commitments with these companies.

• **Joint ventures (note 46)**

The Group has established partnerships for Hypermarket and Property Management businesses in China, Morocco and Poland (Schiever Polska), Supermarket business in Morocco, Property Management business in Italy and Banking business in Spain.

These jointly controlled companies are listed in note 46.

The Group conducts transactions with these companies on an arm's-length basis.

Receivables and payables with proportionately consolidated companies are recognised in the consolidated balance sheet for the following amounts:

(in M€)	2006	2005
Customer loans – credit activity	18	10
Other non-current financial assets	9	3
Non-current assets	27	13
Customer loans – credit activity	47	38
Trade receivables	3	2
Other current receivables	18	21
Current assets	68	61
Trade payables	2	1
Other current liabilities	4	6
Current liabilities	6	7
Revenue	28	26
Operating expenses ⁽¹⁾	5	5

(1) Payroll expenses, external expenses, depreciation, amortisation and provisions.

note 41 INTERESTS IN JOINT VENTURES

The following items that represent the Group's interests in the assets, liabilities, revenues and expenses of joint ventures are included in the consolidated financial statements:

(in M€)	2006		2005
	Of which Morocco ⁽²⁾	Total joint ventures	
Non-current assets	123	1,254	1,100
Current assets	112	578	525
Non-current liabilities	13	447	399
Current liabilities	145	734	640
Revenue	303	1,721	1,336
Operating expenses ⁽³⁾	42	299	237
Net income	6	25	4

(2) See note 42.

(3) Payroll expenses, external expenses, depreciation, amortisation and provisions.

note 42 POST-BALANCE-SHEET EVENTS

Morocco – disagreement between the Group and the ONA partner

In January 2007, the Casablanca Court of Arbitration, to which the Auchan Group had submitted its dispute with ONA, its partner in two companies held at 49%, Marjane (Hypermarkets and Property management) and Acima (Supermarkets), gave an unfavourable judgment against the Auchan Group. The dispute concerns the appointment of a third Director, who is a member of ONA, to the Boards of Directors of Marjane and Acima. Marjane and Acima continue to be consolidated proportionately in the 2006 financial statements. The Auchan Group considers that strategic and financial decisions are taken by the Supervisory Board on the basis of two-thirds majority, and that eventual disagreements between the partners would necessarily have to be submitted to an Extraordinary General Meeting of Shareholders, voting on a two-thirds majority basis, which consequently requires Auchan approval. Financial data for these two companies, included in the consolidated financial statements for 2006, are given in note 41 above.

Free translation of a French language original.

note 43 **CONTINGENT LIABILITIES**

Group companies are involved in a certain number of lawsuits or disputes that arise in the normal course of business, including litigation with the tax authorities. Provisions for contingent liabilities have been made for the estimated cost if deemed probable by the Group and its external counsel.

To the Group's knowledge, there is no exceptional event or litigation likely to affect substantially the business, financial performance, net assets or financial situation of the Group and/or its subsidiaries, that are not adequately covered by provisions recorded in the balance sheet.

No individual claim is material to the Group.

note 44 **COMMITMENTS**

The table below shows the Group's commitments at 31 December 2006 and 2005. Commitments of proportionately consolidated companies are shown proportionately:

Commitments given

(in M€)	2006		2005	
	Total	Of which joint ventures	Total	Of which joint ventures
Customer funding commitments ⁽¹⁾	3,502	108	3,130	67
Guarantees given	159	4	86	3
Firm share purchase commitments ⁽²⁾	30	1	24	0
Land and property purchase options	217	2	250	1
<i>of which investment property</i>	20	0	40	0
Conditional purchase of future property, plant and equipment	366	64	508	58
<i>of which investment property</i>	57	48	52	39
Other commitments given	84	15	79	2

(1) This amount corresponds to commitments given by Banque Accord and its subsidiaries on credit cards with current activity during the last two years. The commitment on credit cards inactive for more than two years amounts to M€ 6,573 (compared with M€ 5,140 at 31 December 2005).

