Société anonyme with a share capital of €12,000,000
Registered office: 8, rue de la Ville l'Évêque – 75008 Paris, France
Registered in Paris under number 342 376 332

REGISTRATION DOCUMENT

YEAR ENDED DECEMBER 31, 2006

AUTORITÉ DES MARCHÉS FINANCIERS

In accordance with the General Regulations of the *Autorité des Marchés Financiers* (AMF), including article 212-13, the original French version of this registration document was filed with the AMF on May 22, 2007. It may not be used in support of a financial transaction unless it is accompanied by a *note d'opération* approved by the AMF. It was prepared by the issuer and the signatories thereto are liable for its content.

DISCLAIMER

The English-language version of the registration document is a free translation of the official *document de référence* prepared in French.

All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions expressed therein, the original language version of the document in French takes precedence over this translation.

Copies of this registration document may be obtained free of charge by contacting Iliad's head office at 8 rue de la Ville l'Évêque - 75008 Paris, France (Tel. +33 1 73 50 20 00) or may be downloaded from the website of the Company (www.iliad.fr) or the *Autorité des marches financiers* (www.amf-france.org).

GENERAL COMMENTS

In this registration document, unless stated otherwise, the terms “***Company***” and “***Iliad***” refer to Iliad S.A. and the term “***Group***” refers to the Company and its subsidiaries and associates.

Investors are urged to pay careful attention to the risk factors described in Section 4 of this registration document before making their investment decision. One or more of these risks could have an adverse effect on the Group’s activities, condition, the results of its operations or on its targets. Furthermore, other risks not yet identified or not considered significant by the Group could have the same adverse effects and investors could lose all or part of their investment.

This registration document contains statements about the Group’s targets. Such statements may in certain cases be identified by the use of the future or conditional tense, or by forward-looking words, including but not limited to “will”, “believes”, “targets”, “expects”, “intends”, “should”, “aims”, “estimates”, “considers”, “wishes”, “may”, etc. These statements are based on data, assumptions and estimates that the Company considers to be reasonable. They may change or be amended due to uncertainties related to the economic, financial, competitive and regulatory environment. In addition, the Group’s business activities and its ability to meet its targets may be affected if certain of the risks described in Section 4 “Risk factors” of this registration document were to materialize. In addition, meeting targets implies the success of the strategy presented in Section 6.1.1 “Strategy” of this registration document. The Company does not undertake to meet and does not give any guarantee that it will meet the targets presented in this registration document.

This registration document also contains details of the markets in which the Group operates. This information is notably taken from research carried out by external organizations. Given the very rapid pace of change in the Internet and telecommunication sectors in France and the rest of the world, this information may prove to be erroneous or out of date. Accordingly, trends in the Group’s business activities may differ from those set out in this registration document.

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1. PERSONS RESPONSIBLE

1.1 PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

Michaël Boukobza, Chief Executive Officer of Iliad.

1.2 STATEMENT BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

"*I hereby declare that having taken all reasonable care to ensure that such is the case, the information contained in this registration document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.*

I obtained a statement from the Statutory Auditors at the end of their engagement affirming that they have read the whole of the registration document and examined the information about the financial position and the accounts contained therein".

Michaël Boukobza
Chief Executive Officer of Iliad.

1.3 PERSON RESPONSIBLE FOR FINANCIAL INFORMATION

Olivier Rosenfeld
Chief Financial Officer

Iliad
8, rue de la Ville l'Évêque
75008 Paris, France

Telephone number: +33 (0)1 73 50 20 00
www.iliad.fr

1.4 PROVISIONAL TIMETABLE FOR PUBLICATION OF FINANCIAL INFORMATION

May 29, 2007:	Annual Shareholders' Meeting
By August 14, 2007:	First-half 2007 revenues
By August 31, 2007:	First-half 2007 earnings
By November 15, 2007:	Revenues for the first nine months of 2007

2. AUDITORS

2.1 STATUTORY AUDITORS

PricewaterhouseCoopers Audit
Represented by Xavier Cauchois
63 rue de Villiers
92208 Neuilly sur Seine Cedex, France

Member of the Compagnie Régionale des Commissaires aux Comptes de Versailles

First appointed at the Annual Shareholders' Meeting of October 19, 2000.
Re-appointed at the Annual Shareholders' Meeting of May 29, 2006 for a term expiring at the close of the Annual Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2011.

Boissière Expertise Audit
Represented by Tita A. Zeïtoun
57, rue Boissière
75016 Paris, France

Member of the Compagnie Régionale des Commissaires aux Comptes de Versailles

First appointed at the Annual Shareholders' Meeting of December 30, 1997.
Current term expires at the close of the Annual Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2008.

2.2 ALTERNATE AUDITORS

Etienne Boris
63, rue de Villiers
92208 Neuilly sur Seine, Cedex, France

First appointed at the Annual Shareholders' Meeting of May 29, 2005.
Current term expires at the close of the Annual Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2011.

Fiduco
Represented by Jean-Luc Cohen
2-4, rue Adolphe Mille
75019 Paris, France

First appointed at the Annual Shareholders' Meeting of December 30, 1997.
Current term expires at the close of the Annual Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2008.

2.3 Fees paid by the Group to the Statutory Auditors and members of their networks

(in € thousands)	PricewaterhouseCoopers Audit				Boissière Expertise Audit			
	Amount		%		Amount		%	
	2006	2005	2006	2005	2006	2005	2006	2005
Audit								
□ Statutory and contractual audits	199.7	165.6	75%	90%	143.5	137.5	94%	99%
⊙ Issuer	96.8	78.8	36%	43%	70.0	67.0	46%	48%
⊙ Fully-consolidated subsidiaries	102.9	86.8	39%	47%	73.5	70.5	48%	51%
□ Audit-related work	65.8	19.0	25%	10%	9.0	1.8	6%	1%
⊙ Issuer	65.8	19.0	25%	10%	9.0	1.8	6%	1%
⊙ Fully-consolidated subsidiaries	0.0	0.0	0%	0%	0.0	0.0	0%	0%
Sub-total.............................	*265,5*	*184.6*	*100%*	*100%*	*152.5*	*139.3*	*100%*	*100%*
Other services provided by the networks to fully-consolidated subsidiaries								
□ Legal and tax advisory services								
□ IT consulting								
Sub-total................................	*0.0*	*0.0*	*0%*	*0%*	*0.0*	*0.0*	*0%*	*0%*
Total	**265.5**	**184.6**	**100%**	**100%**	**152.5**	**139.3**	**100%**	**100%**

3. SELECTED FINANCIAL INFORMATION

(in € thousands)	2004	2005	2006
INCOME STATEMENT			
Revenues	491,446	724,201	950,261
Operating income and expense, net	(435,780)	(616,515)	(765,067)
Profit from ordinary activities	55,666	107,686	182,194
Other operating income and expense, net	2,556	0	(3,000)
Operating profit	58,222	107,686	182,194
Financial income and expense, net	2,677	(2,795)	(3,942)
Corporate income tax	(20,181)	(36,371)	(61,650)
Profit from discontinued operations	0	378	7,269
Profit for the period	**40,718**	**68,898**	**123,871**
Diluted earnings per share	0.75	1.26	2.27
EBITDA[1]	112,818	224,313	331,585
BALANCE SHEET			
Non-current assets	283,501	425,945	632,053
Current assets	143,278	157,838	405,576
O/w cash and cash equivalents	*30,485*	*51,089*	*279,540*
Total assets	**426,779**	**583,783**	**1,037,629**
Total equity	178,477	248,575	382,638
Non-current liabilities	10,916	77,162	344,968
Current liabilities	237,386	258,046	310,023
Total equity and liabilities	**426,779**	**583,783**	**1,037,629**
CASH FLOWS			
Net cash generated from operating activities	99,826	225,817	281,244
Net cash used in investing activities	(168,518)	(262,205)	(286,474)
Net cash generated from financing activities	81,112	62,711	232,138
Net change in cash and cash equivalents	12,420	26,323	226,908
Cash and cash equivalents at year-end	23,093	49,416	276,324

[1] Earnings before interest, tax, depreciation and amortization (EBITDA) corresponds to profit from ordinary activities before depreciation and amortization (or provisions) recorded in relation to property, plant and equipment and intangible assets.

The Group's consolidated revenues for the three months ended March 31, 2007 totaled €277.9 million, up 31% on the first quarter of 2006. Revenues by business segment broke down as follows :

(in € millions)	Q1 07	Q1 06 PF*	% change.	Q1 06
Consolidated revenues	**277.9**	**212.7**	**30.7%**	**217.3**
Broadband revenues	270.7	199.2		199.2
- Inter-segment	(3.1)	(5.0)		(12.0)
Broadband consolidated revenues	***267.6***	***194.2***	***37.8%***	***187.2***
Traditional Telephony revenues	12.2	27.5		39.6
- Inter-segment	(1.9)	(9.0)		(9.5)
Traditional Telephony consolidated revenues	***10.3***	***18.5***	***(44.3%)***	***30.1***

* Pro forma data, excluding Société SA (sold in August 2006) and Kertel SA (sold in February 2007)

At March 31, 2007, the Group had 2,498,000 ADSL subscribers, a 220,000 increase over the period. Average revenue per user generated by ADSL subscribers in the first quarter of 2007 came to €34.90 (excl. VAT).

4. RISK FACTORS

The Group carries on business in an environment which is undergoing rapid change and which poses a number of risks for the Group, some of which are outside its control. Investors are advised to give careful consideration to all the risks set out below and to all the information contained in this registration document. The risks and uncertainties set out below are not the only ones facing the Group. Other risks and uncertainties of which the Group is not currently aware or which it does not consider to be significant could also have a negative impact on its business, financial situation or results.

4.1 Risks related to the Group and its structure

4.1.1 Dependence on managers and key employees

The Group's success is highly dependent on maintaining its relationship with Xavier Niel, an Iliad director and the Group's majority shareholder, and with other managers and key employees. The Group has a culture which fosters teamwork and motivation. Its key employees have an ownership stake in Iliad's share capital, which significantly contributes to employee loyalty. However, there can be no assurance that these key employees will remain with the Group in the strong growth environment that currently exists and is expected to continue.

In order to guarantee the long-term future of its business, the Group takes particular care to ensure that the engineers and technicians working on its platform and network and designing and developing the Freebox modem and Freebox DSLAM are skilled in a number of different areas. The Group's future success will depend in particular on its ability to attract, train, retain and motivate highly qualified employees and managers. However, since competition to attract employees with such qualifications is intense, there can be no assurance that the Group will be able to do so.

The loss of one or more key employees or a manager or the Group's inability to attract other qualified employees could have a material adverse effect on the Group's revenues, results of operations and financial situation.

4.1.2 Dependence on the principal shareholder

Xavier Niel holds a substantial percentage of the Company's share capital and is Senior Vice President and Vice Chairman of the Board. He is thus in a position to have a decisive influence over most of the Group's corporate decisions and in particular those requiring shareholder approval (such as the appointment and removal of directors, payment of dividends, amendments to the bylaws and decisions concerning important Group transactions, including share issues).

4.1.3 Risks relating to the availability of equipment for the development of the broadband Internet access offering

The Group believes that the components used in its Freebox modems and DSLAMs are standardized and substitutable and that its component purchasing policy allows it to anticipate growth in demand for broadband Internet access. Nevertheless, a shortage in the availability of these components or a significant increase in their price could hinder the Group's ability to provide new customers, in a timely manner, with the Freebox modem required to access value-added broadband services, which could have an adverse effect on the Group's growth.

4.1.4 Risks relating to the effect of acquisitions or investments

As part of its external growth strategy, which may take the form of acquisitions, partnerships or alliances, the Group may make acquisitions or investments in any one of its business segments. Part of these acquisitions or investments could be paid for by the issuance of Iliad shares, which would result in dilution of the Group's existing shareholders. Such acquisitions and investments, whether paid for in cash or shares, could have an adverse effect on the market price of Iliad's shares.

4.1.5 Risks relating to the need to improve the technical features and functionality of the services offered by the Group

The Internet market is characterized by very rapid changes in technology and in the types of services and features offered to customers. To remain competitive, the Group will continually have to improve the speed with which it responds to technological or other changes, as well as the functionalities and features of its products and services. It will have to develop new products and services that are attractive to its customers. The Group may not succeed in making these improvements or developments in a timely manner, which would have an adverse effect on its business, financial situation, and results of operations and on its ability to meet its objectives.

4.2 RISKS CONNECTED WITH THE GROUP'S ACTIVITIES

4.2.1 Risks relating to the growth of the Internet market in France

A major portion of the Group's revenues depend on the number of subscribers to its Internet access service, which is closely linked, directly or indirectly, to the increase in the number of Internet users in France generally and particularly in the number of broadband users. The level of future revenues generated by subscribers is therefore difficult to predict. If the estimated increase in the number of Internet users in France were to slow, the Group's business, results of operations and financial situation could be seriously affected and the Group could be unable to meet all or some of its objectives.

4.2.2 Risks relating to the difficulty in upgrading the capacity of the platform for online access to the Group's services in line with the growth in Internet traffic

Until now the Group has been able to upgrade the capacity of its technical platform for online access in line with the growth in Internet traffic. Given the generally accepted forecasts for the growth of Internet traffic in France, however, and the objectives that the Group has set for itself in terms of both increasing the number of users of its services (particularly for broadband Internet access) and expanding its network, the Group will require the resources necessary to provide a corresponding increase in the capacity of its access infrastructures. There can be no assurance that the Group will be able to obtain such resources.

4.2.3 Risks relating to the rapid changes in pricing and technical aspects of Internet access offerings

The Internet access services market is characterized by very rapidly changing pricing structures (such as usage-based charges, unlimited use packages and free access) and technical access methods (such as dial-up access, ADSL, etc.). The Group's access services are currently available on or through almost all the above pricing terms and technical methods. The development of new pricing structures and access methods based on different economic models, unforeseen changes in the relative importance of the various existing access service offerings or growth in use of existing replacement technologies could undermine the economic assumptions on which the Group's development plan is based. This in turn could have an adverse effect on the Group's business, results of operations and financial situation and on its ability to meet its objectives.

4.2.4 Risks relating to competition

Internet

In the Internet sector, competition for customers for access services is intense and is likely to increase significantly in the future. The Group anticipates that competition in its market will increase due to (i) the continued growth of Internet use in France, (ii) the further increase in the number of strategic and capital alliances among the Group's competitors, (iii) the introduction by some of the Group's competitors of pricing policies intended to counter Free's aggressive offerings and (iv) the presence in the market of certain multinational companies with greater economic resources than those of the Group.

Telephony

The fixed telephony sector in France is a mature market and therefore not likely to undergo rapid expansion. It is heavily dominated by the incumbent operator. Although the Group believes it possesses a number of competitive advantages in this market, including in particular the use of its own network, it cannot guarantee that it will manage to develop its fixed telephony business as planned in a sector where the players are principally multinational companies whose financial resources exceed those of the Group and whose capacity for investment, particularly in advertising, presents a considerable advantage.

Television

In the broadband television sector, competition was fierce during 2006, and is likely to continue to grow. Although the Group considers that it has a competitive edge in this market, particularly through the use of its Freebox modem, which protects the transmission of audiovisual content, it cannot guarantee that it will be able to develop its audiovisual business as planned. Any such development will depend on the audiovisual content being broadcast and on being able to expand unbundling into new areas.

Other Services

The ANNU service is based essentially on a license to use France Telecom's directory database. Iliad can make no assurances that France Telecom will not grant this license to third parties or that its revenues from the Minitel market, which are already in decline, will not fall more rapidly than anticipated.

4.2.5 Risks relating to security and confidentiality of information on the Internet

The need to secure communications and transactions on the Internet has been a major obstacle in the development of the Internet in general. Internet use may decrease if the level of protection of communications and transactions achieved proves to be inadequate or diminishes. The Group has taken and continues to take significant measures to guarantee the reliability of its security system and to limit problems that may be caused by security failures or a breach of the security system. Unauthorized persons may attempt to penetrate the Group's network security system and if successful may appropriate privileged information about the users of the Group's services or cause the service to be suspended. Some leading sites and suppliers of Internet services have suffered from "denial of service" attacks – in which very large numbers of requests for information are sent to the site with the aim of overloading its servers – or have been the victims of Internet viruses. Although the Group is taking the steps necessary to protect itself against such attacks, there can be no assurance that future attacks would not result in loss or damage for the Group, even if only in terms of image. Consequently, the Group might be required to increase its expenditures and its efforts to protect itself against these risks or to alleviate their effects, which could have a significant adverse impact on its business, financial situation and results of operations and on its ability to meet its targets.

4.3 FINANCIAL RISKS

4.3.1 Foreign exchange risks

The only transactions carried out by the Group which could entail a foreign exchange risk are purchases of certain components of the Freebox modems and DSLAMs, which are billed and paid for in dollars. These risks are not currently systematically hedged. The Group believes that the foreign exchange risks linked to these transactions are not likely to have a significant impact on its results. The table below sets out the Group's foreign exchange risks and related sensitivity.

Foreign exchange risks

(in € thousands)	**USD**
Assets	59
Liabilities	20,813
Net position before hedging	20,754
Off-balance sheet position	28,639
Net position after hedging	(7,885)
Closing rate	1.3193

Foreign exchange risk sensitivity

	USD
Net position after hedging	(7,885)
Net position after hedging based on the assumption that exchange rates change unfavorably for the Group by €0.01	(7,964)
Sensitivity	(79)

4.3.2 Interest rate risks

The Group is not exposed to any significant interest rate risk. During 2006, Group companies obtained several confirmed lines of credit representing a maximum amount of €245 million, the longest of which is available until June 2011. At December 31, 2006, no drawdowns had been made on any of these lines of credit. The Group's borrowings and finance leases are described in Section 9.2.1.4.4 of this registration document. The minimum future lease payments under finance leases amounted to €8.7 million at December 31, 2006, compared with €4.5 million at December 31, 2005. The Group's cash investments are at variable rates. At December 31, 2006, the Group had not entered into any hedging arrangements to cover interest rate risk. In addition, the Group has no significant financial assets (such as bonds, treasury bills, other debt securities, loans or advances) and no off-balance sheet commitments (such as repos, forward rate agreements, etc.) which expose it to interest rate risk.

The tables below show the Group's net interest rate exposure (at December 31, 2006) and an analysis of sensitivity to interest rate fluctuations.

(in € thousands)	***Within 1 year***	***Between 1 and 5 years***	***Beyond 5 years***
Financial liabilities	10,946	6,688	296,186
Financial assets	325	1,472	2,343
Net position before hedging	10,621	5,216	293,843
Off-balance sheet items	0	0	0
Net position after hedging	10,621	5,216	293,843

Net position to be rolled over within one year (in € thousands)…………………..	10,621
Change in interest rate …………………………………………………………	1%
Average remaining life (in months)………………………………………………	12
Sensitivity (in € thousands)………………………………………………………	106

4.3.3 Liquidity risks

The Group has historically financed its growth principally with internal resources, with limited recourse to borrowing from time to time to finance specific projects. On June 29, 2006, the Company issued €330.6 million worth of OCEANE convertible/exchangeable bonds. At December 31, 2006, the Group's net cash position stood at €276.3 million, compared with €49.4 million at December 31, 2005. In view of the ratios set out below, the Group is not subject to any liquidity risk as a result of prepayment clauses in loans entered into by Group companies or as a result of the breach of any financial covenants.

Certain of the Group's credit agreements contain covenants corresponding to financial ratios, particularly two confirmed credit lines representing a maximum amount of €245 million. At the date this registration document was filed, the Group had not breached any of these covenants.

	Applicable financial ratio	Consequences of breach	Actual ratios at December 31, 2006
Credit line 1 (Borrower – Iliad)	Gearing ratio < 1 Leverage ratio < 2.5	Default	Gearing ratio: -0.09 Leverage ratio: -0.10
Credit line 2 (Borrower – Iliad)	Gearing ratio < 1 Leverage ratio < 2.0	Default	Leverage ratio: -0.10 Interest cover ratio: 70.8

The Group's debt at December 31, 2006 can be analyzed as follows:

Type of borrowing	Interest rate	Total amount (in € millions)	Maturity	Hedging
Real estate loan	Euribor	1.2	2013	None
Loan	Euribor	1.5	2008	None
Credit agreement	Euribor	25.0*	2009	None
Credit agreement	Euribor	220.0*	2011	None
OCEANE bonds	Fixed rate (2.2%)	330.6	2012	None

*No drawdowns had been made at December 31, 2006 out of a maximum available amount of €245 million under these two credit lines.

4.3.4 Equity risks

4.3.4.1 Significant percentage of capital and voting rights held by the Company's principal shareholder

At the date this registration document was filed, Xavier Niel, the Company's principal shareholder held 66.86% of the capital and 64.09% of the voting rights. The fact that a significant portion of the Company's capital and voting rights is concentrated in a single shareholder and that said shareholder may freely dispose of all or part of his interest in the Company could have a material adverse effect on the price of the Company's shares.

Equity risk is minimal as the Group does not have any significant equity portolios.

4.3.4.2 Share price volatility

The Company's share price may be volatile and could be impacted by a number of events affecting the Company, its competitors, the telecommunications and Internet industry or the financial markets. The Company's share price could fluctuate significantly in response to the following types of events :

- changes in the Group's financial performance or that of its competitors;
- the announcement by the Company of the success or failure of the commercial launch of a new product;
- announcements by competitors or announcements concerning the telecommunications or Internet industry;
- announcements regarding changes in the Group's management or key personnel.

In the last few years, the financial markets have experienced significant volatility that, at times, has had no relationship to the financial performance of listed companies. Market volatility, as well as general economic conditions, could affect the Company's share price.

4.3.4.3 Subsequent sale of shares by significant shareholders

The company's principal shareholders are Xavier Niel and its managers. If any of these shareholders were to sell a large number of shares on the market, Iliad's share price could be affected, depending on the market conditions at the time of the sale, the number of shares sold and the reasons for and the terms of the sale, as well as the public's perception of such sales.

4.4 LEGAL RISKS

4.4.1 Risks concerning the Group's relations with the incumbent operator

Despite the legal and regulatory framework requiring the incumbent operator, France Telecom, to permit the development of local loop unbundling and to grant the Group access to its installations, the Group may be confronted by situations where there is a conflict of interest with France Telecom as its dominant competitor and principal supplier. France Telecom could exercise a significant influence over the Group's operations and strategy which could be adverse, and could also restrict its capacity for growth.

The Group's profitability depends in part on the pricing and technical conditions established by France Telecom in its Reference Interconnect Offer (revised each year) and in its Reference Unbundling Offer (revised from time to time). Any significant increase in the prices or change in the technical conditions set out in the Reference Interconnect Offer or the Reference Unbundling Offer, as approved by the French telecommunications regulatory authority, ARCEP, could have a material adverse effect on the Group's business, financial situation and results of operations and its ability to meet its objectives.

4.4.2 Risks relating to liability for content

In the past a number of suits have been filed, in France and other countries, against access or hosting providers because of the content of the information transmitted or made available online (in particular for press-related violations, invasion of privacy and trademark infringement). Free and Online may be subject to similar suits and could incur significant costs in order to defend themselves against such claims. Analysis of the proceedings and the preparation of an appropriate defense could prove to be costly even if Free and Online were eventually held not liable. Finally, any such proceedings could have an adverse effect on the Group's reputation.

According to French rules and regulations as further described in paragraph 6.6.2 hereinafter, the Group has placed on the Free portal home page forms which can be used to report unlawful content, and has established a procedure for reporting any violation of human dignity, so that web users can report any illegal content and Free can respond promptly to any complaints.

4.4.3 Risks relating to intellectual property rights

The Group can provide no assurance that measures taken in France and abroad to protect its intellectual property rights, particularly its trademarks, logos and domain names, will be effective or that third parties will not infringe or appropriate its intellectual property rights. Furthermore, given the worldwide reach of the Internet, the Group's trademarks – particularly Iliad, Free, and ANNU – and other forms of intellectual property, could be distributed in countries offering less intellectual property protection than European countries or the United States of America. Given the importance to the Group of the recognition of its trademarks, any infringement or appropriation of this kind could adversely affect the Group's business, results of operations, financial situation and its ability to meet its objectives.

Furthermore, certain of the Group's trademarks (particularly Free and Online) co-exist with other identical trademarks registered by third parties for similar telecommunications services.

This situation is likely to require the Group in the long term to co-exist on its market with trademarks similar to its own. There is a risk that this co-existence could result in a dilution of these trademarks on the market which could adversely effect the Group's business, results of operations and financial situation and its ability to meet its objectives.

Lastly, given the hi-tech nature of the Group's business, it can provide no assurance that it is not infringing the intellectual property rights of third parties. This is an inherent risk for all operators in the telecommunications, audiovisual and Internet sectors and is typically resolved through licensing agreements with the holders of the relevant intellectual property rights.

The Group undertakes all necessary measures to ensure that intellectual property rights – particularly concerning trademarks – are respected, and there are no significant claims or legal proceedings in process concerning such rights.

4.4.4 Risks relating to the use of open source software

The Group is developing its own software programs on the basis of open source software, and in particular Linux. Open source software consists of programs made available to users either free of charge or for a small fee. Based on the concepts of sharing and free use of source codes, such software is distributed under a specific type of license (such as the GNU General Public License) generally allowing the user to modify and re-use the software without having to obtain prior permission from the holder of the related rights. Furthermore, any software development which uses open source software must, in turn, be freely accessible to and re-usable by third parties under the same conditions as the integrated open source software.

Open source software allows the user to benefit from the expertise of a community of developers at a lower cost than that charged for other commercially available software. However, it does not come with a contractual warranty and the chain of ownership of the copyright to open source software is uncertain. Consequently, the Group may be subject to a liability claim in the event of the failure of an open source software program, or an infringement action by a third party claiming to be the holder of intellectual property rights relating to such a program.

4.4.5 Links with or dependence on other companies

In order to achieve the transmission capacity and quality levels required to respond to the increase in the number of customers and to meet their requirements, the Group relies partly on the use of passive telecommunications infrastructures belonging to Neuf-Cégétel and other operators such as Completel or of networks deployed by certain local authorities.

4.4.6 Assets required for business operations not owned by Iliad

Other than networks to which Iliad is interconnected as well as certain interconnection equipment and the dark fibers used by its network under long-term IRU agreements (described in Section 6.1.3 of this registration document), the Group considers that it is the owner of all the assets required for carrying out its business operations. At December 31, 2006, the Group had access to 26,839 kilometers of fibers, including 25,459 under IRU agreements. The expiry date of these IRU agreements is indicated in Section 6.1.3 below.

4.4.7 Industrial and environmental risks

The sector in which Iliad operates is not a major source of harm to the natural environment, does not require any significant use of natural resources, and does not have any significant impact on the quality of the environment.

4.4.8 Risks relating to losing licenses and frequencies

Under the licenses granted to them, certain Group companies have undertaken to comply with particular obligations or to make significant investments in relation to various networks in order to offer new products and services to their customers. If the Group does not comply with its undertakings these licenses could be terminated, which in certain cases could require the Group to pay compensation to the French government or other parties. All of these risks could have a significant unfavorable impact on the Group’s results or financial situation.

L.33-1 and L.34-1 licenses were previously granted individually, in accordance with a governmental order. This is no longer the case, however. Instead, a general authorization system now applies, with companies simply having to notify the ARCEP by letter. There are no specific conditions attached to these general authorizations, other than a duty to respect the principles set out in the French Post and Electronic Communications Code (Decree No. 2005-862 of July 26, 2005 relating to the conditions for establishing and operating networks and supplying electronic communication services). These principles are based on the general concepts included in the "Authorization" EC Directive, including:

- Payment of taxes and royalties
- Contributions to the Universal Service Fund
- Respecting correspondence privacy
- Carrying emergency calls

The main licenses held by the Group are the L33, L34 and BLR telecom licenses, and the Group's related commitments are defined in decisions issued by the ARCEP. ARCEP decision number 03-1294 authorizes IFW to operate microwave frequencies in the 3.5 GHz bandwith, provided it respects specifications that include a number of requirements relating to the network roll-out and population coverage. The next inspection audit by the ARCEP concerning IFW's compliance with its commitments is scheduled for December 31, 2008.

The Company does not consider that it is exposed to any specific risks in relation to the other regulatory requirements described in Section 6.6 below.

4.5 RISKS RELATING TO CLAIMS AND LITIGATION

In the normal course of its business, the Group is involved in a certain number of legal proceedings. Provisions have been recorded for these disputes in accordance with IFRS. The Group considers that the provisions established to cover known or outstanding risks, disputes or proceedings are of a sufficient amount to ensure that the consolidated financial position of the Group would not be affected to any significant degree by an unfavorable outcome. To the best of the Company's knowledge, no litigation, arbitration or exceptional event has had in the recent past or is likely to have in the future a significant impact on the financial situation, results of operations, activity and assets of the Company or the Group.

The claims and legal proceedings between Free and its subscribers are not significant in number in relation to Free's subscriber base and do not represent material amounts.

The Group's companies are involved in inquires, claims and legal proceedings with regulatory authorities, competitors and other parties. The Group believes that the provisions set aside to cover these risks, claims and legal proceedings that were known or in process at the balance sheet date are sufficient to ensure that its consolidated financial position would not be materially affected if the outcome was not in the Group's favor (see Note 33 to the consolidated financial statements).

Like other players operating in its sector, the Group is frequently served with writs as part of claims instigated by subscribers in relation to the provision of services. In general, the financial risk posed by each of these claims is relatively small. However, any proliferation of such claims could constitute a risk for the Group. In such cases, the Group tries to negotiate an amicable settlement, which helps to reduce considerably the final total cost of these proceedings. The Group believes that the number of these claims is not significant compared to the number of its subscribers.

In February 2007, Wal Services and two former Iliad employees – Messrs Chami and Gohon – issued a petition to the Paris High Court (Tribunal de Grande Instance) against Iliad and Messrs Poidatz, Niel, Boukobza and Rosenfeld, claiming that they were subject to fraud and duress in March 2002 when Iliad and Mr Niel acquired the plaintiffs' shares.

Under this petition – which has been issued 5 years after the facts in question and 3 years after Iliad's stock market floatation – the plaintiffs are claiming the restitution of their shares, and if such restitution proves impossible, compensation from Iliad and its senior managers amounting to €102 million for Messrs Chami and Gohon and €802 million for Wal Services.

Although the outcome of this dispute cannot be determined at this stage, Iliad considers that the claims issued by Wal Services and Messrs Chami and Gohon are unfounded and that the plaintiffs were subject neither to fraud nor to any form of duress.

4.6 INSURANCE AND RISK COVERAGE

The Group's strategy is to obtain insurance from external sources to cover the risks which can be insured at reasonable cost. Its current insurance policies cover Group companies' assets, business interruption losses and third party liability, under standard terms.

The cost of Iliad's insurance cover for all Group companies came to approximately €1.2 million in 2006, representing all the insurance premiums paid. In order to obtain the best possible coverage for all the Group's companies, Iliad uses the services of its Internet insurance brokerage company, Assunet, which negotiates the insurance policies on its behalf. The Group's main policy covers third party liability in the event of fire as required by France Telecom in respect of its occupancy of the co-location facilities. Three specific insurance policies have also been taken out to provide cover for bodily injury and property damage relating to the use of the Paris municipal highways for the roll-out of Free's metropolitan network in the capital, and the use of deactivated optical fiber pairs belonging to Electricité de Strasbourg, as well as those installed on public property owned by the city of Reims.

The Group has also taken out a general policy to cover property damage. Finally, in March 2006, the Group renewed the directors' and officers' liability insurance policy taken out in March 2005 which covers all forms of such liability claims.

Iliad considers that this insurance cover takes into account the nature of the risks incurred by Group companies and matches the scope of other insurance cover currently available on the market for groups of a similar size and with similar business activities.

The table below sets out the coverage levels under each of the above-mentioned policies.

Third party liability – France Telecom	
Comprehensive cover (bodily injury, property damage and consequential loss)	€76,225,000.00

Third party liability – Electricité de Strasbourg / City of Reims / City of Paris		
Operational liability		
Bodily injury	€7,622,451	Per claim
Property damage and consequential loss	€15,524,491	Per claim

Third party liability and property damage (rue de la ville l'Evêque)	
Third party liability related to occupancy	€11,436,676
Additional operating costs	€3,400,000
Property damage	€762,250

Third party liability and property damage (Bezons site)	
Tenant's risks	€2,500,000

Directors' and officers' liability insurance	
Amount of coverage per insurance period	€15,000,000

5. INFORMATION ABOUT THE COMPANY AND THE GROUP

5.1 HISTORY AND DEVELOPMENT

5.1.1 Company name

The Company's name is Iliad

5.1.2 Registration details

The Company is registered at the Paris Trade and Companies Registry under registration number 342 376 332.

5.1.3 Date of incorporation and term

The Company's business sector NAF code is 22.1 E — Publication of Reviews and Periodicals.

The Company was incorporated on August 31, 1987 for a fixed period of ninety-nine years from its registration date at the Trade and Companies Registry, expiring on October 15, 2086 unless said period is extended or the Company is wound up in advance.

5.1.4 Registered office, legal form and applicable law

Registered office: 8 rue de la Ville l'Evêque, 75008 Paris (France)

Telephone: + 33 1 73 50 20 00

The Company is a French *société anonyme* organized and existing under the laws of France and governed notably by the provisions of *Livre II* of the French Commercial Code (*Code de commerce)* and Decree no. 67-236 of March 23, 1967 relating to commercial companies (as codified in the regulatory section of the Commercial Code).

5.1.5 Key dates

The key dates in the Group's development are as follows:

1996 – Launch of the reverse look-up directory 3617 ANNU.

1999 – Creation of the Internet service provider Free.

– The Group is granted category L.33-1 and L.34-1 telecommunications licenses, authorizing it to roll out a telecommunications network and to provide telecommunications services to the public.

2000 – Start of the roll-out of the Group's telecommunications network and interconnection with France Telecom's network.

– Sale of the Group's Minitel business (excluding ANNU).

2001 – Completion in April 2001 of the interconnection between the Free Telecom network and the France Telecom network at regional level and in the Paris urban area.

– Launch of the Freebox (modem and DSLAM) research and development project.

– Acquisition of the French subsidiary of the Australian telecommunications operator

One.Tel in December 2001.

2002 – Restructuring of One.Tel and migration of its traffic to the Group's network.

– Launch of Free's broadband service.

– Start of local loop unbundling (LLU) operations in Paris.

2003 – Roll-out of LLU to the majority of the French population.

– The Group becomes the second largest ADSL broadband Internet service provider in France[2] in March 2003.

– Acquisition of the prepaid phone card specialist Kertel.

– Launch of the ADSL fixed telephony service using the Freebox modem in August 2003 (under Option 1).

– Launch of an ADSL-based audiovisual content service offering in December 2003.

2004 – Iliad's initial public offering. Listing on the Euronext Paris Premier Marché on January 30, 2004.

– Launch in March 2004 of voice over ADSL services under Option 5 using the Freebox modem.

– Launch of a fully unbundled service offering in June 2004.

– Launch of the ADSL 2+ service offering in October 2004.

– Broadcast of Canal+ TV offers via the Freebox in November 2004.

2005 – Launch of the Freeplayer offering through the Freebox in June 2005.

– Acquisition in November 2005 of Altitude Telecom which holds the only national WiMAX license for France (3.5 GHz).

– Launch of the Video on Demand (VoD) offering on the Freebox, in conjunction with Canalplay (December 2005).

2006 – Launch of the new HD Freebox TV service, DTT Tuner (TF1 and M6 accessible), WiFi Mimo and mobile telephony over WiFi (April 2006)

– Launch of Dedibox – a dedicated server hosting service available to private individuals (May 2006)

– Canalplay Kids, a VoD offering for children available on the Freebox (May 2006)

– Capacity of personal web pages increased to 10 GB (June 2006)

– Issue of bonds convertible for new shares and/or exchangeable for existing shares

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[2] *Source:* IDATE, The World Atlas of the Internet, 2003 edition.

(OCEANE) representing a total nominal value of €330,624,932.40 (June 2006)

- Calls to Guadeloupe and Martinique and 11 other new international destinations included in the Freebox package (June 2006)
- Internet bandwidth increased for unbundled Freebox subscribers offering speeds of up to 28 Mbit/s (July 2006)
- Telephone line rental included in the Freebox subscription (€29.99 per month) in non-unbundled areas (August 2006)
- Iliad sells Société.com (August 2006)
- Launch of HD Freebox Digital Video Recorder (September 2006)
- Free announces its fiber-to-the-home (FTTH) roll-out program (September 2006)
- Acquisition of Citéfibre (October 2006)
- Agreements entered into with TF1 and M6 for programs to be broadcast on the Freebox (December 2006)

2007 – Sale of Kertel (February 2007)

5.1.6 Important events in the development of the Group's business

5.1.6.1 A leading Internet service provider and telecommunications operator in France

Formed in 1991, the Group has leveraged its telecommunications networking expertise to establish itself as the second largest Internet service provider in France[3].

The Group is now one of the major players in the Internet and telecommunications sector in France due to its highly attractive services as viewed by the consumer market. The Group is currently:

- the second largest ADSL broadband Internet service provider with a 19.0%[4] share of the French residential market. At December 31, 2006, Free had 2,278,000 ADSL broadband subscribers[5];
- a major player in the unbundling of the local loop in France, with 1,730,000 unbundled access lines. This leading position in the unbundling arena has enabled the Group to provide technically sophisticated services (such as high connection speeds and "triple play" offerings) that are both attractively priced and profitable for the Group.

Over the last few years, the Group has seized opportunities for external growth in order to enhance and optimize the use of its network. Its existing data traffic business (Free) has been complemented with a voice business through the fixed telephony operator One.Tel, which was acquired by the Group in December 2001, and with prepaid phone cards marketed by Kertel, acquired in March 2003. These two acquisitions have contributed to the Group's growth and profitability since 2002 and have enabled

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3 *Source:* Iliad/ARCEP

4 *Source:* France Telecom

5 *Source:* Iliad/France Telecom

it to spread network costs over a more diversified business base, covering both Internet traffic and switched voice traffic.

Since November 2005, the Group has operated the only nationwide WiMax license in France, through its subsidiary IFW. On August 2, 2006 Iliad sold its entire interest in Société SA (Société.com) for €7.8 million. Set up in 1999, the Société.com website (www.societe.com) provides statutory and financial information on companies as well as information about brands, via both free and fee-paying services. Société SA formed part of the Traditional Telephony segment.

On October 20, 2006, Iliad announced that it had acquired 99.8% of the capital of Citéfibre, with a view to jointly expanding the FTTH optical fiber network in Paris. The Group has also taken over PN, renamed Free Infrastructure in February 2007, a company dedicated to developing and building optical fiber networks.

The Group's business is based on one of the leading alternative telecommunications networks in France and includes a range of services focused on the residential sector. The Group currently has two business segments: Broadband and Traditional Telephony.

The Broadband segment is undergoing a period of significant growth driven by the expansion in infrastructure and lower hardware costs (for computers, modems, etc.), as well as the increase in the number of public projects and, more particularly, by the widespread availability of broadband technologies such as ADSL and the success of optional "triple play" services. The Group's Broadband business is centered on (i) Internet provider services operated by Free, based on both dial-up access (which includes a pay-as-you-go service and a fixed-rate package offering 50 hours of access per month), and broadband Internet access via ADSL; (ii) shared website hosting services and the registration of domain names, provided by Online, and dedicated hosting services provided by Dédibox; (iii) call center activities through Centrapel and Total Call; (iv) Wimax operations carried out by IFW; and (v) fiber-to-the-home (FTTH) programs rolled-out by Free Infrastructure, Citéfibre and IRE.

Following the success, first, of its "Pay-as-you-go" and "50-hour plan" services and subsequently of its unlimited broadband access service which costs €29.99 per month, Free is now the second largest Internet service provider in the French residential broadband market with 19.0%[6] of all ADSL subscribers at December 31, 2006.

The Traditional Telephony segment is centered on the activities of the fixed telephony operator One.Tel and those of the prepaid phone card provider Kertel, as well as on the call termination business developed by Kedra.

With approximately 220,000 customers at December 31, 2006, One.Tel is a relatively small fixed telecommunications operator, but it is profitable and has adopted an aggressive pricing policy. Following the acquisition of this company in December 2001, the Group focused on repositioning One.Tel's service offering, adopting a policy of carrier preselection, simplifying the range of services offered and establishing an attractive pricing policy (a price of €0.01 per minute for all local and national calls). Since its takeover by Iliad, a system of payment by direct debit has been strongly encouraged in order to guarantee the payment of bills by its customers, and at December 31, 2006 90% of One.Tel's customers used this method of payment, compared with 89% at December 31, 2005.

Kertel – which was acquired by the Group in 2003 – has a first-rate distribution network (particularly through its exclusive agreement with the French post office, La Poste, for the top up of mobile phone cards) and very attractive tariffs. Iliad sold all of its shares in Kedra in February 2007. Finally, Kedra offers high-quality call termination services.

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[6] *Source*: France Telecom

Within the Traditional Telephony segment, other services include in particular the reverse look-up directory ANNU, which is accessed mainly via Minitel and by telephone, as well as the services provided by Iliad's subsidiary, Assunet S.A., a web-based insurance broker.

The following table shows the changes in the Group's consolidated revenues, EBITDA[7] and profit from ordinary activities over the last three fiscal years:

(in € millions)	2004	2005	2006
Revenues	491.4	724.2	950.3
EBITDA	112.8	224.3	331.6
Profit from ordinary activities	55.7	107.7	185.2

Analysis of 2006 revenues and EBITDA by business segment

(in € thousands) IFRS	Internet	Traditional Telephony	Other Services
Consolidated revenues	842.3	108.0	950.3
EBITDA	307.9	23.7	331.6

5.1.6.2 Local loop unbundling: a key strategy for the profitable growth of the Group

The unbundling of the local loop is a technical operation which allows operators to control the access to their subscribers and thereby free themselves to a great extent from their dependence on France Telecom's network. Local loop unbundling (LLU) is vital for the Group's ADSL services, as this enables it to take full advantage of the density and quality of its network and to set up end-to-end management of the infrastructures connecting it to its customers.

LLU allows the Group to offer its customers attractive prices (currently €29.99 per month for the ADSL broadband Internet access package, with a download rate of 28 Mbits per second) and a competitive range of services, providing higher transmission speeds combined with telephony and audiovisual services for customers with a Freebox modem.

LLU is a key element for the profitability of the Group due to the high margins that can be generated. At present, most of the recurrent charges paid to France Telecom relate to the rental of equipment used for connecting the subscriber's modem to the corresponding DSLAM belonging to the Group.

By placing LLU at the heart of its strategy and adopting an aggressive and profitable pricing policy, Free succeeded in winning over one in five new ADSL broadband customers during 2006, in an extremely competitive market. At December 31, 2006, the company had 2,278,000 ADSL customers, 1,730,000 of whom are on unbundled lines[8].

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[7] Earnings before interest, tax, depreciation and amortization (EBITDA) corresponds to profit from ordinary activities before depreciation and amortization (or provisions) recorded in relation to property, plant and equipment and intangible assets.

[8] *Source:* France Telecom.

Growth in Free's broadband customer base between 2004 and 2006[9]

	12/31/2004	12/31/2005	12/31/2006
Total ADSL subscribers	1,064,000	1,595,000	2,278,000
Number using unbundled lines	566,000	1,120,000	1,730,000
Percentage using unbundled lines	*53.2%*	*70.2%*	*75.9%*
Share of French residential ADSL market	17.4%	17.9%	19%

5.2 INVESTMENTS

Figures relating to the Group's investments over the last three fiscal years are provided in the consolidated financial statements set out in Section 20.1 of this registration document.

5.2.1 Principal investments over the last three fiscal years

The Group's property, plant and equipment mainly consists of the transmission equipment necessary for operating its network, the modems and DSLAMs used for Free's broadband Internet access service offering, the rights to use optical fiber held by the Group under the terms of IRU agreements, and the cabling costs payable to France Telecom. The cash flow statements for the years concerned provide a detailed breakdown of the Group's capital expenditures and the methods used to finance them.

Over the last three fiscal years, the Group acquired the following non-current assets, including through finance leases:

(in € thousands)	2004	2005	2006
Intangible assets	661	1,075	1,617
Property, plant and equipment	214,195	209,197	323,285
TOTAL	**214,856**	**210,272**	**324,902**

5.2.2 Principal investments in progress

During the first quarter of 2007, the Group's principal investments represented (i) growth-related expenditure which directly depends on the number of new customers won – such as Freeboxes, Freebox DSLAMs and service access fees or wiring connection costs invoiced by France Telecom; (ii) network-related expenditure – including expenditure incurred to increase network density invested jointly with private operators or local authorities, or under IRU agreements; and (iii) expenditure relating to the launch of FTTH programs.

[9] *Source*: Iliad/ARCEP/France Telecom

Financing

These investments are financed by cash flows from operating activities.

5.2.3 Principal future investments

In September 2006, the Group announced that it intended to roll out an optical fiber network providing a direct connection to the homes of its subscribers (using fiber-to-the-home, or FTTH technology). The total related capital expenditure, which will be incurred between 2006 and 2012, will amount to some €1 billion. The overall investment program will be financed partly by the proceeds of the June 2006 OCEANE bond issue and partly from cash flows generated by the Group's operations.