(2) In accordance with IAS 32, purchase commitments given to minority shareholders in fully-consolidated subsidiaries are not reported as commitments, but are recognised as a liability at their present value.

Secured liabilities

(in M€)	2006		2005	
	Total	Of which joint ventures	Total	Of which joint ventures
Debts guaranteed	437	28	600	11
Collateralised debts	518	308	461	273
<i>mortgages</i>	308	308	273	273
<i>collateral pledged</i>	210	0	188	0
Debts guaranteed by lines of credit	507	0	0	0
Standby letters of credit	75	0	99	0

Long- and medium-term lines of credit obtained and confirmed by the banks but unused at 31 December 2006:

(in M€)	Group		Group excl. credit activity		Credit activity	
	Total	Of which joint ventures	Total	Of which joint ventures	Total	Of which joint ventures
Less than 1 year	434	56	304	56	130	0
1 to 5 years	1,891	30	1,288	30	603	0
More than 5 years	0	0	0	0	0	0
Total	2,325	86	1,592	86	733	0

Share call at put options

As from 2010, some of our partners hold put options to sell the shares held to Auchan or one of its subsidiaries, at market price. These shares concern companies not fully consolidated. The long-term maturities and uncertainty concerning amounts prevent reliable measurement of these commitments.

Italian subsidiaries and Banque Accord commitments in regard to share call options concerning companies not fully consolidated amount to M€ 118 (commitments given by a proportionately consolidated company) and M€ 96 respectively, and can be exercised between 2007 and 2013.

note 45 EMPLOYEES

The average number of employees of the consolidated companies, on a full-time equivalent basis, is 174,644 in 2006 (including 100% of employees of proportionately-consolidated companies), compared with 174,584 in 2005.

No material changes occurred during 2006.

note 46 CONSOLIDATION SCOPE

List of the main fully consolidated companies as at 31 December 2006:

Country	Business	Companies	% interest	
			2006	2005
FRANCE	HOLDING	Groupe Auchan SA	100	100
		Auchan Finances	100	100
	HYPERMARKETS	Auchanhypers	100	100
		Auchan France and subsidiaries	100	100
		Eurauchan	95	95
		Au Marché Vrac and subsidiaries	100	100
		Alinéa and subsidiaries	95	94
		Auchan Direct	100	100
		Little Extra	100	NC
		Chronodrive	90	95
		Auchan International Technologie	100	100
		Organisation Internationale des Achats	100	100
	SUPERMARKETS	ISMS	97	96
		ATAC and subsidiaries	97	96
	PROPERTY	Immochan International	100	100
		Immochan and subsidiaries	100	100
BANKING ACTIVITY	Banque Accord and its subsidiary	100	100	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Country	Business	Companies	% interest	
			2006	2005
SPAIN	HYPERMARKETS	Alcampo and subsidiaries	100	100
		Zenalco	100	100
	SUPERMARKETS	Sabeco and subsidiaries	97	96
	PROPERTY	Immochan España and subsidiaries	100	100
		Zenor	95	100
		Redarpa	95	100
ITALY	HYPERMARKETS	Societa Italiana Distribuzione Moderna	99	99
		Auchan Italie and subsidiaries	99	99
	SUPERMARKETS	SMA and subsidiaries	97	96
	BANKING ACTIVITY	Accord Italia	100	100
LUXEMBOURG	HYPERMARKETS	Auchan Luxembourg	100	100
		Auchan International	100	100
	PROPERTY	Galerie de Kirchberg	96	100
HUNGARY	HYPERMARKETS	Auchan Magyarország	100	100
		Immochan Magyarország	100	100
	PROPERTY	Immochan Alapok	95	100
		BANKING ACTIVITY	Accord Magyarország	100
POLAND	HYPERMARKETS AND PROPERTY	Auchan Polska and subsidiaries	100	100
		SUPERMARKETS	ISMS Polska and Eléa subsidiary	97
	BANKING ACTIVITY	Accord Finance	60	60
PORTUGAL	HYPERMARKETS AND PROPERTY	Auchan Portugal and subsidiaries	100	100
		BANKING ACTIVITY	Crédiplus	100
RUSSIA	HYPERMARKETS AND PROPERTY	Auchan Russie OIAH and subsidiaries	100	100
		SUPERMARKETS	Atak	97
	BANKING ACTIVITY	Ba Finansooo	60	100
TAIWAN	HYPERMARKETS AND PROPERTY	RT Mart International	61	61