The Group also anticipates devoting its future capital expenditures to (i) producing both the current and future versions of the Freebox modem and distributing these modems to its subscribers and (ii) increasing its network density by installing additional Freebox DSLAMs in France Telecom sites and operating new sections of optical fiber. The Group also intends to continue to develop its access to the unbundled local loop by financing the construction of shared co-location facilities at France Telecom sites. This development will accelerate the migration of broadband subscribers to Option 1 (unbundled) which, will result in a substantial reduction in the cost of providing broadband Internet access for the Group. In addition, the Group will continue to invest as necessary in securing and extending its network by increasing the number of optical fiber loops (thereby reducing the risk of loss of service in the event of a failure in any one section of the network) and will carry out certain civil engineering works, either independently or in conjunction with other parties, to extend its network (thereby increasing network density).

With respect to the unbundling of the local loop, the Group is using the information in its possession regarding the geographical breakdown of its broadband subscribers to give priority to unbundling the local loops at those France Telecom sites serving the greatest number of subscribers and thus secure a rapid and satisfactory return on its investment.

6. OVERVIEW OF THE GROUP'S BUSINESS

6.1 PRINCIPAL ACTIVITIES

6.1.1 Strategy

Leveraging its competitive strengths described in Section 6.1.2 of this registration document, the Group's strategy is based on the following four principles:

Continuing to provide the most competitive Internet access offerings in France

In order to continue the growth of its market share, the Group plans to pursue its policy of winning new ADSL broadband customers by combining a competitive pricing policy with a focus on the quality of its services (such as by offering ever-increasing bandwidth and innovative services such as ADSL-based or voice over IP telephony as well as audiovisual content) as well as on its technical and customer support services. The Group's aim is to implement this policy of winning new customers in a fast-growing market in a manner that further enhances the Group's profitability.

Increasing the number of subscribers on unbundled lines (Option 1)

The Group intends to increase the number of customers on unbundled lines in two complementary ways. First, it plans to increase its market share in areas which have already been unbundled by continuing to offer its Freebox services directly to new subscribers under Option 1. Second, it plans to encourage the migration of the maximum possible number of Option 5 subscribers (on non-unbundled lines) to Option 1 (unbundled lines) by expanding the density of its network. This network expansion will take into account any applicable technical restrictions and will prioritize the areas to be unbundled, focusing on those that already have a large number of subscribers, to ensure a rapid return on investment. Given the significant difference in profitability between unbundled subscriber lines and other lines, the objective of this expansion of LLU (either with the aim of migrating existing subscribers or winning new customers) is to substantially increase the Group's profit margins.

Promoting the use of optional value-added services provided through the Freebox

Since the launch of its ADSL-based telephony service in August 2003, the Group has consistently added new free and pay-per-use services for customers with Freebox modems in unbundled areas. In 2005, the Freeplayer media center service was added, along with a multi-device offering and Video on Demand provided in partnership with Canalplay. The new HD Freebox was launched in 2006, enabling subscribers with access to this technology to have digital video facilities and watch programs in high definition. Also in 2006, Free's Video on Demand offering was strengthened with the addition of new content for adults, children (Canalplay Kids) and music-lovers (i Concerts). The Group considers that these services strengthen the appeal of its ADSL broadband offering and foster customer loyalty. The Group's strategy is therefore focused on increasing the number of these services and ensuring their user-friendliness, notably by simplifying interfaces and procedures relating to invoicing.

Proposing an FTTH offer at €29.99 per month in areas with high subscriber density

In September 2006, the Group was the first operator to announce the roll-out of an optical fiber network in order to provide a direct connection to the homes of its subscribers using fiber-to-the-home (FTTH) technology. This technology offers significantly faster data transmission rates than ADSL and will give subscribers access to new services. At the same time, it will enable the Group to operate totally independently from France Telecom's local loop. Iliad intends to fully leverage the related capital expenditure by focusing on areas with high subscriber density.

Considering acquisition opportunities which could contribute to Group growth

Although it continues to focus on internal growth as the core of its strategy, the Group will pursue a policy of external expansion if targeted opportunities arise in areas that strongly complement its existing business or would result in improved use of the Group's network.

6.1.2 Competitive advantages

The Group benefits from a number of competitive advantages which should enable it to sustain its profitable growth and maintain its position as a leading provider of broadband Internet access in France. The Group believes it is well-placed to take full advantage of the growth potential in the Internet and telecommunications sectors thanks to the following:

Free – a long-established Internet service provider with a well-known brand in France

As a result of the success of its consumer market services, Free has positioned itself as a major player in the Internet access market in France since its creation in 1999. Free's successive launching of its dial-up "Pay-as-you-go" and "50-hour plan" offerings and its €29.99 per month broadband service have firmly established the credibility and recognition of the brand. It is clearly associated with the concepts of freedom, cutting-edge technology and value-for-money.

Technically sophisticated and attractively priced service offerings

The Group's network enables it to design sustainable service offerings that are at once easy to understand, technically sophisticated and attractively priced. The three Internet access offerings, consisting of two dial-up services (the "Pay-as-you-go" service and the "50-hour plan", which is charged at a fixed rate of €14.94 per month) and the broadband access service at €29.99 per month, are among the most competitively priced on the market in their respective segments while providing a high level of quality. This positioning is a central factor in the Group's strategy and aims to create the right environment for lasting and profitable growth of its business.

A high-performance national network supporting both Internet service provider and fixed telephony operations for the consumer market

In order to be able to offer high-performance and innovative services to its customers and to guarantee the profitability of its business operations, in 1999 the Group decided to establish its own telecommunications network, which would allow it to control the technical aspects and pricing of its services for the routing of both data (Internet) and voice (over IP or circuit-switched). Since early in the second half of 2001, the Group has been rolling out and operating its own optical fiber network. The skills and experience acquired by the Group's network teams now mean that it is able to use its own resources to operate and maintain a nationwide network and guarantee its Internet customers a level of quality and connection speeds which are each recognized as among the best on the market. The specific technical features of the network and its high level are key factors for the success and profitability of the Group's service offerings in both Internet access and telephony. The size, design and scalable architecture of the Group's network make it capable of serving all potential customers simultaneously using the Group's telephony, broadband and audiovisual services in areas where unbundling of the local loop has taken place.

A leading player in local loop unbundling

The Group considers that the unbundling of the local loop is at the heart of its ability to offer original, sustainable and profitable broadband Internet access services. Currently the Group has 1,730,000 unbundled lines thanks to the installation of approximately 2,417 Freebox DSLAMs in 908 facilities located in or alongside France Telecom exchanges. The Group intends to capitalize on its experience in unbundling the local loop to expand the areas in which it can offer differentiated services to its customers.

Targeted research and development focusing on the consumer market

The Group's investment in research and development of hardware and software products has enabled it to position itself as a frontrunner in the implementation of innovative technological solutions on the consumer market. The success of this policy is based largely on the Group management's commitment to providing high-quality technical equipment and retaining flexibility in its choice of hardware. This in turn has resulted in the design of hardware specifically suited to the Group's service offerings and using cutting-edge technologies such as the Freebox modem/DSLAM unit, and in the development of innovative software solutions (such as billing software, Cisco SS7 interconnect software, etc.). By relying largely on its internal resources in this way, the Group has been able to optimize its capital expenditures from the outset.

Understanding of key regulatory issues

The Group has demonstrated its understanding of regulatory issues by establishing a constructive dialogue with the French Telecommunications Regulatory Authority (the ARCEP), particularly in the context of the local loop and interconnect working groups set up by the ARCEP. The Group has also shown its ability to take full advantage of the appeal procedures offered by the ARCEP in order to defend its interests. Iliad believes that it has a good overall understanding of the current legislative and regulatory environment, as well as of the proposals under discussion which could have an impact on its activities as an Internet service provider and telecommunications operator.

A proven ability to generate profits in periods of high revenue growth

The Group has posted profits each year since 2001, despite its significant investments in interconnection and LLU operations and the intense competition in its markets. It has demonstrated its capacity to internally the majority of its capital expenditures and new business start-up costs, while continuing to pay dividends. With its high-performance network and large customer base, the Group believes it will be able to continue to pursue its strategy of profitable growth.

The ability to build on its experience

As the different parts of the Group's network complement and are integrated with one another, Iliad is able to put its experience in certain areas of its business to work in the development of other services. By way of example, the Group's expertise in fixed telephony acquired in the course of restructuring and running One.Tel enabled Free to launch the first available fixed telephony over ADSL services for the consumer market beginning in August 2003, without changing the prices of its broadband Internet access offering.

An experienced management team with complementary skills

Over the last few years, the management team has succeeded in positioning the Group as the leading alternative Internet service provider in France, while sustaining profitability and pursuing a strategy of internally financed growth. This success is due largely to the experience and highly complementary skills of the management team in the following areas: knowledge of the Internet and telecommunications sector, understanding of key regulatory issues, consumer marketing know-how, strong technological expertise, sound financial management and commitment to a graduated investment policy.

6.1.3 A network servicing the Group's Internet and telephony operations

In order to access the Internet, data must be routed between the user's computer and the Internet. Such Internet access is traditionally provided by Internet service providers using interconnect services, i.e. by connecting to the incumbent operator's network or to that of other licensed operators.

After Free was established, the Group believed it was critical to have control over as many network elements used for connecting its subscribers to the Internet as possible. This decision meant that Free could operate its own network infrastructure, which quickly resulted in an influx of recurrent revenues from its "Pay-as-you-go" services and ensured the company's profitability (largely as a result of reducing its spend on interconnect charges).

The Group began its network roll-out strategy in December 1999 when it obtained licenses awarded under Articles L. 33-1 and L. 34-1 of the French Post and Telecommunications Code (which in July 2004 was renamed the Post and Electronic Communications Code), authorizing Free Telecom (known at that time as Linx) to build and operate a telecommunications network and to provide telecommunications services to the public. Free's strategy was based on accessing and operating optical fibers already installed by other operators, particularly by concluding long-term Indefeasible Right of Use (IRU) agreements. This enabled Free to optimize its capital expenditures and guarantee a rapid interconnection with the incumbent operator's network.

The Group's network has been developed in three main phases:

- August 2000 – April 2001: interconnection with the digital main switching units and all digital local exchanges in the Paris urban area for the collection of data traffic;
- April 2001 – August 2002: interconnection at a number of digital local exchanges outside Paris and upgrading for routing of voice traffic;
- Since September 2002: unbundling of the local loop and expansion of the national network.

These three development phases demonstrate the Group's constant efforts to achieve an appropriate balance between network density and return on investment.

Connection points between the Group's network and the France Telecom network at December 31, 2006

Type of France Telecom site	Number of connection points	Total number of France Telecom sites
Digital main switching units	18	18
Digital local exchanges	355	540
France Telecom LLU sites	908	12,309

6.1.3.1 General principles of interconnection and local loop unbundling in France

Interconnection and local loop unbundling allow operators to access and use part of the incumbent operator's network in return for payment to the incumbent operator of access and usage charges. Interconnection to the incumbent operator's network allows the alternative operator to deliver its customers' telephony traffic, while local loop unbundling offers it complete control over the line connecting the customer to the Main Distribution Frame (MDF).

6.1.3.1.1 Interconnection

Interconnection means the linking together of several telecommunications networks in order to allow uninterrupted routing of communications between them.

France Telecom network showing the 18 trunk exchange areas
Source: Iliad

In order to interconnect to the incumbent operator's network in a given trunk exchange area, the alternative operator must install a physical connection from a Point of Presence (POP) to a France Telecom switch located in one of the eighteen France Telecom digital main switching units.

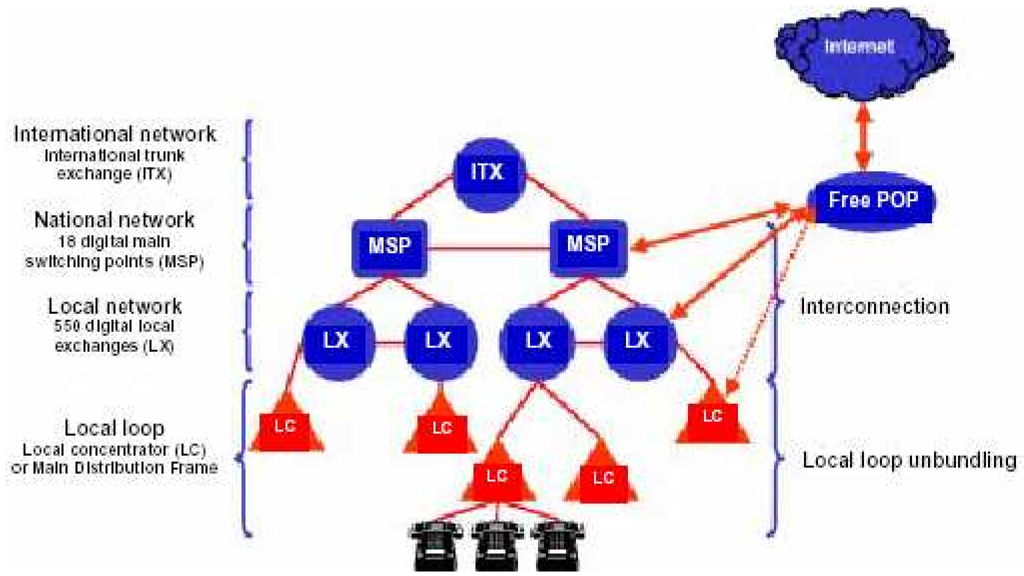
The alternative operator may also connect to the lowest hierarchical level of switches installed on the network, i.e. the digital local exchange, which is the switch closest to the customer.

In turn, each user is connected to a digital local exchange by means of a local concentrator.

Under an interconnect agreement, the incumbent operator charges the alternative operator on the basis of the transmission capacity placed at its disposal, measured in digital blocks (E1, a unit of measure corresponding to approximately 2 Mbits per second).

The OLO (Other Licensed Operator) can choose the level at which it wishes to make the interconnection, i.e. at the main switching unit or the local exchange, and the number of E1 blocks it wishes to reserve at each level. The higher the level in the France Telecom network at which traffic delivery takes place, the higher the interconnect charges and the charges for transport and collection of data billed by the incumbent operator to the alternative operator.

Schematic diagram of France Telecom's switched network



6.1.3.1.2 Unbundling of the local loop

The local loop is that part of the network located between the telephone socket on the subscriber's premises and the main distribution frame (or local concentrator) to which the subscriber's line is connected.

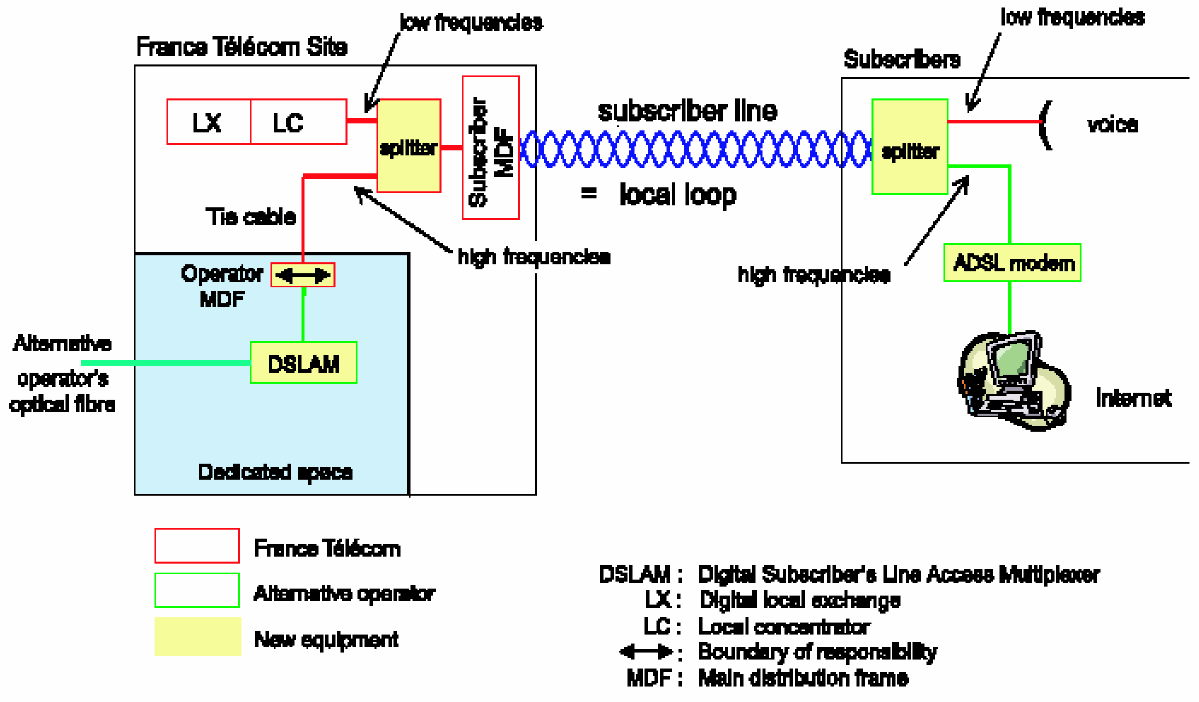
The incumbent operator must, upon request, provide any Other Licensed Operator (OLO) with direct access to the local loop. This access, which is referred to as unbundling, allows these OLOs to control access to their customers by operating their own equipment.

In an unbundled system, the copper pair (the part of the subscriber's line which connects the subscriber to the closest digital local exchange) is not connected directly to the equipment managed by France Telecom, but rather to an ADSL line concentrator (also called a DSLAM) installed in co-location facilities or dedicated spaces provided for this purpose in the France Telecom exchanges and managed by the operator chosen by the subscriber. A special modem is installed on the subscriber's premises to allow the subscriber to receive data transmissions at a speed of up to 28 Mbits per second.

In the case of partial unbundling, the alternative operator uses only the "high" frequencies of the copper pair needed for transporting data, while the "low" frequencies are still used by France Telecom to provide the ordinary telephone service. In this case, the user still pays the telephone line rental to France Telecom.

The following diagram shows the technical architecture used for this type of access.

Schematic diagram of partial unbundling
Source: Iliad



In practice, an alternative operator needs to use an optical fiber network which terminates in France Telecom's premises and install its own DSLAM equipment in co-location facilities or in dedicated spaces.

Local loop unbundling completely frees an operator from dependence on France Telecom's network. The recurring charges payable to France Telecom relate primarily to the rental of the copper pair, the splitter and the copper tie cable linking the subscriber's modem to the operator's DSLAM[10].

In the case of full unbundling, the alternative operator uses all the frequencies of a particular copper pair. In this case the user no longer pays telephone line rental to France Telecom and filters are no longer necessary.

For the purposes of simplification, the following sections contain the abbreviations MSU (for the digital main switching unit) and LX (for the digital local exchange) in relation to interconnection and the term "France Telecom site" in relation to local loop unbundling.

6.1.3.2 Development phases of the Group's network

6.1.3.2.1 Interconnection at the MSUs and all LXs in the Paris urban area

The first phase for the Group's network, implemented between August 2000 and April 2001, was the interconnection at the digital main switching units (MSU) and all digital local exchanges (LX) in the Paris urban area for the collection of data traffic.

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[10] See Sections 9.2.1.2 and 9.2.1.3 of this registration document for a description of the fixed and variable LLU charges.

Initially, the Group's main objective was to interconnect its network to that of France Telecom in order to obtain a minimum level of national coverage. This required the Group to be connected to at least the 18 France Telecom MSUs covering all the regions of mainland France. The Group's network at that time consisted of modem servers operated by Free and capable of meeting the needs of dial-up Internet subscribers.

Between August 2000, the date of the first interconnection in Lille to the MSU for the northern region, and June 2001, the date of the last interconnection in Poitiers to the MSU for the central region, Free's teams ordered E1 transmission capacity on France Telecom's network which it interconnected directly to the Group's network using optical fibers leased from a provider which had already installed the fiber network.

Free's innovative interconnection concept was to establish a direct connection between France Telecom's switches and the Group's Cisco modem servers. Therefore, instead of installing conventional switches between the France Telecom switches and its modem servers, Free helped to develop an application on the Cisco modem servers which supported the France Telecom network protocol.

This type of architecture, designed for data traffic, resulted in (i) a significant decrease in the level of capital expenditure required by reducing the quantity of equipment necessary for operation of the network, and particularly by avoiding the need for a central switch, (ii) greater control over the quality of service, and (iii) bandwidth savings over the national network as data is converted to IP mode at the level of the regional Point of Presence (POP).

By April 2001, the Group was interconnected to the 18 regional MSUs and the 119 LXs in the Paris urban area, thereby covering all of mainland France, mainly through the leasing of optical fibers at the MSU level and of bandwidth capacity for the national transport of data.

6.1.3.2.2 Interconnection at a number of LXs outside Paris and upgrading for voice traffic routing

The second development phase, implemented between April 2001 and August 2002, was the interconnection at a number of LXs outside Paris and upgrading for voice traffic routing.

This second phase focused on increasing the density of the Group's network by interconnecting it to a greater number of LXs in order to reduce the level of interconnect charges payable to France Telecom.

Through the conclusion of IRU agreements with several operators, including in particular Louis Dreyfus Communications (since renamed Neuf Cégétel), beginning in April 2001 Free was able to start taking delivery of dark optical fiber pairs contained in cables laid by Neuf-Cégétel in fifteen regional towns and cities and of several dark optical fiber pairs in cables laid in the sewers of Paris.

This second roll-out phase was a fundamental stage in the development of the Group's network as it exists today. The principal benefit of these optical fibers is that they provide Free with a high level of density at the urban level and enable it to interconnect at a lower hierarchical level in the France Telecom network, i.e. at the LX level rather than the regional MSU level. This closer proximity to its subscribers has considerably reduced the recurring interconnection charges paid by Free to France Telecom. During this phase, Free's teams worked on the highly complex task of taking delivery of each pair of dark optical fibers in France Telecom's LXs and installing optical equipment (Add/Drop Multiplexers (ADM)) to enable these fibers to carry data (lit fibers).

The Group also decided during this period to enable its network to transport voice as well as data. In addition therefore to the central switch located in the main POP in Courbevoie, Free's teams installed switches in each regional POP. This provided Free with a network capable of transporting both voice and data, a development which coincided with the acquisition of One.Tel. The use of the Cirpack softswitch technical solution helped keep any additional necessary capital expenditure to a minimum compared with the potential profits the Group could obtain from providing a conventional telephone service.

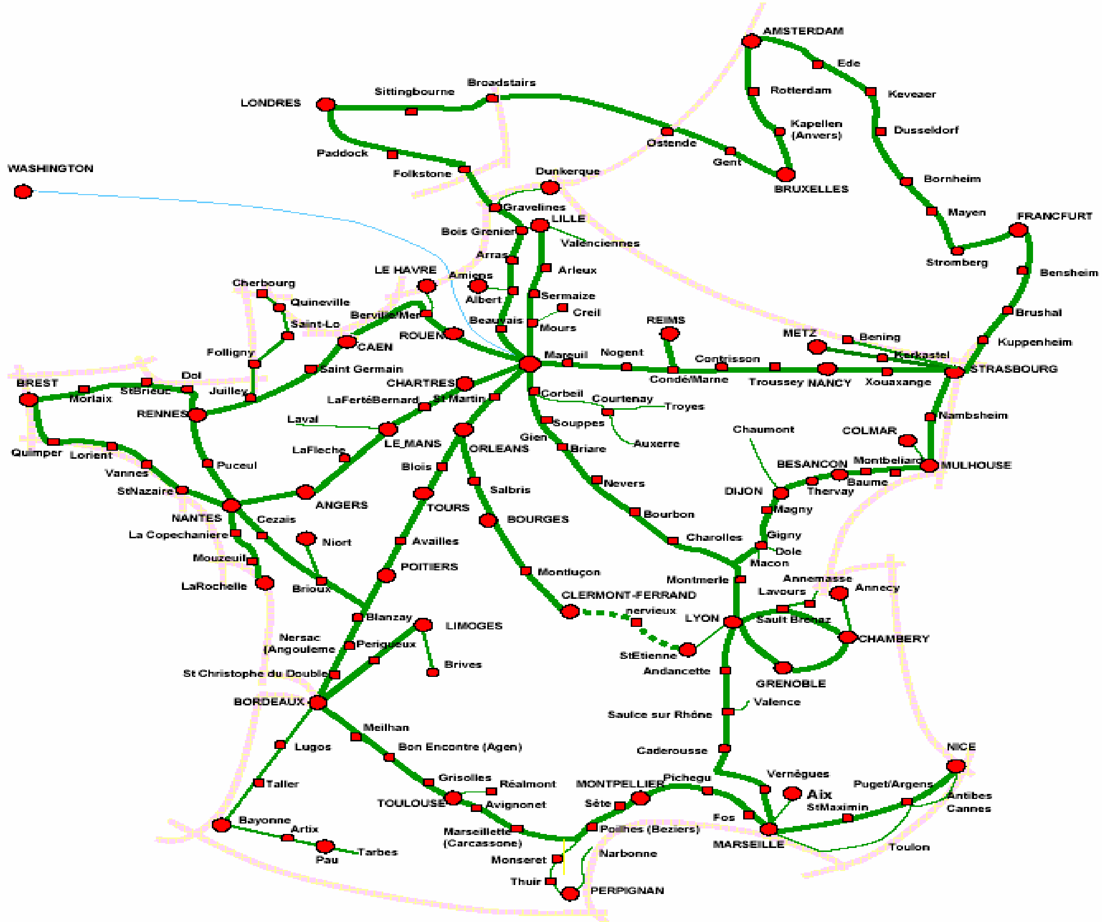
By August 2002, after completing these operations, Free had regional-level interconnection at the 18 MSUs and local-level interconnection at 208 LXs, covering all of mainland France. This optical fiber network, largely operated under IRU agreements with a ten-year term in the case of metropolitan loops (expiring between 2011 and 2013) and a twenty-five year term in the case of the northern Paris loop (expiring in 2025), can be used to transport both data and voice, permitting the migration of One.Tel's traffic (during 2002) and Kertel's traffic (since June 2003) to the Group's network and the launch of an ADSL voice service (since August 2003). In order to guarantee the security and independence of the traffic flows, voice and data traffic are processed by different equipment.

6.1.3.2.3 Unbundling of the local loop and expansion of the national network

The third development phase for the Group's network has been implemented since September 2002. The unbundling of the local loop is the latest major development, allowing the Group to have direct access to its customers. Early in the second half of 2002, Free designed and launched a broadband Internet access offer using an optical fiber network which was already connected to 162 France Telecom sites. End-to-end management of the network allows for a broadband offering along the entire chain linking the subscriber to the World Wide Web.

In November 2002, Free's teams began installing Freebox DSLAMs in France Telecom sites, either in facilities designed for use by several alternative operators or in dedicated rooms.

Map showing the Group's national network at December 31, 2006



Until March 2003, the Group's national network was based mainly on contracts for the provision of capacity (bandwidth), whereby the monthly cost was proportional to the level of the transmission capacity used, or data transported, on the network. In order to offer the maximum bandwidth to its subscribers on unbundled lines, the Group decided to migrate its national network from contracts for the use of bandwidth capacity to contracts for the provision of dark optical fibers directly operated by the Group.

This migration resulted in a shift in the Group's cost structure from variable costs to fixed costs which did not depend on the bandwidth used. This optical fiber pair is operated by Free primarily through the use of Huawei wavelength multiplexing equipment (DWDM) and provides Free with flexibility for significant growth in the number of broadband customers throughout France without any currently foreseeable restrictions in the amount of available bandwidth.

During 2006, the Group extended its network, connecting to and installing Freebox DSLAMs in new France Telecom exchanges in order to be able to provide all broadband customers within the area of coverage of these France Telecom sites with access to the benefits of Free's unbundled service offering. At December 31, 2004, 1,342 DSLAMs had been installed in 410 France Telecom sites.

Although, at December 31, 2006, Free maintained its interconnections at all 18 MSUs in mainland France and at 355 LXs (including all those located within the Paris city limits), it also enjoyed autonomy on a national level as a result of IRU agreements for the provision of an optical fiber pair which it operates for its own account.

At December 31, 2006, the Group's network comprised some 27,000 linear km of optical fiber, compared with 22,000 km at December 31, 2005. The substantial majority of the network is held pursuant to IRU agreements, Free's preferred method. In June, 2004, Free signed an agreement with Neuf Telecom extending until December 31, 2030 the validity of most of the IRU agreements it had already concluded. The few sections of the network that are not covered by such agreements are either leased or owned outright, often in conjunction with joint construction projects undertaken with private operators or local authorities.

In 2006, the Group pursued its existing contractual relationships with local authorities and conducted similar negotiations with other local authorities which have decided to develop their own networks.

6.1.3.3 Other network elements

Network security

The Group's network is built on a secure architecture, using stable, proven technical and software solutions which have been scaled to absorb significant growth in the number of customers and to accommodate the foreseeable increase in value-added services generated by broadband. The network is monitored 24 hours a day, seven days a week by a dedicated and multi-skilled team.

The network is mainly arranged in a loop configuration, allowing data to be transmitted from either side of the loop. If the network fiber on one side of the loop is interrupted, traffic will continue to be routed from the other side. Moreover, the data and equipment (Nokia switch and data back-up equipment) are duplicated at two different sites, allowing the network to remain functional even if one site suffers a technical fault. Finally, a preventive and corrective maintenance contract is provided as part of each IRU agreement pursuant to which the operator owning the fibers undertakes to remedy any problems which may arise in a timely manner.

Firewalls are installed to protect the network architecture against attacks. The server platform is connected to the switched and ADSL access networks via the Group's IP transport network.

The Group has developed its server platform to run mainly on open source software such as Linux in order to provide a wide range of services including web services, search engines, communication services, games, personal pages, news and email. The Group manages its databases; customer, sales and billing details; and customer accounts using software developed in-house based on Linux architecture.

Peering

One year after the launch of its network, Free set up the FREEIX system for the free exchange of traffic between Internet service providers (access and hosting) at multiple points called "peering points". These peering points use Cisco and Extreme Network infrastructure and allow exchanges between close to forty Internet service providers, providing a high level of Internet connectivity in France. Free is also connected to the SFINX peering point (1 Gigabyte) and operates several multi-Gigabyte private peering connections.

The Group has decided to reinforce its peering capabilities in Europe by being present on several new exchange points. In particular, the Group has entered into IRU agreements for optic fibers to connect Paris to London, Amsterdam, Brussels and Frankfurt.

International transit

At December 31, 2006 for international transit, Free used the services of two transit service providers offering bandwidth capacity of 40 Gigabits per second: Level3 and Teleglobe.

Server platform

All Free's servers run on a Linux operating system, which is well-established and used by many Internet-based companies.

Free's Linux-based infrastructure consists mainly of Dell 1U PC servers installed at its various POPs. Free uses Network Appliance file servers for data storage.

6.1.4 Description of the Group's principal activities

6.1.4.1 The Broadband segment

6.1.4.1.1 Free

Free is the second largest broadband Internet access provider in France and one of the few such providers to have become profitable through the provision of ISP services. Free first posted a profit in April 2001, only 24 months after the start-up of its business.

Today, Free has three different Internet access offerings, characterized by their simplicity, attractive pricing and recognized technical quality. They also provide tools allowing subscribers to take full advantage of the Internet's many features, including portals, search engines, email, personal website construction tools and account management systems. These three offerings consist of the "Pay-as-you-go" service, the "50-hour plan" and Free's broadband offering.

Free initially based its growth strategy on the provision of non-subscription access to the Internet ("Pay-as-you-go" access) offering a limited range of content. Its marketing strategy was based on minimizing advertising expenditure and emphasized the simplicity and low cost of the offering. This strategy was successful, with Free now claiming over four million user-created email addresses.

After completing the roll-out of its telecommunications network and interconnecting with the France Telecom network in April 2001, Free was in a position to control the cost structure of an offering based on Internet connection time. It therefore launched an attractive and profitable dial-up package, charging a fixed rate of €14.94 for 50 hours of Internet usage per month. Free has capitalized on the different nuances of its brand name, transforming it from a name implying that the offering is free of charge into a name associated with high-quality paid services and the freedom offered to users of these services.

This new brand image was enhanced with the launch in October 2002 of Free's ADSL broadband offering for €29.99 per month. Through the use of its network and by building on its experience in dial-up offerings, Free has developed a high-quality broadband access offering which is attractively priced and, where possible, makes the most of the opportunities afforded by the unbundling of the local loop.

Free's offerings are pertinent to all Internet user segments and have different maturity profiles, with some subscribers migrating from one offering to another (such as from the "Pay-as-you-go" service to the "50-hour plan" and from the "50-hour plan" to the Free broadband offering). The downturns in the "50-hour plan" offering and the "Pay-as-you-go" offering are more than offset by strong growth in the broadband offering.

The following tables give details of all the Internet access services marketed by Free.

Details of Internet access services provided by Free at April 1, 2007

<u>Table 1</u>

"Pay-as-you-go"	**"50-hour plan" €14.94 per month, including VAT**
• No subscription/no commitment access via PTSN or Numéris (cost of telephone call billed by France Telecom) • An unlimited number of e-mail addresses • 1 Gb of space for hosting the customer's personal website • Specific tools enabling customers to manage and customize their websites	• 50 hours Internet usage per month with no minimum contract period • An unlimited number of e-mail addresses • The least expensive charge per additional minute on the market (local Internet call rate) • 1 Gb of space for hosting the customer's personal website • Specific tools enabling customers to manage and customize their websites

Table 2

<table>
<tr><th colspan="2">Free’s Broadband Service Offering
€29.99 per month, including VAT</th></tr>
<tr><th>Option 1 (Unbundled line)*</th><th>Option 5*</th></tr>
<tr><td>• Unlimited usage for a fixed price – up to 28 Mbits per second download rate and 1 Mbit per second upload (ATM)
• HD Freebox provided to subscribers free of charge
• No minimum contract period
• Termination charge: €96 maximum including VAT (reduced by €3 for each month of duration of the subscription)
• Unlimited use of bandwidth
• Unlimited number of e-mail addresses
• 1 Gb of space for hosting the customer’s personal website
• Specific tools enabling customers to manage and customize their websites
• No line rental payable to France Telecom in the case of full unbundling (same subscription price)
• In the case of migration from partial unbundling to full unbundling: migration charge of €90 including VAT (reduced by €3 for each month of duration of the subscription to Free’s broadband service)
• Access to telephony services and audiovisual content offerings for customers with a Freebox modem</td><td>• Unlimited usage for a fixed price – up to 10 Mbits per second download rate and 1 Mbit per second upload (ATM)
• Freebox V4 provided to subscribers free of charge
• No minimum contract period
• Termination charge: €96 maximum including VAT (reduced by €3 for each month of duration of the subscription)
• Unlimited use of bandwidth
• Unlimited number of e-mail addresses
• 1 Gb of space for hosting the customer’s personal website
• Specific tools enabling customers to manage and customize their websites
• No line rental payable to France Telecom – Freebox only (same subscription price)
• Access to telephony services for customers with a Freebox modem</td></tr>
</table>

Option 1 — Charges for calls made using the Freebox modem

Type of call	Charge
Local, national and 48 foreign countries *	Free
To other Freebox subscribers	Free
Other international calls	From €0.03 per minute (billed per second)
Mobile	To Orange and SFR: Peak: €0.16 per minute Off-peak: €0.05 per minute Connection charge: €0.21 per call To Bouygues: Peak: €0.28 per minute Off-peak: €0.09 per minute Connection charge: €0.29 per call

Option 1 — Audiovisual content offerings

Unscrambled general interest or public service channels	Free
Pay channels and packages	From €0.25 per month
Video on Demand	From €0.99 per movie - accessible for 24 hours

Option 5 — Charges for calls made using the Freebox modem

Type of call	Charge
Local, national and 48 foreign countries *	Free
To other Freebox subscribers	Free
Other international calls	From €0.03 per minute (billed per second)
Mobile	To Orange and SFR: Peak: €0.16 per minute Off-peak: €0.05 per minute Connection charge: €0.21 per call To Bouygues: Peak: €0.28 per minute Off-peak: €0.09 per minute Connection charge: €0.29 per call

* Subject to line eligibility

Dial-up Internet access offering

The "Pay-as-you-go" offering

In April 1999, Free entered the Internet service provider (ISP) market with a simple, no-subscription service. This commercial strategy was at first based solely on providing "Pay-as-you-go" access and enabled Free to win a large share of the dial-up market with relatively small advertising outlay as compared to its competitors.

With this type of offering, the customer pays France Telecom for the telephone call while using the Internet at the local Internet call rate. France Telecom then repays approximately 96% of the average revenues generated to Free. The economic model for this type of service is therefore based entirely on repayments by France Telecom.

The "50-hour plan"

Following the emergence of fixed-rate packages on the Internet access market and once Free was able to control the cost of providing telecom minutes following the completion of the first phase of the roll-out of the Group's network, it decided in April 2001 to launch its own fixed-rate service whose main selling points were its reasonable price (€14.94 per month) and the high number of usage hours offered (50 hours). The "50-hour plan" was therefore designed to complement and serve as an alternative to the "Pay-as-you-go" offering for users wishing to access the Internet for long periods of time at the lowest possible price. This fixed-rate package is still one of the most attractively priced on the dial-up market, but is suffering from competition from the unlimited broadband offerings, particularly in the case of subscribers whose Internet usage approaches or exceeds 50 hours per month.

Broadband Internet access offering

Free's ADSL broadband service is based on two modes of access referred to by the ARCEP as "Option 5" (subscribers on lines that have not been unbundled) and "Option 1" (subscribers on unbundled lines).

- ***Option 5.*** Under Option 5, the ADSL subscriber's traffic is delivered directly to the Internet service provider's main server center through regional server centers by France Telecom. In this case, the Internet service provider is dependent on France Telecom for access and for the collection of all the traffic. Since March 18, 2004, a Freebox modem has been provided by Free to each new subscriber, free of charge. Since August 2006, telephone line rental has been included in the Freebox subscription (€29.99) in non-unbundled areas (IP Only offer).

- ***Option 1.*** Under Option 1, or local loop unbundling, a Freebox DSLAM is installed in France Telecom sites and a Freebox modem is installed on the subscriber's premises. With this configuration, the Group leases the copper pair for transporting Internet traffic from France Telecom. The "high" frequencies are entirely at the alternative operator's disposal for routing data, voice and audiovisual content. ADSL traffic can thereby be managed from end to end by the Group. In the case of partial unbundling, France Telecom's role is restricted to leasing the equipment between the Freebox modem installed on the subscriber's premises and the Freebox DSLAM, plus the initial wiring installation. In the case of full unbundling, the subscriber no longer has any link to France Telecom.

Free's profit margin from its €29.99 per month ADSL offering varies significantly according to whether the customer is an Option 1 (unbundled) customer or an Option 5 (not unbundled) customer (for further information, see Section 9.2.1.2 of this registration document). Therefore, Free's objective, while still continuing to increase its overall number of subscribers under both its Option 1 and Option 5 offerings, is to offer Option 1 directly to new subscribers in unbundled local loop areas and also to migrate existing Option 5 subscribers to the Option 1 configuration.

Freebox. The Group has chosen to develop its own broadband Internet upload and download equipment in-house in order to win as many new customers as possible in a competitive and fast-growing market by providing differentiated service offerings. As a result of the technological resources of the development team at Freebox S.A. combined with an extremely selective purchasing policy, the Group has been able to optimize the cost of designing a DSLAM and a modem capable of meeting the high bandwidth requirements necessary to offer high value-added services. The use of both a Freebox DSLAM and a Freebox modem enables Free to provide its customers with a first rate technical service offering capable of transmitting bandwidth-intensive voice, data and audiovisual content simultaneously and over long distances ("Triple Play" service offering).

The Freebox DSLAM. The DSLAM developed by Freebox S.A. is technically configured to optimize the existing Free network and guarantees each subscriber a theoretical download rate of up to 28 Mbits per second (with the latest version) from the local concentrator. Each Freebox DSLAM, installed in racks which can hold up to two DSLAMs, can be connected to 1,008 lines and is designed to leverage the Free network which uses only IP protocol, unlike conventional transmission networks which use ATM/SDH protocol. The Freebox DSLAM has a Giga Ethernet output and was designed to accommodate the high bandwidth requirements of the new audiovisual services launched in December 2003.

The Freebox modem. The Freebox modem is a multi-function ADSL modem developed to enable customers to receive services that can be offered via broadband Internet access. In addition to traditional access using a personal computer connected via a USB or Ethernet socket, the Freebox modem has one telephone socket for voice-over-ADSL services and a SCART TV socket and is capable of decoding audiovisual content compressed in MPEG-2 format.

A new Freebox was unveiled on April 19, 2006: the HD Freebox. Designed and developed by Iliad's research and development team, it is fitted with a range of features, including a DTT tuner, WiFi MiMo (Multiple Input Multiple Output) and high definition television. This launch represents a major step in providing Free's subscribers with access to quadruple play.

The Freebox modem and the Freebox DSLAM include components acquired from third party suppliers and assembled by companies which are not part of the Group. However, the software used has mainly been developed in-house by the Group using open source software such as Linux.

The use of both the Freebox modem and the Freebox DSLAM allows Free to provide its customers with the best in ADSL and ADSL 2+ technology as well as a very high theoretical bandwidth (up to 28 Mbits per second) while reducing the loss of bandwidth over distance. Free has used this high bandwidth capacity since December 2003 to offer value-added optional services such as audiovisual services over ADSL (MPEG-2 format) and voice services, as well as, since July 2006, high-speed Internet access (up to 28 Mbits per second).

In conclusion, Free's unbundled service offering enables the company to have complete control over the network from end to end and thereby over the transmission of traffic and the quality of its services, with:

- a presence on the subscriber's premises in the form of a Freebox modem;
- a presence in the France Telecom sites in the form of the Freebox DSLAM;
- optical fibers between the France Telecom sites and Free's regional POP; and
- optical fibers between Free's regional POP and the Free server center.

Telephone service offered to subscribers with a Freebox modem

Since August 25, 2003, Free has been offering a voice-over-ADSL (VoDSL) service to all its subscribers with a Freebox modem, enabling them to make and receive calls over a fixed-line telephone connected directly to their Freebox modem. In order to receive this service, the Freebox subscriber applies for a new telephone number on Free's website. Free is the first operator in France to provide this type of offering. Based on a policy of per-second billing and a very attractive per-minute tariff, Free's telephony service is very appealing not only for local and national calls, which are free, but also for international calls and calls to mobile phones (see above for details of the telephone service provided through the Freebox modem). The availability of this service to Freebox subscribers is a result of the upgrading of the Group's network since 2002 to allow it to carry voice traffic, combined with the impact of developing a billing system following the takeover of One.Tel, and the company's control over the design process for Freebox DSLAMs and modems.

Since March 18, 2004, as shown in the table entitled "Details of Internet access services provided by Free" above, each new subscriber under Option 1 or Option 5 has been provided with a Freebox modem free of charge. This gives them access to the ADSL telephony offering which includes free local and national calls to fixed telephones in mainland France.

Audiovisual content offered to subscribers with a Freebox modem

At the end of November 2003, Free launched an audiovisual content service available from December 2003 to all subscribers with a Freebox modem in an unbundled local loop area. This offering allows subscribers to receive free-to-air general interest or public service channels, as well as pay channels and packages from €0.25 per month by linking the SCART socket of the Freebox modem to their television.

These programs are transmitted in MPEG-2 format at a rate of approximately 3.5 Mbits per second. The use of Multicast technology prevents an overload of the network, as the capacity used is the same regardless of how many subscribers are watching the same channel simultaneously.

Pursuant to the terms and conditions of the non-exclusive distribution agreements between the Group and the audiovisual content providers, Free takes responsibility, without charge, for encrypting and transmitting the majority of the audiovisual channels and packages. The Group invoices subscribers directly for pay channels and packages and remits the bulk of the invoiced fees to the content providers (with the exception of channels in the Canal+ Group).

During 2006, the Group continued to expand its range of audiovisual services, introducing new features including DTT channels in the basic TV package, Dolby sound, radio stations, Freeplayer (a mediacenter integrated within the Freebox), a multi-device service, Video on Demand in partnership with Canalplay, TF1 and M6 Group channels including TF1 and M6, a digital video recorder incorporated into the HD Freebox, and new VoD platforms (Canalplay Kids, i-Concerts and Adultes).

6.1.4.1.2 Online

Online was created in 1999 and now manages over 90,000 Internet domains (compared with 85,000 at the end of 2005 and 77,000 at end-2004), making it the second largest provider of shared web hosting services in France. Its core customer base consists of small office/home office (SOHO) customers, and small and medium-sized businesses which wish to benefit from a cost-effective solution for hosting their websites.

Following its merger in December 2003 with its subsidiary BookMyName, a company accredited by the Internet Corporation for Assigned Names and Numbers (ICANN) for the registration of Internet domain names, Online is now also a domain name registrar.

In practice, Online's service offering consists of hosting its customers' domain name in its Domain Name Systems (DNS) and providing the associated disk space, as well as managing the hosted space. The customer pays a rental charge based on the type of hosting service selected and may choose its own website address.

Once the customer has been allocated web space by Online, the customer is responsible for creating its website content using the website construction and management software provided by Online. The customer is therefore completely free to choose its website content, provided such content complies with all current national and international laws and regulations, particularly those concerning intellectual property and copyright, and does not contain any material which may be considered derogatory, defamatory, offensive or subversive of public order or which could result in an invasion of privacy.

As part of its hosting services, Online also provides its customers with email addresses, email aliases and email forwarding services, the number of which varies according to the subscription package chosen by the customer.