NC : not consolidated.

List of main companies consolidated proportionately as at 31 December 2006:

Country	Business	Companies	% conso.		% interest	
			2006	2005	2006	2005
FRANCE	HYPERMARKETS	Boutique Sainsbury	50	50	50	50
SPAIN	BANKING ACTIVITY	Accord España	51	51	51	51
ITALY	PROPERTY	Galleria Commerciali Italia and subsidiaries	51	51	51	51
SWITZERLAND	HYPERMARKETS	IRTS	50	50	50	50
POLAND	HYPERMARKETS	Schiever Polska	50	50	50	50
MOROCCO	HYPERMARKETS AND PROPERTY	Marjane Holding and subsidiaries	49	49	49	49
		Acima and its subsidiary	49	49	47	47
MAINLAND CHINA	HYPERMARKETS AND PROPERTY	Sun Holding Greater China	50	50	50	50
		Auchan China and subsidiaries	67	67	67	67
		Concord Champion Internat. and subsidiaries	50	50	33	33

List of main companies accounted for using the equity method at 31 December 2006:

Country	Business	Companies	% interest	
			2006	2005
LUXEMBOURG	HOLDING	Valauchan International	13	NC
ITALY	PROPERTY	GCI interests	See note 21	
ROMANIA	HYPERMARKETS AND PROPERTY	MGV Distri-Hiper	29	NC

NC : not consolidated or not accounted for using the equity method.

STATUTORY AUDITORS' REPORT

on the consolidated financial statements – Year ended 31 December 2006

To the Shareholders,

Following our appointment as statutory auditors by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Groupe Auchan SA for the year ended 31 December 2006.

The consolidated financial statements have been approved by the Executive Board. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities, of the financial position of the Group as at 31 December 2006 and of the results of its operations for the year then ended in accordance with IFRSs as adopted by the EU.

2. Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

Groupe Auchan SA performs an annual impairment test on goodwill and assets with indefinite lives and also assesses if there is any indication of impairment loss regarding its long-term assets in accordance with the terms and conditions described in note 3.13 to the consolidated financial statements. We have reviewed the methods by which these impairment tests are performed as well as the assumptions on which these estimates are based. We have assessed the reasonableness of these estimates and verified that note 3.13 to the consolidated financial statements provides appropriate disclosure.

Note 4 to the consolidated financial statements presents the change in accounting methods which occurred during the year and resulting from the initial application as at 1 January 2006 of the amendment to IAS 19 revised *Employee benefits: actuarial gains and losses, Group plans and disclosures*. In accordance with the transitional provisions in that amendment, the 2005 comparative information disclosed in the consolidated financial statements are adjusted to apply this amendment retrospectively. Consequently, the comparative information differs from the amounts published in the 2005 consolidated financial statements. When assessing the accounting rules and methods used by your Company, we have reviewed the restatement of the 2005 accounts and the information disclosed in note 4 to the consolidated financial statements.

These assessments were made in the context of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3. Specific verification

In accordance with professional standards applicable in France, we have also verified the information given in the Group's management report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris – la Défense and Villeneuve-d'Ascq, 16 April 2007

The Statutory Auditors

KPMG Audit
Department of KPMG SA

Didier de Ménonville

aCéa

Christophe Segard

Free translation of a French language original.



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