6.1.4.1.3 Centrapel and Total Call: a technical support and customer service platform used by all Group companies

Free, One.Tel and Kertel offer their customers technical support and customer service through a helpdesk platform run by two Group subsidiaries, Centrapel and Total Call. The Group is currently in the process of expanding and training its technical support and customer service teams. Centrapel seeks to recruit operators who have completed two years of post-baccalauréat level studies or who have experience working in technical support for an ISP, and is also investing in providing training for its operators. All new employees are therefore given one month's training in support techniques before starting work answering customer calls. At December 31, 2006, the Group's call centers employed 1,603 people, compared with 952 at December 31, 2005. This support service operates from 8 a.m. to 10.30 p.m. Monday to Friday and from 9 a.m. to 8 p.m. on weekends and public holidays. A dedicated helpline for fully unbundled customers was brought into service at the beginning of 2005.

Centrapel's support team includes approximately 105 employees based in Paris and elsewhere in France responsible solely for dealing with problems related to local loop unbundling (relations with France Telecom, migration of lines, etc.).

Centrapel also provides Free's customers with an online support service available through Free's website. This service provides answers to user FAQs and allows Free's customers to email specific questions to the support service.

With a view to reducing customer churn and contributing to the Group's customer loyalty policy, Centrapel and Total Call use high-quality software tools developed in-house by the Group's IT team. These tools are used for monitoring customer relationships, handling faults and maintaining a log of problems encountered by Free's customers. This customer loyalty policy is part of the Group's overall strategy to improve customer service resources and to provide advice to customers who may wish to upgrade to other services provided by the Group.

6.1.4.2 Traditional Telephony segment

The Traditional Telephony segment encompasses the combined activities of the Group's former Telephony and Other Services segments. It includes switched fixed-line telephony (One.Tel and Iliad Telecom), prepaid phone cards (Kertel), resale of minutes to operators (Kedra), directory services (mainly the ANNU reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging) and e-commerce operations (Assunet.com).

6.1.4.2.1 One.Tel

The fixed telephony operator One.Tel France SAS ("One.Tel") was established in 1998, but was placed in administration in June 2001 largely as a result of the financial difficulties encountered by its Australian parent company. As part of the company's December 2001 business continuity plan, the One.Tel trademark was licensed to the Group for ten years by the UK company Centrica Telecommunications Ltd., the successor in interest to One.Tel (UK).

The restructuring plan carried out after the takeover involved the migration of One.Tel's voice traffic to the Group's network during the first half of 2002, improving the business's gross margin, and the changeover from One.Tel's old billing system to the existing billing and customer tracking system developed by the Group's engineers.

Since its takeover by the Group, One.Tel has implemented a procedure for optimizing the cost of winning customers and managing its customer base by recommending that all new customers provide bank details before any new connection to the service, thus allowing for payment by direct debit. This measure, together with the in-house development of an efficient billing system and heavy promotion of the use of carrier preselection – automatically ensuring that customers' calls use the Group's network – has given One.Tel a high bill collection rate and increased customer loyalty.

On a commercial level, as in the case of the Group's Internet access offerings, One.Tel launched a very competitive and simple offering in September 2002 at one eurocent per minute for local and national calls. For international calls, One.Tel benefits from its past experience as part of a multinational group in its negotiations with the leading international telecommunications operators. One.Tel is interconnected with several international operators and with two trading platforms for buying and selling international call minutes, which enables it to offer both competitive rates and a high level of quality for all its call destinations.

Against a backdrop of tighter control of marketing costs and the growing success of voice over ADSL services the number of One.Tel's billed customers decreased from 298,000 in December 2005 to 220,000 in December 2006.

Since the first half of 2003, in addition to One.Tel's service offering, the Group has provided a telephony service to small and medium enterprises under the name Iliad Telecom.

6.1.4.2.2 Kertel

The acquisition in 2003 of the prepaid phone card provider Kertel from the Pinault-Printemps-Redoute Group was another facet of the Group's strategy for optimizing its network, particularly on the basis of the synergies developed with One.Tel and Kedra. These synergies allowed the Group to benefit from shared experience and know-how in such matters as billing and rate negotiations, especially for international calls.

Kertel is a leading provider of prepaid phone cards in France.

On January 11, 2007, Iliad signed an agreement with Proximania concerning the sale of Kertel SA. The sale was completed on February 7, 2007. The sale price amounted to €12 million plus Kertel's cash net of debt at the date of sale. The price includes a €6 million seller's loan repayable between June 29 and December 31, 2007.

6.1.4.2.3 Kedra

Since 2002 Kedra has been offering a low-cost fixed telephony call termination service. The philosophy behind this service is similar to the "call-back" system which, since the early 1990s and particularly in the United States, has resulted in a significant drop in the cost of international calls. The service, aimed at fixed telephony carriers in general and at the Group's subsidiaries providing telephony services in particular, transfers at a minimal cost calls destined for certain operators which charge high prices. When a subscriber calls one of these operators, the call is forwarded to the Kedra platform which connects it directly to the telephone operator called, but at a lower cost than would normally be charged, thus allowing the customer to benefit from the decreased mark-up.

Kedra bills its services to the Group companies that have telephony operations and sells minutes to other alternative telephony operators. Its profits are therefore largely based on margins earned on contracts with operators outside the Group.

As required by the ARCEP, in 2006 mobile telephony operators significantly reduced their termination charges for fixed-to-mobile calls in France. In view of these new termination charges, the Group signed direct interconnection agreements with 3 mobile operators which has led to Kedra losing a significant portion of its revenues since January 1, 2007.

6.1.4.2.4 ANNU

The Minitel-based reverse look-up directory, ANNU, was launched by Iliad in 1996. This service, which is widely known in the consumer market, allows users to find a name and address associated with a telephone or fax number, via Minitel, telephone, Internet or SMS text messaging.

Based on an easy-to-use electronic data transmission solution, the ANNU service uses the directory database established and maintained by France Telecom in return for the payment of an annual charge to the incumbent operator. In 2002, France Telecom invoiced €3.35 million in respect of this charge. In 2003, following decisions issued by the *Conseil de la Concurrence*, and the ARCEP, Iliad obtained a significant reduction in this charge, which was fixed at €180,000 per year. Iliad has applied for the reimbursement of the charge invoiced for fiscal year 2002 and previous years.

ANNU uses the standard pricing model for Minitel services (payment of €0.84 per minute of usage) or Audiotel services (payment of the equivalent of a local call charge from a fixed-line telephone).

In spite of efforts to promote new ways of using the reverse look-up directory (text messaging, mobile telephones or the Internet), the Group considers that the decline in the use of Minitel in France is irreversible and, in the medium term, is likely to result in a significant decrease in revenue from this business.

Furthermore, the Group's reverse look-up directory is faced with strong competition from France Telecom, which has launched its own reverse look-up directory service (3617 QuiDonc). The combined effect on Iliad's earnings of this increase in competition and the decline in the use of Minitel in France since end-2001 has been significant.

Despite the fall in revenue from Minitel services and competition from the incumbent operator, the Group plans to continue this profitable activity as long as possible, as it requires little in the way of human resources or capital expenditure, although the Group will take into account in its forecasting the foreseeable reduction in revenues from its reverse look-up directory service.

6.1.4.2.5 Assunet

Assunet is a web-based insurance broker which provides an online quotation search engine service allowing its customers to obtain quotes from fifteen major insurance companies. The customer enters his or her request on the Assunet site (www.assunet.com), free of charge, and Assunet immediately responds with the three most attractive quotes based on the coverage and deductible levels in accordance with the customer's profile and requirements.

6.2 PRINCIPAL MARKETS

6.2.1 Internet access

6.2.1.1 Determining factors in the growth of Internet usage in Western Europe

In Western Europe, following a period of very strong growth in the level of Internet usage, particularly as a result of so-called "free" services followed by the introduction of fixed-rate inclusive packages, the prospects for further growth now partly depend on the roll-out of broadband technologies. The market should continue to grow during 2007, largely due to:

– the level of penetration of home computer use. The use of home computers is a key factor in the development and expansion of the Internet access market. Western Europe has still not reached the same level as the United States, which is a far more mature market, although the disparity is decreasing. There are however still considerable differences in the level of home computer use within Western Europe itself;

– the use of new technologies offering both broadband Internet access (such as ADSL and cable) and the widespread distribution of new types of content (such as TV, video on demand, network gaming, etc.);

– the growth and general improvement of local language content and e-commerce;

– increased liberalization and competition in the telecommunications sector;

– the commitment on the part of the authorities towards promoting ever-wider usage of the Internet.

The broadband market: a powerful vector for growth

With 12 million residential ADSL lines at January 1, 2007[11], France is one of the frontrunners among European countries in terms of both the number of ADSL lines and market penetration. At September 30, 2006, France ranked second in Europe, behind Germany, in terms of the number of unbundled lines (source: ECTA).

Countries with a high rate of Internet penetration continue to attract new users, but from now on the main driver for growth in this market will be the migration of subscribers to broadband connection technologies.

Choice of broadband technology

In Western Europe, ADSL appears to have become the technology of choice, accounting for 85% of broadband subscribers. In France, ADSL has established itself as the primary technology used for broadband access, accounting for more than 94% of all broadband connections[12].

Broadband penetration rate in Europe – still enormous potential in France

The number of DSL and cable modem connections in Europe continued to increase in 2006. The northern European countries are generally ahead of other European countries in terms of penetration of broadband technologies, particularly due to the early deregulation of the telecommunications sector –

[11] *Source*: ARCEP.

[12] *Source:* ARCEP.

such as in Sweden which was deregulated in 1993 – and a high level of commitment on the part of the public authorities.

6.2.1.2 A thriving broadband market in France

At December 31, 2006, France had a household broadband penetration rate of 51.5%. At January 1, 2007, France Telecom had delivered 1,789 sites to unbundling operators, which represents a population coverage of 59.6%. All France's overseas dependencies have at least one unbundled site. There is likely to be accelerated growth in France in terms of the number of households with broadband access, which means that prospects are healthy for the Group in light of its positioning in this sector.

6.2.1.3 Players in the Internet access market in France

In France, as in the rest of Europe, after a period in which there was a proliferation of access providers, the Internet service provider market has matured. Incumbent operators have made up for initial lost ground and have reestablished their positioning in their domestic markets. At the same time, a wave of consolidation and concentration has reduced the overall number of players in the market.

The Group's main competitors in the French Internet access market are:

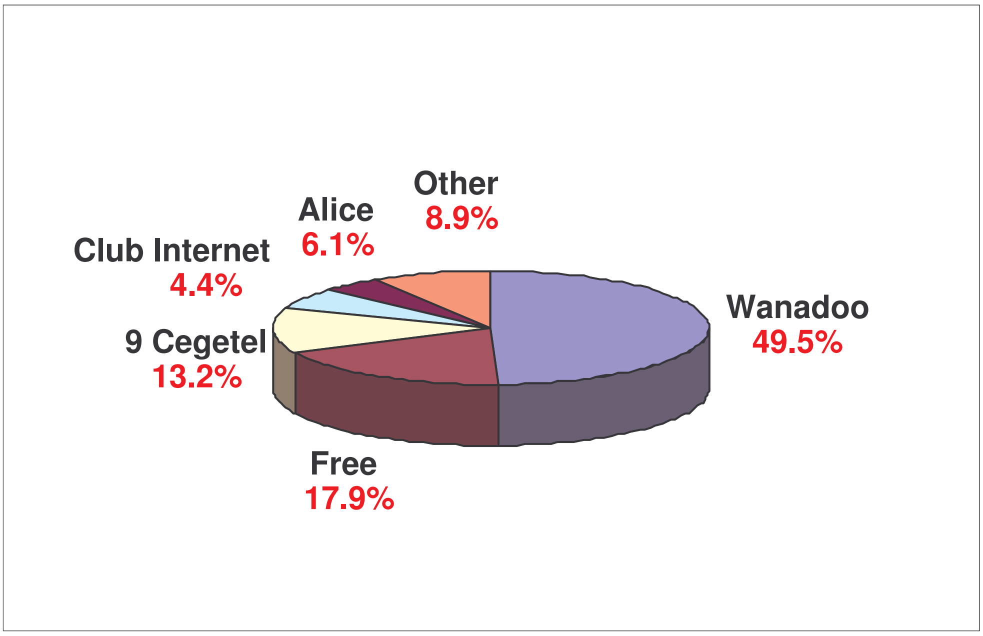
– international Internet service providers, some of which are partnered with telecommunications operators, such as Orange, Neuf-Cegetel (including AOL), TOnline (Club-Internet), and Telecom Italia (Alice). Market consolidation in 2006 led to the elimination of AOL and Tele2.

– cable network operators (Noos);

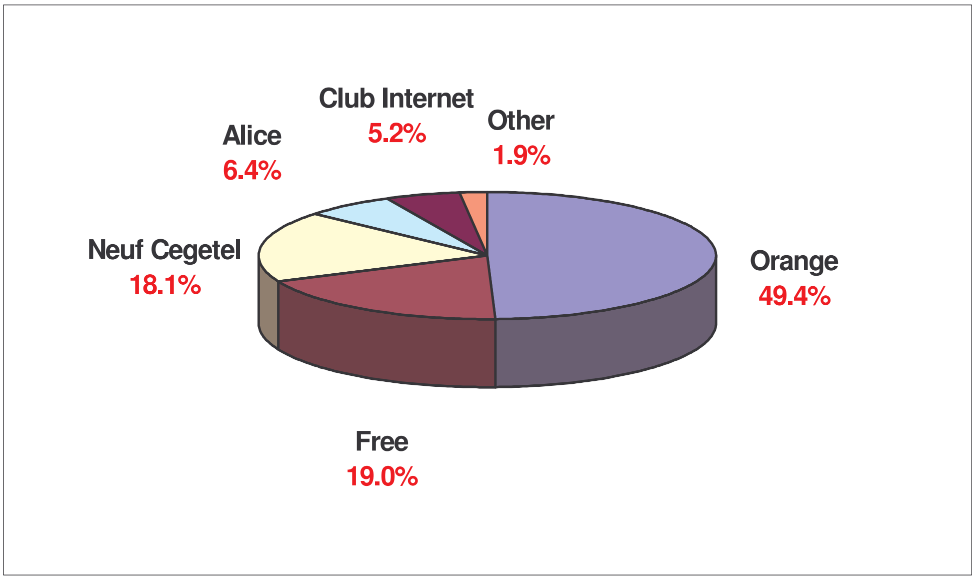
– independent local access providers; and

– companies offering Internet access as a means of winning customers for their services, such as banks and mass-marketing companies.

Market share of leading ISPs
in the ADSL sector (December 31, 2005)*



Market share of leading ISPs in the ADSL sector (December 31, 2006)*



The launch of so-called "free" Internet in France was the driving force behind the growth of the residential market, and Free rapidly positioned itself as a leading player in this sector. With the introduction of fixed-rate inclusive packages at the end of 1999, this type of service became increasingly popular and established itself as the core of the dial-up Internet sector. Today, the "pay-as-you-go" or "free" services are showing a slight decline.

Since mid-2002, most of the Group's main competitors have decided to focus on providing ADSL-based broadband offerings. The proliferation of different service offerings accompanied by increased segmentation and strong competitive pressure on prices stimulated growth in the Internet market between 2003 and 2006.

Since the end of 2002, local loop unbundling has provided a major opportunity for growth for the Group, particularly with regard to profitability and the development of service offerings (such as fixed telephony and audiovisual services).

In addition to pursuing market growth for broadband access in order to increase broadband use in the home as a means of winning new customers, Internet service providers also aim to migrate as many subscribers as possible from dial-up services to broadband in order to benefit from higher average revenue per user.

6.2.2 Telephony operators

Competition in the fixed telephony market is characterized by the overwhelming dominance of the incumbent operator and by the considerable number of emerging operators.

Since January 1, 2002, all subscribers have been able to choose which operator to use for local calls, as had already been the case since January 1, 1998 for long distance and international calls and since November 1, 2000 for fixed-to-mobile calls. The operator can be selected on a call-by-call basis or by automatic carrier preselection which allows subscribers to specify that all calls be automatically routed through the operator of their choice. At September 30, 2006, France counted some 37.6 million telephone service customers (retail and corporate) including 5.5 million who had opted for carrier preselection and 1.7 million for call-by-call selection.

In order to boost its position vis-à-vis its principal competitors (France Telecom, Neuf-Cegetel, Tele 2 and Omnicom), One.Tel is continuing to encourage its customers to opt for carrier preselection and is firmly positioned as having one of the most attractive pricing structures of any alternative operator in the market.

In the fixed telephony market customers are gradually moving from fixed to mobile telephony and from switched voice services to Internet telephony (Voice over IP, or VoIP). In the third quarter of 2006, there was a 1.6% year-on-year increase in call orginations from fixed lines due to the rapid increase in VoIP originations which now represent 18.6% of total call originations from fixed lines (both retail and corporate). Excluding IP calls, the volume of call originations from fixed lines decreased 9.8% year-on-year.

At September 30, 2006 the year-on-year increase in the volume of VoIP calls was 127.2%. This pace of growth reflects the increase in the number of subscriptions to IP telephony services which surged 128.5% over the same period.

The success of IP telephony has also boosted volumes of international calls due to the attractive prices that this technology offers. At September 30, 2006, the year-on-year increase in international calls was 19.7%.

Alternative telephony operators providing both ADSL and Voice over IP services – such as the Iliad Group through its subsidiary Free – stand to benefit from these observed trends.

6.3 EXCEPTIONAL FACTORS WHICH HAVE INFLUENCED THE GROUP'S PRINCIPAL ACTIVITIES OR PRINCIPAL MARKETS

No exceptional factors have influenced the Group's principal activities or principal markets.

6.4 EXTENT TO WHICH THE GROUP IS DEPENDENT ON PATENTS OR LICENSES, INDUSTRIAL, COMMERCIAL OR FINANCIAL CONTRACTS OR NEW MANUFACTURING PROCESSES

6.4.1 Dependence on patents and software licenses

The Group uses licenses for software owned by third parties, particularly relating to the distribution of audiovisual content. However, the Group also develops its own software and has always given priority to developing equipment and software (particularly based on open source software such as Linux) through its research and development teams. For its ANNU service, up until 2002 the Group held a license to use France Telecom's subscriber database. Since that date, contractual relations have been governed by the terms and conditions in section L12 of France Telecom's Price Catalog, which can be consulted free of charge in France Telecom's agencies or on line at http://www.lesprix.francetelecom.com. Among the trademarks used by the Group's companies, only the One.Tel trademark is covered by a license for use in France. This license was granted in 2001 by the UK company Centrica Telecommunications Ltd. for a ten-year term in consideration for an annual fee based on the number of One.Tel's billed customers but capped at €250,000. However, Centrica waived the fee under this license until August 31, 2004.

6.4.2 Dependence on supply, industrial, commercial or financial agreements

Network operated by the Group

Through its subsidiary Free, the Group has entered into agreements granting it Indefeasible Rights of Use ("IRU") relating to the dark optical fibers it uses. Under these long-term agreements, the Group has acquired the indefeasible right to use these fibers for a given period, without having to obtain any right-of-way easements. Most of these agreements were signed with the Neuf Telecom group and with local authorities. In June 2004, Free signed an agreement with Neuf Telecom to extend the term of most of these IRU agreements until December 31, 2030. The Group considers the risk of non-renewal of these agreements to be very low, in view of the over-capacity of dark fibers already laid by Neuf Telecom and local authorities.

However, if any of the agreements were not renewed and the Group had to find alternative solutions, it considers that the existence of many alternative operators already offering dark fibers provides satisfactory assurance that a replacement solution could be found before the expiration of the IRU agreements, particularly at the local level where many sections of dark fiber have been laid in recent years.

Furthermore, the Group believes that the IRU agreements reduce the risk of Group liability for damage caused by the fibers of its network. It does acknowledge, however, that certain sections of the network which are laid on publicly owned land may be subject to certain restrictions related to the use and occupancy of public property. Finally, in accordance with the provisions of the IRU agreements signed with Neuf-Cégétel, Neuf-Cégétel and the Group are committed to jointly financing the construction of a new fiber route in the event of physical problems (such as a power failure caused by natural hazards, civil engineering works, etc.) affecting a section of Neuf Telecom's optical fiber network that is covered by the IRU agreements.

Freebox modems and Freebox DSLAMs

The Group uses the services of two equipment assembly companies located in France to assemble Freebox modems and Freebox DSLAMs with generic electronic components purchased from third party manufacturers. The choice of the components, the construction of equipment and the development of the software used by the Group for its business do not depend on intellectual property rights such that the Group's growth would be adversely affected were it to be deprived of access to such rights. The Group considers the components used in its equipment to be highly standardized and therefore easily interchangeable. In the event of breakdown at the factories responsible for assembling the Freebox modems and DSLAMs, the Group also considers that it could use the services of other equipment assemblers. However, any such substitution of components or assemblers could be on less favorable financial terms and result in additional costs for the Group.

To minimize any risk of suspension or slowdown in the installation of its Freebox DSLAMs or delivery of its Freebox modems to customers, the Group aims to maintain constant inventory levels sufficient to meet the Group's estimated needs for two months.

6.4.3 Dependence on new operating processes

Apart from the technical processes involved in local loop unbundling and the DSL technology itself, which is highly advanced, the Group does not consider itself to be dependent on new technical processes necessary for carrying out its business.

The roll-out of the Group's FTTH program breaks down into three separate phases – (i) horizontal roll-out (e.g. in Paris's underground tunnel network), (ii) vertical roll-out (laying optical fiber in buildings) and (iii) home connection stage. For each of these phases, the Group is dependent on authorizations granted by the different entities concerned. For the horizontal roll-out phase, authorizations are generally required from the local authorities to access and occupy public land. For the vertical roll-out, the Group requires the approval of building owners or property managers. Lastly, the home-owner's agreement is required for the home connection process.

6.4.4 Dependence on the Group’s main customers and suppliers

As the Group’s service offerings are mainly targeted at the consumer market, almost all its revenue is generated through sales to private individuals. Consequently, no single customer of the Group’s revenues (other than France Telecom in the context of the “pay-as-you-go” access offering described in Section 6.1.4.1.1. of this registration document and the ANNU business described in Section 6.1.4.3.1 of this registration document).

As far as suppliers are concerned, the main contracts entered into relate to the Group’s network and can be subdivided into two categories: contracts for the use of dark optical fibers, allowing the Group to operate its network, and contracts granting the Group access to the subscriber through interconnect and unbundling agreements entered into primarily with France Telecom.

IRU agreements involve the granting by local authorities or private operators such as Neuf Telecom and Completel of the right to use the optical fibers which make up the Group’s network. Under these long-term agreements, a single up-front payment is made when the fiber is made available. A description of these agreements is provided in Section 6.4.2 of this registration document. The risk to the Group of the non-renewal of these agreements is described in Section 6.4.2 of this registration document.

Interconnection and unbundling agreements provide the Group with access to its subscribers, either by means of the France Telecom network in the case of interconnection agreements or directly in the case of unbundling arrangements. As described more fully in Section 6.6.1 of this registration document, the interconnection and unbundling agreements, respectively, allow the Group (i) to interconnect its own network with the France Telecom network by means of a physical connection to one of the incumbent operator’s switches and (ii) to take advantage of direct access to a segment of the network between the subscriber’s telephone socket and the main distribution frame to which the subscriber is connected in order to achieve the closest possible proximity to the subscriber. In the case of interconnection agreements, the incumbent operator charges fees based on the transmission capacity made available to the operator. In the case of unbundling, the amounts charged by France Telecom are essentially limited to the rental of the copper pair, the splitter and the copper tie cable that connect the subscriber’s modem to the operator’s DSLAM. France Telecom is required to offer both interconnection and unbundling to all alternative operators.

The Group is also party to less strategically important supply agreements, primarily with suppliers of electronic components, the assemblers of the Freebox modems and DSLAMs, and with advertising agencies.

The amounts charged by the incumbent operator under interconnection and unbundling agreements as well as amounts reinvoiced by the Group to France Telecom in connection with the “pay-as-you-go” access offering and the reverse look-up directory service are subject to review by the ARCEP.

6.5 BASIS FOR STATEMENTS MADE BY THE GROUP REGARDING ITS COMPETITIVE POSITION

The statements made in this registration document in relation to the Group’s competitive position are primarily based on market analyses published by the ARCEP.

6.6 REGULATORY SITUATION

The Group's business activities are subject to the specific legislation and regulations of both France and the European Union governing the electronic communications sector (including telecommunications and Internet access) and the information society.

6.6.1 Regulation of electronic communications networks and services

The EC regulatory framework for electronic communications

1990 - 2003: strengthening of the regulatory framework to allow the opening up of the markets

Between 1990 and 1997, the EU legislator enacted a series of directives providing for the abolition, as from January 1, 1998, of national monopolies in the telecommunications market. The EC telecommunications regulatory framework also included harmonization measures concerning the rules governing licenses and authorizations, interconnection and access to the network, as well as the universal voice telephony service. These measures had to be transposed into the national law of European member states by January 1, 1998. The EC regulatory framework has been transposed into French law, in particular by Law 96-659 of July 27, 1996, and Order 2001-670 of July 25, 2001, amending the Post and Telecommunications Code.

Since July 2003: simplification of the regulatory framework to underpin the opening up of the markets

Once the European Commission considered that the first phase of the opening up of the market had been achieved, it proposed that the EU legislator should relax the specific regulations and standardize the rules applicable to all electronic communications networks, taking into account the heralded convergence of telecommunications, audiovisual and information technologies. The new regulatory framework also allows for a distinction to be made between the regulations applicable to different markets, in order to allow for the eventual transition towards full competition in each individual market, based on competition law.

On July 25, 2003, the existing European regulatory framework was replaced by a new regulatory framework (the "2002 Telecoms Package"). That date corresponded to the deadline for transposition of the new framework.

The 2002 Telecoms Package subjects all types of transmission networks and related services to the same regime. The scope of the regulation is therefore no longer limited to just telecommunications but covers the whole of the electronic communications sector (mobile, cable, satellite, telecommunications and broadcasting of radio and audiovisual programs). It does not, however, apply to the content of the services provided on electronic communications networks using electronic communications services, such as broadcast content (in particular radio and television programs), financial services and certain services specific to the information society which are subject to other regulations (see paragraph 6.6.2 below, "Regulation of the content of electronic communications").

In particular the 2002 Telecoms Package includes the following texts :

- Directive 2002/21/EC of March 7, 2002, on a common regulatory framework for electronic communications networks and services ("Framework Directive"). The Framework Directive defines the role of the national regulatory authorities ("NRAs") in relation to managing radio frequencies, numbering, rights of way, co-location and sharing of resources, accounting separation, interoperability and the resolution of disputes between operators. It also introduces a new concept concerning the designation of undertakings with significant market power and establishes criteria and procedures aimed at ensuring a coherent assessment of the dominant undertakings throughout the European Union. In this regard, the regulations in the Framework Directive are rounded out by (i) the Commission Recommendation of February 11, 2003 (C-2003/497) on the identification of the product and service markets susceptible to *ex ante* regulation in relation to operators having significant market power, and (ii) the Commission

Guidelines of July 11, 2002 (2002/C165/03), the purpose of which is to assist the NRAs with the market analysis process and the identification of operators with significant market power on the relevant markets. The Framework Directive provides that Member States must impose obligations on undertakings with significant market power proportional to the distortion of competition in the market in question.

- Directive 2002/19/EC of March 7, 2002, on access to, and interconnection of, electronic communications networks and associated facilities ("Access Directive"). This directive harmonizes the rights and obligations of operators and service providers requesting interconnection or access to electronic communications services or networks. The Access Directive establishes objectives for the NRAs concerning access and interconnection, and determines procedures for ensuring that the obligations imposed by the NRAs are reassessed and possibly withdrawn once the desired targets are actually met.

- Directive 2002/22/EC of March 7, 2002, on universal service and users' rights relating to electronic communications networks and services ("Universal Service Directive"). The aim of the Universal Service Directive is first to ensure the availability throughout the EC of good quality publicly available services through effective competition and choice, and second, to deal with circumstances where the needs of end users are not satisfactorily met by the market. The Directive defines a minimum set of services of a specified quality to be available to all end users at an affordable price, taking into account specific national conditions and without distorting competition. The Universal Service Directive also determines obligations in terms of the supply of a certain number of mandatory services, such as the retail provision of leased lines or carrier selection (either by carrier preselection or selection on a call-by-call basis).

- Directive 2002/20/EC of March 7, 2002, on the authorization of electronic communications networks and services ("Authorization Directive"). This Directive harmonizes and simplifies the rules and conditions for authorization to supply electronic communications networks and services. It does away with the individual license regime in favor of a general authorization regime (i.e. based on a notification procedure). According to this Directive, only the allocation of scarce resources (i.e. radio frequencies and numbers) should be subject to individual licenses.

- Directive 2002/77/EC of September 16, 2002, on competition in the markets for electronic communications networks and services. This Directive replaces Directive 90/388/EEC, as last amended, and its aim is to extend the scope of the liberalization process to cover all electronic communications. The Directive takes into account the convergence phenomenon and groups under one single definition all the services and networks used for the conveyance of signals, thereby reaffirming the principle of the freedom to offer communications services and networks.

- Regulation (EC) 2887/2000 of December 18, 2000, on unbundled access to the local loop. This Regulation, which is directly applicable in all the Member States, provides that all operators with significant market power must offer unbundled access to their local loop and associated facilities, under transparent, fair and non-discriminatory conditions.

The progress of the implementation of the regulatory package in the member states is monitored in an annual report by the European Commission, available at the following address:

http://ec.europa.eu/information_society/policy/ecomm/implementation_enforcement/index_en.htm.

The Commission has begun a review and consultation process concerning the regulatory framework governing electronic communications with the aim of publishing proposals for directives modifying the current framework in the course of 2007.

French regulatory framework applicable to electronic communications

Responsibility for the control and effective implementation of the European regulatory framework lies with the national regulatory authorities (NRA), i.e. in France the *Autorite de Régulation des Communications Electroniques et des Postes* (“ARCEP”), which was created in January 1997.

The ARCEP ensures that operators comply with the laws and regulations set out in the French Post and Electronic Communications Code (CPCE) and, where applicable, that they respect the conditions of any individual authorizations granted. Operators that do not require individual authorizations register with the ARCEP which then issues a receipt allowing them to exercise their rights and informing them of their obligations. The sanctions available to the ARCEP if an operator fails to comply with the regulatory framework include limiting the scope or reducing the term of the operator’s authorization, as well as suspension or even full withdrawal. It can also impose fines representing up to three percent (3%) of the operator's annual revenue, or 5% in the event of a repeated breach. In accordance with article L. 36-11 of the Post and Electronic Communications Code, where the ARCEP identifies a serious and immediate infringement of the rules governing the telecommunications sector it can order precautionary measures without any requirement for prior notice. In addition, where an infringement could cause serious harm to an operator or the market, the Chairman of the ARCEP can make an emergency application to the French Council of State for an order requiring the party concerned to respect the applicable rules. Any such order may be accompanied by a penalty levied until the party complies therewith.

In France, the transposition of the 2002 Telecoms Package essentially took place in the form of Law 2004-669 of July 9, 2004, together with its related implementing decrees.

Market analysis

The analysis of the markets is the cornerstone of the new regulatory framework, because it is the basis for adapting the new regulations specifically to suit each individual market. It is an ongoing process, subject to periodic review, with the aim of eventually bringing the regulations into line with competition law. The other objective is to limit *ex ante* regulation to markets where the level of competition is low (which is currently the case in the majority of the wholesale markets), and to apply *ex post* regulation to markets where the level of competition is high (currently the case in most retail markets).

Pursuant to the Framework Directive and Articles L.37-1 to L.38-3 of the Post and Electronic Communications Code (“CPCE”), the ARCEP is required, under the supervision of the European Commission and on the recommendation of the *Conseil de la Concurrence,* (i) to define the relevant markets applicable in France, (ii) to analyze these markets and to identify operators or undertakings which have significant market power (SMP) in these markets and (iii) to decide whether or not to impose on these undertakings regulatory obligations (or “measures”) commensurate with the competition problems which have been identified and which will ensure a certain level of competition in the relevant market in question.

In 2004, the ARCEP began a public consultation process in the 18 relevant markets likely to be subject to specific regulation, including 6 retail markets and 12 wholesale markets. Descriptions of each market and the status of the market analysis process can be found on the ARCEP's website using the following link: *http://www.arcep.fr/index.php?id=8173* (in French only).

The ARCEP also publishes a table describing for each relevant market the obligations applicable to operators that are considered to have significant market power. This table can be viewed at *http://www.arcep.fr/fileadmin/reprise/dossiers/marches/marche-oblig-operateurs2.pdf* (in French only).

By March 30, 2007, the ARCEP had completed its analysis of some of the markets, including the following:

- Market 16, i.e. termination of voice calls (fixed and mobile) on individual mobile networks in mainland France and in the overseas dependencies. The ARCEP notified the operators having significant market power (SMP) (i.e. SFR, Bouygues Télécom and Orange France in mainland France, and SFR and Orange Caraïbes in the overseas dependencies) of their obligations which basically involve the orientation of tariffs towards the cost of providing call termination services and the publication of a reference offer. The ARCEP is currently working on a project aimed at specifying the scope of relevant costs to be taken into consideration, and is drawing up technical and economic models to be reconciled with the audited financial statements submitted by mobile operators. The overall objective of this process is to establish lower mobile call termination rates between 2008 and 2010.

- With respect to markets 11 (access to the local loop) and 12 (broadband access at a regional point of presence), the ARCEP completed its analysis in June 2005 and imposed access obligations on France Telecom.
- With respect to the fixed telephony wholesale and retail markets, the ARCEP published its decisions on September 28, 2005. 23 operators, including Free SAS, were considered as having SMP in the market for the termination of geographic calls on their respective networks, and are subject to obligations relating to access, interconnection, non-discrimination and transparency, as well as an obligation not to engage in excessive pricing. In Decision 06-0551 issued by the ARCEP on May 30, 2006, the scope of the principle of excessive pricing was specified, putting an end to the legal disputes that arise periodically between France Telecom and alternative fixed-line operators concerning call termination rates. For 2007 and 2008, the call termination charge on the fixed-line networks of alternative operators has been set at €1.088 per minute, excluding VAT.
- With respect to market 15 (call origination in mobile networks), in May 2005 the ARCEP, in agreement with the European Commission, suspended its analysis for a period of twelve months. The analysis will be resumed once the ARCEP has had time to reflect on the effects of the Mobile Virtual Network Operator (MVNO) contracts concluded by two GSM operators in mainland France with different companies involved in MVNO services (e.g. Télé2, M6 and NRJ), and when it has examined the applications submitted following the tender process concerning France's fourth UMTS mobile license, launched on March 8, 2007 by the Minister responsible for electronic communications.

The regulatory measures that can be imposed by the ARCEP on operators designated as having significant market power in a relevant market are specified in Articles L.38 (wholesale markets) and L.38-1 (retail markets) of the Post and Electronic Communications Code. These measures include obligations to publish detailed technical and pricing specifications relating to interconnection and access, to provide interconnection or access services under non-discriminatory conditions, not to charge excessive or predatory prices on the market in question and to charge prices which are oriented towards the corresponding costs, to account separately for certain activities, to provide retail services under non-discriminatory conditions, not to unreasonably bundle these services, to comply with the price cap mechanism set by the ARCEP over a number of years, and to obtain the ARCEP's approval of prices prior to their application.

The business activities of each of the operators in the various markets will be affected as the ARCEP's decisions based on its analysis of the markets take effect. In particular, those operators designated as having significant market power in a relevant market could experience a reduction in the profitability of their business activities in the market in question. Iliad does not, however, believe that the ARCEP's decisions will have any significant effect on the markets in which it is active.

Operation of a public telecommunications network/Provision of a public telephone service

Following the enactment of Law 2004-669 and the amendment of Article L.33-1 of the Post and Electronic Communications Code, a simple notification to the ARCEP is henceforth all that is required (except for the allocation of frequencies or numbering resources which still require a prior individual license). Law 2004-669 also specifies that existing authorizations are deemed to be a notification within the meaning of the 2002 Telecoms Package, in accordance with the principles laid down in Article 17 of the Authorization Directive. In accordance with these provisions, the Group's companies have been registered with the ARCEP and the ARCEP has provided them with a receipt allowing them to exercise their rights.

Operators that have submitted notifications in accordance with Article L.33-1 of the Post and Electronic Communications Code may benefit from rights of way in consideration for the payment of a fee, in order to establish their network infrastructure on public highway land or other public property and, under certain conditions, may be provided with easements concerning private property. The Group benefits from these rights and has developed its network infrastructure mainly on public property.

All authorized operators must pay the annual fees and taxes, including fees for the management and control of their authorizations, as well as for the numbers or frequencies allocated to them. In addition, all operators are required to contribute to the Universal Service Fund (see below).

Use of radio-electric frequencies

The use of scarce resources – such as radio-electric frequencies, is subject to the prior approval of the ARCEP. The ARCEP generally allocates frequency resources on request. However, when a particular resource is scarce it organizes a tender process which is approved by the Minister responsible for electronic communications.

Frequency authorizations have a defined term and are subject to annual management and utilization fees, as set out in the Decree of February 3, 1993. The amount of these fees is calculated based on the size of the area covered as well as the width of the allocated spectrum. However, authorizations to use frequencies in frequency bandwidths dedicated to mobile telephony in accordance with GSM or UMTS standards are subject to specific fees set by the French Government.

These authorizations are generally issued on an individual party basis and are not transferable. However, Decree 2006-1016 of August 11, 2006 provides for a secondary frequency market that enables holders of frequency authorizations to transfer – either at a cost or free of charge – certain frequencies to third parties. Depending on the case, these transfers are subject either to the prior approval of the ARCEP or simply the prior notification of the holder and the transferee to the ARCEP.

The Group holds a frequency authorization for its operations, issued to IFW for frequencies used in the 3.5 GHz bandwidth (See Decision 03-1294 issued by the ARCEP on December 9, 2003), as part of the rollout and operation of its WiMax network.

In Order no. 289564 dated June 3 2006, the French Council of State strengthened the legal protection of holders of frequency authorizations, stating that such authorizations create rights for their holders for as long as they are valid and that the ARCEP may not withdraw them for any reason other than those specifically provided for in Article L. 36-11 of the Post and Electronic Communications Code (i.e. non-compliance with the applicable regulations or the specifications attached to the authorizations). In the case of IFW, as there was no evidence of non-compliance with the applicable regulations or terms of the relevant authorizations, the Council of State decided there was no justification for withdrawing the frequency authorization issued to IFW in 2003.

Internet service provider business

Since the enactment of Law 2004-669, Internet service providers need to submit prior notification to the ARCEP in order to carry out their activities.

Internet service providers, like other electronic communications operators, are obliged to contribute to the funding of universal service (see below for further details).

Interconnection

The provision of regulations governing the access and interconnection of each licensed operator to the networks of the incumbent operator and of other licensed operators is essential for opening up the market. Such regulations lower the barrier to entry represented by the high cost to a new entrant of having to build its own network. The ARCEP has therefore focused on interconnection pricing and technical conditions, and has succeeded in developing a specific and functional framework.

The access and interconnection regulations applicable in the EU and in France set out specific principles for the pricing of interconnection services and the allocation of the cost of universal service obligations, impose specific accounting obligations in order to avoid the artificial support of one activity by another by unfair cross-subsidization, define the principles of access to essential facilities (ducts, conduits, sites and buildings) and the principles for the allocation of telephone numbers, define the role of the national regulatory authorities, and introduce a common process for settling disputes. Operators that the national regulatory authorities have designated as having "significant market power in a relevant market" must offer interconnection to other operators.

Interconnection agreements are subject to private law and may be disclosed to the ARCEP on the latter's request.

The ARCEP has the power to rule on disputes between operators but its decisions may be appealed to the Paris Court of Appeal. Any such appeal lodged against an ARCEP decision does not suspend the ruling made by the ARCEP.

Free has entered into interconnection agreements with France Telecom and three mobile operators (SFR, Orange and Bouygues Télécom) in line with the reference interconnect offers published by these operators.

Free has also signed interconnection agreements with the alternative operators Neuf Cegetel and Telecom Italia France relating to terminating traffic entering the Neuf Cegetel and Telecom Italia France networks. At the same time, these alternative operators have entered into interconnection agreements concerning terminating traffic entering the Free network for both non-geographic numbers (087B and 095B) and geographic numbers. In these agreements, the call termination services provided by Free and the above-mentioned operators are priced at a rate that complies with Decision 06-0551 issued by the ARCEP on May 30, 2006 in relation to a dispute between France Telecom and Neuf Cegetel.

France Telecom has also signed an interconnection agreement with Free, concerning terminating traffic entering the Free network for both geographic and non-geographic numbers (087B and 095B) as well as collected traffic for Value-Added Services (08AB, 3BPQ and 118XYZ numbers) provided by France Telecom or third party operators for which France Telecom performs a transit service. Under the terms of the agreement Free also bills Value-Added Services paid by callers using France Telecom or third party operators for which France Telecom performs a transit service. Free receives a fee for this billing service, based on the pricing scale for the services billed.

Dial-up Internet access

The regulations relating to dial-up access to the Internet are based on the interconnection regulations.

France Telecom's reference interconnect offer sets out the technical and pricing conditions of interconnection services relating to calls made by subscribers connected to the France Telecom network (or to the networks of third party operators).

This reference offer also stipulates the terms and conditions for billing services carried out on behalf of third parties by France Telecom. Under this service, which is fee-paying, Free receives the revenue generated from the end-customers for which France Telecom provides access to telephone services in relation to calls made by the end-customers to 0860 numbers, paid for by the caller at a rate specified in the "Local Internet Price" section of France Telecom's price catalog.

Broadband Internet access and local loop unbundling

The provision of broadband Internet access is based either (i) on physical access to France Telecom's copper local loop allowing the new entrant to operate its own access equipment with the aim of offering its own services, as distinct from France Telecom's services, or (ii) on access to France Telecom's DSLAMs, combined with collection of subscribers' data traffic and delivery of this traffic to one or more of the service provider's points of presence. In the first case, the service provided by France Telecom is known as “local loop unbundling” while in the second case, the service offers “bit stream access”, more commonly called “Option 5” or “Option 3” in France.

The Group uses both these options to provide its customers with broadband Internet access (see Section 6.1.4.1 above).

Local loop unbundling

France Telecom has been designated as having significant market power in relation to access to the local loop and as such it is required to respect a number of obligations in accordance with Decision 05-0277 issued by the ARCEP on May 19, 2005. In particular it is required to:

- offer unbundled access to its local loop at a cost-oriented price;
- provide associated services; and
- publish a reference offer.

On December 15, 2005, the ARCEP issued Decision 05-0834 which set out the method to be used for valuing local loop assets and for accounting for the related costs. The latest edition of France Telecom’s reference offer for local loop access was published on October 27, 2006.

Access to the local loop can take one of the following two forms:

- either the incumbent operator provides access to the metallic part of its network, between the main MDF and the termination point located in the subscriber's premises (full unbundled access to the local loop);
- or the incumbent operator provides access to the high frequency spectrum on this same part of its network and itself continues to provide a traditional public telephone service using the low frequencies (shared access to the local loop).

The terms of access to the local loop are determined by a private law agreement that must be submitted to the ARCEP at its request.

On September 17, 2006, Free signed an agreement for access to France Telecom's local loop reflecting in operational terms the principles set out in the public reference offer. This agreement replaces earlier agreements signed in relation to previous editions of the published reference offer.

In accordance with ARCEP Decision 05-0551 which sets the pricing methods for access to the local loop, France Telecom amended its reference offer by reducing its price to €9.29 excluding VAT as from January 1, 2006.

The analysis by the ARCEP of the relevant markets relating to broadband Internet access, and in particular Market 11 (unbundling or Option 1), was concluded on May 19, 2005 with a series of decisions imposing on France Telecom the obligation to continue to provide its competitors with access to its local network by unbundling.

Withdrawal of the approval process

Access to France Telecom's DSLAMs and the associated collection of ADSL traffic were historically organized under the terms of a set of contracts (“IP/ ADSL” and “IP/ADSL Collection”), and price changes were subject to an approval process following an arbitration decision issued in 1999 by the Minister for Telecommunications (see ARCEP Decision 99-582 in response to France Telecom's pricing decision 99077 E in relation to the new Netissimmo and Turbo IP services).

Decree 2005-75 of January 31, 2005 transferred the power to approve the pricing of the universal service from the Minister for Telecommunications to the ARCEP.

As a result, in the context of its analysis of Market 12 (wholesale offers for access to broadband delivered at regional level or Option 3), the ARCEP imposed on France Telecom the obligation to publish a reference offer relating to broadband access delivered at a regional point of presence. This reference offer – entitled “DSL access and collection offer" – includes the technical principles set forth in the IP/ADSL and ADSL Connect ATM contracts.

Therefore, the pricing of the DSL access and collection offering is no longer subject to ministerial approval, but to the terms of a reference offer which can be amended by the ARCEP.

Free can also refer to the ARCEP any dispute or disagreement arising in connection with the technical or pricing principles of the DSL access and collection offering.

Numbering and carrier preselection

Since January 17, 2000, subscribers have been able to opt for the automatic preselection of their long distance operators, allowing them to access their networks without having to dial the operator's one or four figure prefix. The carrier preselection facility has also been available for calls to mobiles since November 2000 and for local calls since the beginning of 2002, at the option of the carrier.

Pursuant to the decision imposing on France Telecom access obligations in respect of telephone services in the wholesale market, since April 1, 2006, France Telecom has marketed an offer for “wholesale access to telephone services” providing the possibility of selling access to telephone services and communications routing services on the retail market without the end customer having to enter into a contract with France Telecom.

The technical conditions for carrier preselection are set out in France Telecom's reference interconnect offer and are included in the interconnection agreements entered into between France Telecom and third party operators.

Fixed number portability

Number portability is an obligation for all operators connecting end-customers.

Since January 1, 1998, subscribers have been able to keep their number when they change operator for fixed telephone services, provided they do not change their geographical location. Number portability has been available for shared-cost services since the second half of 2001 and for shared-revenue services since December 17, 2002. The technical conditions for number portability outside the France Telecom network are set out in France Telecom's reference interconnect offer and are included in the interconnection agreements entered into between France Telecom and third party operators.

Decree 2006-82 of January 27, 2006 extends this number portability obligation to fixed-line alternative operators.

A decision by the ARCEP implementing the above Decree is currently pending. It will be issued when the ARCEP has concluded its multilateral projects involving the operators concerned, with a view to defining the processes to be implemented to ensure number portability outside the networks of alternative operators. The ARCEP’s decision will also require approval by the Minister responsible for electronic communications.

Directories and provision of subscriber lists

The Group's services mainly affected by the provisions described below are the Minitel version (3617 ANNU) and telephone version of its reverse look-up directory service, ANNU.

All operators that connect end-customers are required to supply their subscriber lists for the purpose of publishing directories and/or providing information services.

Decision 06-0639 issued by the ARCEP on November 30, 2006 and approved by the Minister responsible for electronic communications, sets out further details on the conditions for supplying subscriber and user lists for the purpose of publishing universal directories or providing universal information services.

The Company has entered into an agreement with France Telecom under which France Telecom provides access to its databases for the purpose of publishing directories and/or providing information services. The contract provides that France Telecom may terminate the agreement in the event of a modification affecting the structure or control of Iliad's capital or Iliad's ownership or management.

Free has signed an agreement with a number of players operating in the directory and information service markets (including France Telecom, Pages Jaunes, Le Numéro and Télégate) under which Free supplies a list of subscribers which states any restrictive options chosen by customers (such as ex-directory requirements or prohibiting the use of personal data for marketing purposes). Consequently, the information services of the main market players such as Le Numéro, France Telecom, Pages Jaunes and Télégate now cover the end-customers for whom Free provides telephone access.

In response to the problems encountered relating to operators setting up a universal directory, since year-end 2005 the ARCEP has (i) launched a formal demand procedure aiming to force operators to respect their obligation to communicate their subscriber lists to publishers, and (ii) set up a management chart to measure the progress of the universal directory.

Contribution to universal service funding

The universal service comprises (i) the provision of a good quality telephone service at an affordable price, (ii) a directory enquiries service and directories in printed and electronic forms, and (iii) access to public payphones located on public property. Each of these three components must include special facilities for disabled users, so that they can be assured of access to services under conditions equivalent to those enjoyed by other users.

Following the enactment of Law 2003-1365 of December 31, 2003, France Telecom is no longer designated by law as the operator responsible for provision of the universal service, and in future the operator or operators required to guarantee the provision of universal service will be designated on the basis of calls for tender. Three calls for tender, relating to each of the three components of the universal service, were published in the French Official Gazette of November 25, 2004. In March 2005, France Telecom won the three calls for tender and was designated as the operator responsible for provision of each of the three components of the universal service.

In accordance with the said law, the cost of the universal service is now shared between operators pro rata to their revenues derived from telecommunications services *"excluding revenues from interconnection and access services subject to the agreements defined in paragraph I of Article L.34-8, and other services provided or billed on behalf of third party operators"*. The publication of implementing Decree 04-1222 of November 17, 2004, relating to public service obligations and the funding of the universal electronic communications service provided a regulatory framework for the definitive calculation of the net cost of the universal service as from 2002. The net cost of universal service obligations, after taking account of intangible benefits, was estimated by the ARCEP at €124,989,000 for 2002 (Decision 04-1068), €53,271,000 for 2003 (Decision 05-0426), €33,283,000 for 2004 (Decision 05-917), and €33,123,000 for 2005 (Decision 07-0191).

Finally, Decree 2005-75 of January 31, 2005, governing price controls for the electronic communications universal service, supplements the provisions of Article R.20-30-11 of the Post and Electronic Communications Code. It defines the cases in which the prices for the universal service proposed by an operator responsible for providing one of the components thereof may be subject either to a price cap over a number of years, or to prior approval or rejection by the ARCEP.

Government initiatives relating to information society networks

The growth of the Internet is particularly dependent on the roll-out of infrastructure capable of sustaining the ramp-up of bandwidth-hungry services. This type of infrastructure is already in place or is in the process of being developed, such as optical fiber networks, cable, satellite, wireless networks (including standard 802.11) and UMTS networks.

In November 2002, the French government launched the RE/SO 2007 plan "for a digital republic in the information society" with a view to making up the ground lost by France in the information society sector.

This initiative, aimed at increasing access to broadband, was underpinned by a twofold objective: (i) reach a target of ten million broadband Internet subscribers in France within the following five years, and (ii) enable every local district in France to access broadband by 2007. The plan was focused on supply, by creating a favorable environment for developing infrastructure, content and services, while developing a climate of confidence intended to ensure the effective protection of users and to promote the development of e-commerce.

On June 21, 2004, the government introduced Law 2004-575 "on confidence in the digital economy", aimed at adapting French legislation to growth in the digital economy and at raising confidence in the use of new technologies. This law, which rounded out the transposition into national law of the EU directive on electronic commerce, sets out the provisions governing the liability of access and hosting providers and also deals with the domain name addressing system and encryption. In addition, it amended the previous provisions of the General Local Authorities Code in order to facilitate the roll-out of telecommunications infrastructure by local authorities (new Article L.1425-1).

Broadcasting of audiovisual services via ADSL

The transmission and broadcast of radio and television services (whatever the means of signal transmission) falls within the scope of the 2002 Telecoms Package and is consequently subject to the control of the national regulatory authorities.

The oversight powers of the French broadcasting watchdog, the *Conseil Superieur de l'Audiovisuel* ("CSA") were extended by Law 2004-669 to cover all radio and television services, whatever their method of transmission and broadcast. This law also introduced more flexibility for rules governing the broadcast of radio and television services, by allowing such services to be broadcast on a network that does not use frequencies allocated by the CSA – including broadcasting via ADSL – subject solely to prior declaration to the CSA.

In its capacity as a broadcaster of audiovisual services via ADSL, Free is subject to the regulatory "must-carry" provisions, i.e. the obligation for a provider of services via cable, satellite or ADSL to carry certain audiovisual services on its network. "Must carry" involves two legal requirements: (i) the service provider – i.e. cable operator or satellite operator – has to carry certain channels, and (ii) the must-carry channels have to agree to be carried by the operator or service provider.

Concerning the broadcast of audiovisual services via ADSL, the new must-carry obligations are governed by Articles 34-2 and 34-4 of Law 86-1067 of September 30, 1986, as follows:

- Article 34-2 states that for all types of network (cable, satellite and ADSL) the following channels must be provided to subscribers free of charge: public service channels broadcast over microwave, the Chaîne Parlementaire, TV5, and RFO services specifically aimed at the general public in mainland France (i.e. the RFO-Sat program). Excluding satellite, the same rules apply to local cable channels.

- Article 34-4 introduces must-carry rights on all means of transmission (cable, satellite, and ADSL) for free-to-air analog or digital channels broadcast via microwave, under fair, reasonable and non-discriminatory conditions. Only the channels themselves can demand that their programs be carried by the distribution networks and not vice-versa.

- Article 34-5 requires electronic communications networks in digital mode to carry all of France 3's regional programs.

Law 2007-309 of March 5, 2007 concerning the modernization of audiovisual broadcasting and the television of the future amends Law 86-1067, and provides in particular for the full switch of analog television broadcast over microwave to digital broadcasting by November 30, 2011 at the latest. It also sets down the conditions for launching high-definition television and personal mobile television – innovative services corresponding to a nomad consumer mode via dedicated means of transmission or telephone.

Under this law, like all television distributors, broadcasters of audiovisual services via ADSL are required to pay contributions to the *compte de soutien à l'industrie de programmes audiovisuels* ("COSIP") calculated based on the revenue generated by broadcasting audiovisual content (both linear and non-linear) via ADSL. In addition, this law enables the ARCEP to intervene in order to ensure compliance with agreements signed with towns or groups of towns with a view to laying and using cabled networks.

6.6.2 Regulation of the content of electronic communications

Content of online services and liability of Internet market players

The provisions currently governing the content of online services make a distinction between private correspondence, whose secrecy is protected, and public communications using electronic means, whose freedom is guaranteed. While this legal framework is based on the fundamental principle of freedom of expression – which is guaranteed under the terms of the French Constitution, the Law of July 29, 1881 on the freedom of the press and Law 86-1067 of September 30, 1986, as amended, on freedom of expression – its aim is also to respect the main principles of French law, such as the protection of privacy, the protection of minors, the prevention of unlawful content, the protection of personal reputation and rights and respect for human dignity.

Directive 2000/31/EC of June 8, 2000 relating to certain legal aspects of information society services, particularly e-commerce, in the internal market (¨Directive on electronic commerce¨) sets out the responsibilities and obligations of access and hosting providers. This directive was due to have been transposed into national law by January 17, 2002, at the latest. Under French law, until 2004, the issue of the liability of intermediary ISPs (access and hosting providers) was dealt with by Chapter VI, Section II of the Law of September 30, 1986, as amended by Law 2000-719 of August 1, 2000. These provisions were repealed by Law 2004-575 of June 21, 2004 on confidence in the digital economy.

The main provisions of Law 2004-575 of June 21, 2004, dealing with the liability of access and hosting providers, are as follows:

- Providers of online communication services are obliged directly or indirectly to identify themselves. Pursuant to Article 6.III of Law 2004-575, individuals providing an online communication service on a non-professional basis are obliged to indicate on their website their name and address or the name and address of their hosting provider if they wish to remain anonymous. Legal entities and private individuals offering professional services on a website must give their full contact details on their website, as well as the name of the publications director and/or co-director and the name and address of their hosting provider. Hosting and access providers must supply the providers of online services with the technical means to meet their identification obligations.

- Access and hosting providers are required to keep data that could identify persons having participated in the creation of the content of the services which they provide, in order to be able to pass on such data to the legal authorities, if required.

- Pursuant to Article 6 of Law 2004-575, hosting providers can only be held civilly liable on the grounds of the activities or information stored at the request of a recipient of these services if they were aware of their unlawful nature or of any facts or circumstances making this unlawful nature obvious, or if, as soon as they became aware of such unlawful nature they did not act promptly to withdraw the data or to prevent access to it. Furthermore, hosting providers cannot be held criminally liable if they are unaware of the unlawful activity or information or if, as soon as they do become aware of it, they act promptly to withdraw the information or to prevent access to it. These rules concerning liability do not apply if the recipient of the service is acting under the authority or control of the hosting provider.

- Pursuant to Article L.32-3-3 of the Post and Electronic Communications Code, access providers cannot be held either civilly or criminally liable for the content to which they provide access, except in circumstances where either they have originated the request for the transmission of the content concerned, or they have selected the recipient of the transmission, or selected and/or modified the transmitted content.

Furthermore, Article L.34-1 of the Post and Electronic Communications Code (as amended by Law 2006-64 of January 23, 2006) states that electronic communications operators – notably Internet service providers are obliged to keep the technical connection data necessary for criminal investigations. They may also keep the technical data required for their invoice payments. Apart from these two specific cases, the operators concerned must delete or render anonymous all data concerning a communication once it is completed.

Decree 2006-358 of March 24, 2006 defines the data to be kept, as well as the duration (one year, from the day of registration) and the means of keeping such data. This decree could notably have an impact on the costs borne by the technical service providers for storing and processing data.

The Group makes access to Free's no-subscription services conditional upon customers providing a physical address to which their connection settings can be sent by post. Free is therefore in a position to respond to any requests for information from the legal authorities. As the flat-rate and broadband services are linked to physical access, Free is also able to respond to requests from the authorities concerning the subscribers of these services.

Processing of personal data and protection of individuals

The Framework Directive 95/46/EC of October 24, 1995 relating to the protection of individuals with regard to the processing of personal data and the free movement of such data specifies the requisite measures for effectively protecting the rights and freedom of individuals. The main objectives of this directive are (i) to harmonize European legislation governing the processing of personal data, (ii) to facilitate the movement of such data (provided that the country of destination of the information concerned provides a satisfactory level of protection), and (iii) to ensure the protection of the rights and freedom of individuals. This framework directive was rounded out by the sector-specific Directive 97/66/EC of December 15, 1997 relating to the processing of personal data and the protection of privacy in the telecommunications sector. This directive has been repealed and replaced by Directive 2002/58/EC of July 12, 2002.

Law 2004-801 of August 6, 2004 on the protection of individuals with respect to the processing of personal data, amending Law 78-17 of January 6, 1978 relating to information technology, computer files and civil liberties, transposed the Framework Directive of October 24, 1995 and certain provisions of the Directive of July 12, 2002 into French law.

Law 2004-575 of June 21, 2004 on confidence in the digital economy and Law 2004-669 of July 9, 2004 on electronic communications and audiovisual communication services also transposed certain provisions of the Directive of July 12, 2002 into French law.

The main provisions of Law 2004-801 of August 6, 2004 are as follows:

- Article 7 establishes the principle that no personal data may be processed without the consent of the person concerned. This article does, however, set forth a limited number of circumstances in which such processing may be lawful, even without the consent of the person concerned. This applies in particular if such processing is necessary in the legitimate interests of the data processor or the recipient "provided that it does not disregard the interests or infringe the fundamental rights and freedoms of the person concerned". Such exceptions do not, however, apply to the processing of "sensitive data", for which Article 8 of Law 2004-801 requires the express consent of the person concerned.

- The data processor's obligation to provide information covers all situations in which personal data is processed, even if this data has not been collected directly from the person concerned, such as for file transfers. In the latter case, Article 32-III of Law 2004-801 states that the data processor must provide this information as soon as the data is recorded or, at the latest, when the data is first divulged to a third party. This information is not necessary, however, if the sole purpose of the processing is to permit or facilitate communication by electronic means.

  In addition to the obligation to inform people of the mandatory or optional nature of their responses, of the consequences of any failure to respond, of the recipients of the data and of their right to access and correct their personal data, Article 32 of Law 2004-801 imposes on data processors the obligation to inform the person from whom the personal data is collected of the identity of the data processor, the purpose for which the data is processed, and of their right to object to the information being transferred to a third party, as well as, where necessary, of any proposed transfers of data to a country which is not a member state of the European Community. This obligation is immediately applicable and concerns all types of processing. Companies have until August 6, 2007, to comply with the new requirements in respect of processing carried out before Law 2004-801 came into force.

The obligation to provide information also applies to cookies. Article 32-II of Law 2004-801 states that "anyone using an electronic communications network must be clearly and fully informed [...] about the purpose of any action taken (i) to access, by electronic means, information stored in their connection terminal, or (ii) to enter, by similar means, information in their connection terminal equipment [and] about the measures they may take to refuse this".

- Law 2004-801 led to a considerable increase in the possibilities of conducting compliance checks relating to the processing of personal data, substantially strengthening the powers of oversight, investigation, injunction and sanction available to the French national commission for information technology and freedom *(Commission Nationale de l'Informatique et des Libertés,* or CNIL). Furthermore, any failure to comply with the provisions of Law 2004-801 is now subject to harsh criminal sanctions. The possible offences and related penalties are set out in Articles 226-16 to 226-24 of the French Criminal Code. Such offences are punishable by a fine of up to €300,000 and 5 years' imprisonment.

Concerning spam, Article 22 of Law 2004-575 of June 21, 2004 on confidence in the digital economy prohibits, as from December 22, 2004, "direct marketing by means of automatic calling systems, fax or email, using, in any form whatsoever, the contact details of a private individual who has not given prior consent to receiving such material by said means". Any unsolicited commercial correspondence sent by email to private individuals therefore now requires prior permission from the person to whom it is sent.

Regarding location data, Articles L.34-1 and L.34-4 of the Post and Electronic Communications Code, as amended by Law 2004-669 of July 9, 2004, state that such data may only be processed if it has been made anonymous, or if the consent of the users or subscribers concerned has been obtained. Location data may only be processed for the sole purpose of providing a specific value added service and only for the length of time that this service is provided. The users concerned must be informed in advance of the type of location data which will be processed, as well as of the purpose and duration of the processing and whether the data will be relayed to a third party. Users must be able to withdraw their consent using a simple means and free of charge, apart from the cost of actually transmitting their withdrawal of consent.

Concerning directories, Article L.34 of the Post and Electronic Communications Code states that subscribers must be given the opportunity to decide if their personal data should be included in a public directory and, if so, which data may be included. No charge should be made for being excluded from a public subscriber directory, or for checking, correcting or removing personal data from the directory in question (Article R.10 of the Post and Electronic Communications Code).

In the course of its business, the Group records and processes statistical data, including in particular data concerning the number of visits to its websites. Technical means identifying customers' main areas of interest and online behavior are also used with a view to optimizing the Group's services. In order to offer its services, the Group collects and processes personal data. The majority of the databases it has established for this purpose have been declared to the CNIL.

Legal protection of databases

The principal innovation included in the directive adopted on March 11, 1996 (Directive 96/9/EC) is the creation of a *sui generis* right which aims to ensure the protection of any investment made in obtaining, verifying or presenting the contents of a database for the limited duration of the right, it being specified that this investment may take the form of financial and/or human resources. This directive was transposed into French law by Law 98-536 of July 1, 1998, providing for this *sui generis* right, independently of the protection offered by copyright, in order to protect the producers of databases.

Article L. 341-1 of the French Intellectual Property Code provides that the producer of a database, understood to be the person taking the initiative and bearing the risk of the investments relating to setting up the database in question, benefits from protection of the content of the database "when its compilation, verification or presentation involves a substantial financial, material or human investment". This protection is independent and applies without prejudice to the protection resulting from copyright or any other right relating to the database in question or one of its component parts, pursuant in particular to Article L. 112-3 of the Intellectual Property Code.

The producer of the database therefore has the right to prohibit any substantial extraction of the content of its database and any reuse of this content. Article L. 342-2 of the Intellectual Property Code also states that "the producer can also prohibit the repeated and systematic extraction or reuse of parts of the content of the database that are not qualitatively or quantitatively substantial when these operations manifestly exceed the normal conditions of use of the database".

Intellectual property law and online broadcasting

The purpose of Directive 2001/29/EC of May 22, 2001 on "the harmonization of certain aspects of copyright and related rights in the information society" is to adapt intellectual property law to the specifics of digital broadcasting. This directive sets down an exclusive right of reproduction as well as a mandatory exemption from this right relating to certain temporary acts of reproduction that are an essential part of a technological process. However it has not achieved its primary stated objective of harmonization, as Member States can choose whether or not to adopt other optional exceptions, such as the exception for reproduction of material for private use, provided that the right-holders receive fair compensation.

Law 2006-961 of August 1, 2006 (the DADVSI Law) concerning copyrights and other related rights in the information society transposed Directive 2001/29/EC into French law. The DADVSI Law sets limitations on the right to reproduce material for private use by recognizing the legality of digital rights management (DRM) systems. In particular it provides for criminal sanctions for parties who publish software that is clearly intended to render protected works public as well as parties who procure or knowingly offer to another party – either directly or indirectly – the means to violate DRM systems.

Domain names

Domain names are assigned to the digital addresses of the servers connected to the Internet and constitute Internet addresses. They are used for effective identification of Internet sites and make it easier to remember the addresses of these sites. Domain names are logically, therefore, major marketing assets for companies carrying out all or part of their business on the Internet. The Group has registered a certain number of domain names in France.

Top level domain names can be generic (known as generic top level domain names, or "gTLDs"), such as ".com" for commercial companies, ".net" for companies providing Internet-related services, ".org" for public interest bodies or ".edu" for teaching establishments, or they can correspond to a specific geographical area (known as country code top level domain names, or "ccTLDs"), such as ".fr" for France, ".de" for Germany or ".es" for Spain. Second level domain names correspond to subcategories, for example ".asso.fr" for charities in France. The domain names in the ".com", ".net" and ".org" domains are registered by a certain number of organizations accredited by the Internet Corporation for Assigned Names and Numbers ("ICANN"), an international not-for-profit organization. Various registrars are responsible for managing extensions, such as Verisign in the case of the ".com" and ".net" extensions. The registration of geographical domain names is supervised in each country by a designated national authority, which keeps a central register and accredits private companies as registrars. In general, domain names are allocated on a "first-come, first-served" basis and most registrars, in the case of both generic and geographical domain names, consider that it is up to the person registering them to ensure that no prior right would be infringed by the registration of the domain name concerned.

Each national authority is, to a certain extent, able to define its own policy for allocating domain names. This means that the requirements for registering geographical domain names can differ from those relating to the registration of generic domain names and can also vary from one country to another. Some registrars may, for instance, prove to be stricter than others with respect to infringements of the intellectual or other property rights held by third parties resulting from the registration of a particular domain name.

In France, the *Association Française pour le Nommage Internet en Cooperation* ("AFNIC") is responsible for registering domain names for the ".fr" extension. A certain number of subdomains have been created in the ".fr" extension and several Internet service providers, including Online, a subsidiary of Iliad, have been accredited by the AFNIC to handle requests for the registration of domain names.

The rules for allocating domain names are set out in the AFNIC's naming charter. This charter and the allocation rules are updated regularly. The allocation rules currently in force are as follows:

- the allocation of a domain name in each subdomain of the ".fr" domain is governed by specific rules;
- persons identifiable in the online databases of court registries or of the INPI or the INSEE (companies, trademark owners, local authorities, professional associations) can register the domain names of their choice, provided they comply with the syntax rules and do not try to register a name which is included in the list of prohibited terms;
- those registering domain names must ensure that their registration request is not in breach of prior rights held by third parties – particularly intellectual property rights or the right to a name – or of competition rules; the AFNIC does not carry out any checks in this respect;
- the registration of domain names in the " .tm.fr" subdomain is only available to applicants who can produce a trademark registration certificate;
- the ".nom.fr" subdomain is only available to individuals of French nationality or residing on French territory who wish to use their surname as a domain name; and
- domain names can be registered using the ".com.fr" subdomain without the need to produce supporting documentation, provided that these domain names have not already been registered in another subdomain.

Although the French courts have now accepted that the use of a term on an Internet site or as a domain name can infringe trademark rights, the outcome of any potential dispute in this area remains uncertain. This uncertainty is due in particular to the fact that the scope of trademark rights is limited, either geographically or by the type of products and services covered by the trademark registration, while the use of a term on the Internet can result in a risk of confusion or encourage unfair competition far beyond such limits.

7. ORGANIZATIONAL STRUCTURE

7.1 BRIEF DESCRIPTION OF THE GROUP

Iliad S.A is the parent company of the Group and acts as the operational holding structure. It operates in two areas within the French telecommunications sector: the ANNU reverse look-up directory business, and traditional corporate telephony services provided under the Iliad Telecom name. In addition, in its role as the Group's holding company, Iliad S.A. directly controls 16 consolidated subsidiaries, including 15 in France.

Senior Management functions within the Group are centralized at the holding company level, with senior managers of the parent company performing the same duties in the Group's main subsidiaries. There are strong operating links between the Group's entities at several levels: (i) the Group's telecommunications network is lodged within Free S.A.S., which is responsible for carrying the traffic of all the Group's companies, (ii) Free manages all services relating to the invoicing system for all of the Group's subsidiaries, and (iii) Centrapel and Total Call provide telephone support services for all of the Group's subsidiaries.

The Group's main subsidiary is Free S.A.S, which houses the dial-up and broadband ISP business. In 2006, Free S.A.S. generated revenues of €876 million and its operating profit came to €162 million.

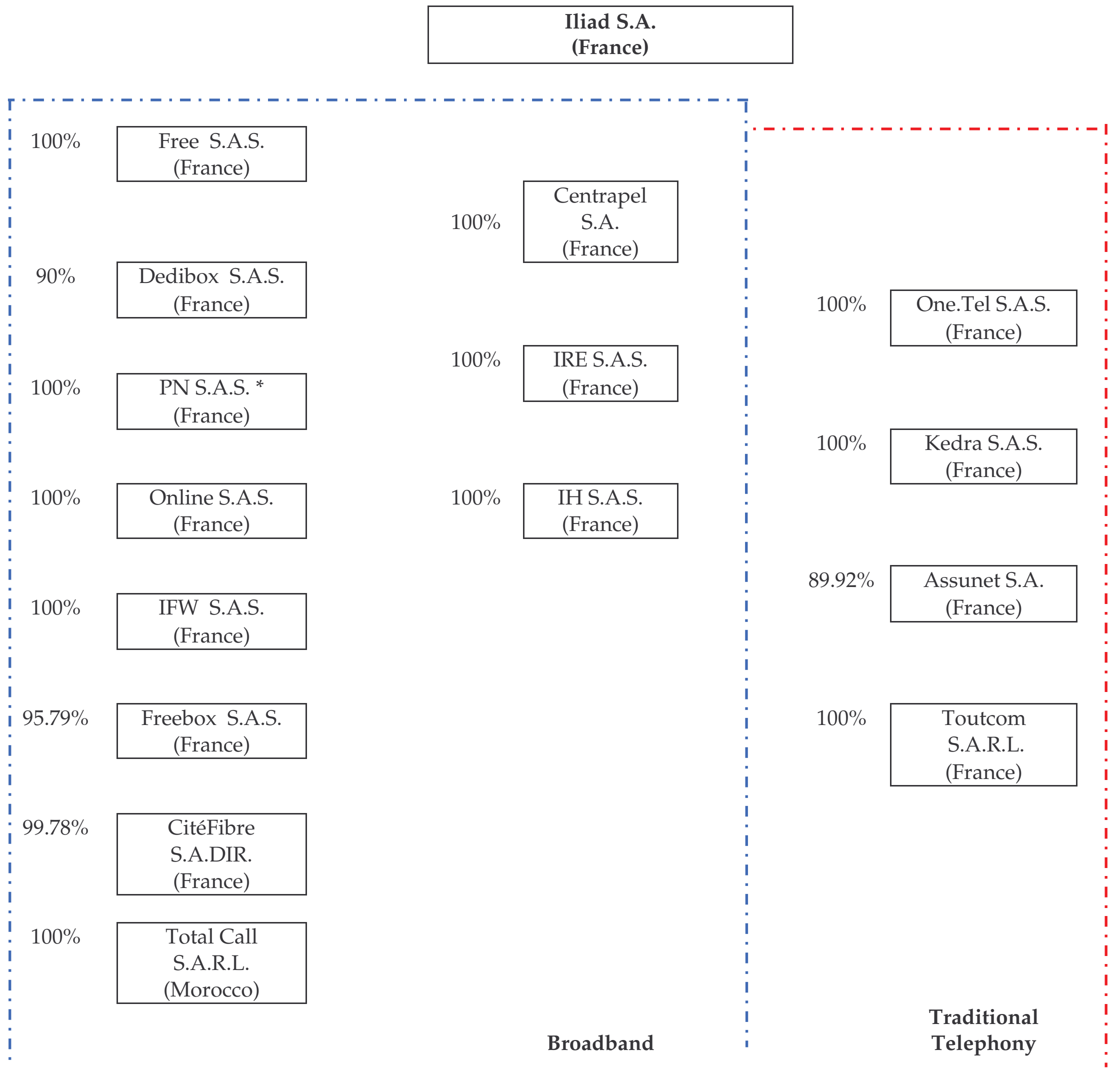
Iliad S.A. rebills to its subsidiaries (i) their share of the lease payments relating to the premises at rue de la Ville l'Evêque in Paris, (ii) administrative, financial, accounting and legal services provided and (iii) interest payable on current account advances.

A number of suppliers only wish to work with Iliad, which means that Iliad S.A. receives all the invoices issued by these suppliers for services provided to all of the Group's entities. Iliad therefore rebills these amounts to the subsidiaries concerned.

The Group does not have any significant minority shareholders.

7.2 ORGANIZATION CHART

At March 31, 2007, the Group's organizational structure was as follows:



* Renamed "Free Infrastructure" on February 7, 2007

8. PROPERTY, PLANT AND EQUIPMENT

8.1 EXISTING OR PLANNED MATERIAL TANGIBLE FIXED ASSETS

The main premises used by the Group are occupied under long-term lease agreements entered into with third parties.

The Group has a long-term lease for a building covering an area of 5,800 square meters located at 8 rue de la Ville l'Evêque, in the 8th *arrondissement* of Paris, which houses all the Group's companies. It also leases premises in the 16th *arrondissement* of Paris, accommodating technical equipment, as well as premises at Bezons under a lease entered into on December 11, 2003 (6,900 sq.m.) and a further lease signed on September 1, 2006 (1,076 sq.m.). In addition the Group rents an equipment room in Courbevoie in the Hauts-de-Seine *department* (1,140 sq.m.).

None of the lessor companies are related, directly or indirectly, to the Group's companies or any of its senior managers.

8.2 ENVIRONMENTAL ISSUES THAT MAY AFFECT THE COMPANY'S UTILIZATION OF THE TANGIBLE FIXED ASSETS

The Group considers that its business as a telecommunications operator does not present an environmental risk as it does not involve any production procesess that seriously harm scarce non-renewable resources, natural resources (such as water or air), or biodiversity. However, the Group does use certain products and components that may give rise to environmental risks, albeit on a small scale. In accordance with the specific applicable regulations, the authorized disposal and destruction of these products and components is entrusted to an external company with a view to their being recycled. The Group records a provision for the related recycling costs.

9. OPERATING AND FINANCIAL REVIEW

9.1 KEY CONSOLIDATED FINANCIAL DATA

(in € millions)	Year ended December 31, 2006	Year ended December 31, 2005
INCOME STATEMENT		
Revenues	950.3	724.2
Operating income and expense, net	765.1	(616.5)
Profit from ordinary activities	185.2	107.7
Other operating income and expense, net	(3.0)	0
Operating profit	182.2	107.7
Financial income and expense, net	(3.9)	(2.8)
Corporate income tax	(61.7)	(36.4)
Profit from discontinued operations	7.3	0.4
Profit for the period	**123.9**	**68.9**
Earnings before interest, tax, depreciation and amortization (EBITDA)	331.6	224.3
BALANCE SHEET		
Non-current assets	632.1	426.0
Current assets	405.5	157.8
Of which cash and cash equivalents	*279.5*	*51.1*
Total assets	**1,037.6**	**583.8**
Total equity	382.7	248.6
Non-current liabilities	345.0	77.2
Current liabilities	309.9	258.0
Total equity and liabilities	**1,037.6**	**583.8**
CASH FLOWS		
Net cash generated from operating activities	281.2	225.8
Net cash used in investing activities	(286.5)	(262.2)
Net cash generated from financing activities	232.1	62.7
Net change in cash and cash equivalents	226.9	26.3
Cash and cash equivalents at year-end	276.3	49.4

9.2 MANAGEMENT REPORT

9.2.1 Overview

The Group's operations were reorganized in 2006 and are now made up of two business segments defined based on operating criteria:

1. The Broadband segment, which includes Internet service provider operations (marketed under Free and related brands), hosting services (the Online, BookMyName and Dedibox brands), call center operations (Centrapel and Total Call), Wimax activities (operated by IFW), and operations related to the roll-out of the FTTH optical fiber network (Free Infrastructure, IRE and Citéfibre).

2. The Traditional Telephony segment, which includes switched fixed-line telephony (One.Tel and Iliad Telecom), prepaid phone cards (Kertel), resale of minutes to operators (Kedra), directory services (mainly the ANNU reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging) and e-commerce operations (Assunet.com).

The former Internet segment has been renamed Broadband in order to reflect the dominant proportion of revenues generated by ADSL broadband and optional value-added services. All of the Group's other offerings – which now account for a much less significant proportion of revenues – have been brought together within the Traditional Telephony segment.

These business segments may change in the future, depending on operating criteria and the development of the Group's businesses.

There were no significant changes in Group structure during 2006. On August 2, 2006 Iliad sold its entire interest in Société SA (Société.com) for €7.8 million. Set up in 1999, the Société.com website (www.societe.com) provides statutory and financial information on companies as well as information about brands, via both free or fee-paying services. Société SA formed part of the Traditional Telephony segment. On October 20, 2006, Iliad announced that it had acquired 99.5% of the capital of Citéfibre, with a view to jointly expanding the FTTH optical fiber network in Paris. The Company also took over PN, renamed Free Infrastructure in February 2007, a company dedicated to developing and building optical fiber networks.

The consolidated financial statements of the Iliad Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable in Europe.

9.2.1.1 Breakdown of revenues

9.2.1.1.1 Broadband revenues

- **Unlimited ADSL broadband offer.** Since October 2002, Free has offered its subscribers unlimited broadband access for €29.99 per month (including tax), with use of an ADSL modem and without installation fees. This unique offer allows subscribers to access the Internet at a speed of at least 2 MB per second and up to 28 MB (observed) in areas where the local loop is unbundled (which depends on whether a subscriber's line is eligible). Free invoices subscribers by direct debit for their €29.99 monthly subscription. Subscribers who cancel their subscription are invoiced and charged a termination fee that decreases by €3 for every month of their subscription period, from a maximum of €96 (including tax), and which corresponds to the cost of activating their line.

The portion of television services included in the Freebox subscription – which is taxed at the reduced VAT rate of 5.5% – is set at 56%.

- **Telephony via ADSL.** Since August 2003 (unbundled areas) and March 2004 (non-unbundled areas), a telephony service has been offered as part of subscriptions to the Free Haut Débit broadband service using the Freebox modem. Under this service, telephone calls made through the Freebox to another Freebox subscriber or to any standard France Telecom fixed line in mainland France (excluding short numbers and special numbers), the island of La Réunion, Guadeloupe, and 46 foreign countries are completely free. Revenues generated by calls to French mobile phones and to international numbers not included in the package, as well as revenues generated by incoming calls to Freebox subscribers, are included within the revenues of the Broadband segment.

- **Free's preselection offer.** Since June 2005, Free Haut Débit broadband subscribers have been able to apply for a preselection offering where they have not opted for full unbundling. By signing up with the Free preselection service, the subscriber authorizes the company to make a preselection request to France Telecom so that all calls made from the designated fixed line can be transferred to and billed by Free (excluding special numbers). This enables the subscriber to benefit from Free's rates on all local, national and international calls, as well as on calls to mobile phones.

- **Television via ADSL.** Since December 2003, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a television service with more than 257 channels, including 144 free channels as of December 2006. Revenues generated by pay-per-view channels are included within the revenues of the Broadband segment. Since November 2004, the Canal+ Group channels have also been available via the Freebox. These offers are billed directly by the Canal+ Group, which pays a commission to Free.

- **Video on demand via ADSL (VoD).** Since December 2005, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a video on demand service operated jointly with the Canal+ Group. This service enables subscribers to access a catalog of movies 24 hours a day, 7 days a week, and view them on their television. The movies – which are ordered using the Freebox remote control – include DVD player features and may be viewed for a period of 24 hours. The price of the movies, which starts from €0.99, is invoiced directly on the subscriber's Free Haut Débit bill.

- **Modem offering and migration to the fully unbundled service.** Since June 2004, Free Haut Débit broadband subscribers can request migration from partially to fully unbundled access. Subscribers are invoiced a fee for this migration that decreases in line with the duration of their subscription period, from a maximum of €90 (including tax). In addition, since September 2004, subscribers who have Sagem modems can receive a Freebox modem in return for a €60 administrative fee for people who have held a subscription for less than one year and €30 for those who have been subscribers for between 12 and 24 months. At the same time, subscribers with a Freebox modem can receive an upgraded version in return for a €90, €60, or €30 administrative fee depending on the length of time they have held a subscription.

- **"Pay-as-you-go" access.** For this no-subscription dial-up offer, the customer pays the price of the phone call invoiced by France Telecom. Customers dial the Free access number (08 60 92 20 00) from any fixed line in France, and the call is charged by France Telecom at the local Internet rate. Revenues from the "Pay-as-you-go" offer are therefore directly related to the time customers spend online and to the fee passed on to Free by France Telecom. Free invoices France Telecom on a monthly basis.

The customer pays France Telecom a connection charge of €0.106 (including tax) and a flat rate of €0.02 per minute (including tax), excluding special offers, 24 hours a day, seven days a week. The fee passed on by France Telecom to Free as the operator of an interconnected network amounts to €0.023 before tax per minute of use (rate at December 31, 2006). The amount per minute is calculated by France Telecom.

- **The "50-hour" plan.** Under the "50-hour plan", the subscriber is entitled to 50 hours of dial-up Internet access per month for a flat fee of €14.94 (including tax). The subscriber connects to the Internet by dialing a toll-free number (08 68 92 20 00). The subscription fee is paid directly to Free by direct debit at the beginning of each month. Any additional dial-up time and charges for incomplete months are invoiced by Free at the local Internet rate. They are debited to the subscriber at the beginning of the following month but are recognized in revenue for the current month.

- **Hosting services.** Revenues for this business are generated through the sale of both dedicated and non-dedicated hosting solutions. Non-dedicated hosting services are invoiced at a flat annual rate by domain name or by site. The dedicated server offering, which is targeted at SMEs and individuals, provides broadband Internet access for multimedia applications at a flat fee of €29.99 per month, before tax.

- **Marketing of domain names** and **selling of advertising space** on Free's portal.

- **Other Broadband** revenues corresponding mainly to the sale of switched traffic to the Traditional Telephony segment and the sale of WiFi cards.

9.2.1.1.2 Traditional Telephony revenues

Traditional Telephony segment revenues break down as follows:

- **Revenues generated by One.Tel.** One.Tel's offer is a no-subscription carrier preselection service. By signing up with One.Tel, the subscriber authorizes the company to make a preselection request to France Telecom so that all calls made from the designated fixed line can be transferred to and billed by One.Tel (excluding special numbers). This enables the customer to benefit from One.Tel's rates on all local, national and international calls, as well as on calls to mobile phones, including the €0.01 per minute offer for all local and national calls. At the end of each month, the total cost of calls is calculated for each customer and invoiced for payment within two weeks.

- **Revenues generated by Kertel,** through the use of telephone services. These revenues are recognized as the phone cards are used, but also include what is known as "breakage", i.e. the unused amount remaining on cards when they reach their expiration date.

- **Revenues from ANNU**, the reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging. Minitel access to this service is billed directly by France Telecom on the user's telephone bill, and part of the fee is passed on by France Telecom to the company running the service. For ANNU, the fee passed on by France Telecom amounts to €36.15 per hour. Fee payments are received every other month.

- **Revenues generated by Assunet** – an online insurance broker – from commissions on sales of insurance policies to private individuals and Group companies.

9.2.1.2 Operating costs for the Option 5 ADSL service (subscribers not on an unbundled line) and Option 1 ADSL (subscribers on an unbundled line)

Free's ADSL offer involves two types of service:

- Option 5 (subscribers not on an unbundled line), representing a France Telecom wholesale offer marketed by Free.
- Option 1 (subscribers on an unbundled line), corresponding to an offer carried entirely by the Free network. Since June 2004, Free Haut Débit broadband subscribers can choose between a partially or fully unbundled service. In the case of the partially unbundled service, users subscribe to the Free Haut Débit broadband offering but continue to pay the telephone line rental to France Telecom and can still make and receive telephone calls through the incumbent operator. Where subscribers opt for the fully unbundled service, they have no commercial link with France Telecom and do not therefore pay a telephone line rental charge. In this case, all telephone calls transit through the broadband connection.

Under Option 1, direct costs per subscriber and per month, as mentioned in the basic unbundling offer, were as follows at December 31, 2006:

Operating costs under Option 1 (partial unbundling)

- Rental of the copper pair and the ADSL splitter: €2.90
- Copper tie cable (average): €1.32

Operating costs under Option 1 (full unbundling)

- Rental of the copper pair: €9.30[13]
- Copper tie cable (average): €1.32

Under Option 5, for a subscription that is sold at the same price, costs per subscriber and per month are made up of access costs and the costs of the IP transit service.

The access cost structure under Option 5 has been simplified since October 1, 2005 and is no longer directly related to the bit rate concerned or the type of connection node. For the DSL Access offer, the monthly subscription fee was €14.20 per single VC access between February 2006 and August 2006, and has been set at €13.30 since September 1, 2006. A new offer – DSL Access Only – has been provided by the incumbent operator since September 1, 2006 for a €21.50 monthly fee per single VC access.

The additional costs of the IP transit service vary depending on the bit rate used by all Option 5 subscribers.

Option 1 gross margin and EBITDA margin are significantly higher than Option 5 margins. Free's objective is therefore to maximize the proportion of its subscribers using Option 1 by migrating its Option 5 subscribers to Option 1 or, where technically feasible, by directly offering Option 1 to new subscribers living in an area where the local loop has been unbundled.

[13] €10.50 from January through June 2005.

9.2.1.3 Capital expenditures and depreciation

The Group has rolled out a telecommunications network in mainland France. Most of the underlying optical fiber for this network was obtained under IRU (Indefeasible Right of Use) contracts with terms ranging from 10 to 25 years, that involve a single up-front payment when the fiber is made available. These IRU contracts are recognized as property, plant and equipment and are depreciated over the life of the contract.

Just as operating costs differ significantly between Option 1 and Option 5, so do levels of capital expenditure. Under Option 1 the Group is required to provide Freebox modems and Freebox DSLAMs and to pay fees to France Telecom for access to unbundling services (which are also known as cabling costs or access fees). The cost of these three items came to about €150 per subscriber between January and April 2006, when the new Freebox HD was launched. The cost per subscriber equipped with the new Freebox HD (including access fees) amounted to approximately €250 at December 31, 2006. The cost of access to France Telecom's unbundling services, as well as the Freebox modems and Freebox DSLAMs is depreciated over three years from the date of subscriber installation. Fees invoiced by France Telecom for access to unbundling services are €50 per subscriber for full unbundling and €55 for partial unbundling.

Under Option 5, total capital expenditure is lower, amounting to approximately €125 per subscriber. The cost of access to France Telecom unbundling services and of the ADSL modem or Freebox modem provided to the subscriber is depreciated over three years.

9.2.1.4 Earnings before interest, tax, depreciation and amortization (EBITDA)

EBITDA – which corresponds to profit from ordinary activities before depreciation and amortization (or provisions) recorded in relation to property, plant and equipment and intangible assets – is one of the key performance indicators used throughout this Management Report.

9.2.1.4.1 Comparison of results for the years ended December 31, 2006 and December 31, 2005

The comments below are based on the consolidated financial statements for the years ended December 31, 2006 and December 31, 2005.

The following section reviews revenues, EBITDA and operating profit for the Group as a whole and by business segment.

Consolidated revenues and operating expenses disclosed in the financial statements do not match the sum of the segment revenues and expenses set out below, due to adjustments for inter-segment transactions. The bulk of these inter-segment transactions corresponds to the resale to the Traditional Telephony segment of telecommunications services provided over the network operated by Free, representing a total amount of €82.6 million in 2006 and €92.7 million in 2005.

(in € millions)	**Year ended December 31, 2006**	**Year ended December 31, 2005**	**% change**
Revenues	**950.3**	**724.2**	**31.2**
Purchases used in production	(483.7)	(385.9)	25.3
Payroll costs	(41.4)	(29.8)	38.9
External charges	(64.8)	(59.9)	8.2
Taxes other than on income	(8.6)	(5.5)	56.4
Additions to provisions	(4.7)	(4.5)	4.4
Other income and expenses from operations, net	(15.5)	(14.3)	8.4
EBITDA	**331.6**	**224.3**	**47.8**
Depreciation and amortization	(146.4)	(116.6)	25.6
Profit from ordinary activities	**185.2**	**107.7**	**72.0**
Other operating income and expense, net	(3.0)	0.0	-
Operating profit	**182.2**	**107.7**	**69.2**
Financial income and expense, net	(3.9)	(2.8)	39.3
Corporate income tax	(61.7)	(36.4)	69.5
Profit from discontinued operations	7.3	0.4	-
Profit for the period	**123.9**	**68.9**	**79.9**

Revenues

Revenues for 2006 rose over 31% compared with 2005. Growth was primarily driven by increased revenues from the Broadband segment, particularly from internet access and optional value-added services available through the Freebox. For the year ended December 31, 2006 these optional services accounted for €163.4 million, more than double the revenues generated in 2005.

Operating expenses

Excluding depreciation and amortization, operating expenses climbed 23.8% in 2006, to €619 million. However, as a percentage of consolidated revenues they decreased from 69% to 65.1%, reflecting the higher proportion of subscribers on unbundled lines during the period.

Operating profit

Operating profit surged 69.2% to €182.2 million in 2006 from €107.7 million in 2005. This performance reflected the combined impact of:

- Greater profitability in the Broadband segment, spurred by an ever-increasing proportion of broadband subscribers on unbundled lines.

- The contribution of value-added optional services provided through the Freebox.

- Improved margins reported by the Traditional Telephony segment.

In addition, capital expenditure related to equipment for broadband customers – particularly for the Freebox HD from April 2006 – and measures to extend the network fueled a near-26% rise in depreciation and amortization expense versus 2005.

Operating profit also includes the five-year commitment (representing €600,000 per year) undertaken by Free concerning the Free Corporate Foundation's activities that are not related to the FTTH optical fiber network. This aggregate €3 million commitment will result in a €1.8 million tax benefit over the five years concerned.

Earnings before interest, tax, depreciation and amortization (EBITDA)

Group EBITDA totaled €332 million in 2006, up 48% on 2005. This jump was mainly the result of (i) signing up new ADSL subscribers directly under Option 1, (ii) migrating existing Option 5 subscribers to Option 1, and (iii) the contribution of value-added optional services provided through the Freebox. The Group EBITDA margin increased from 31% in 2005 to 34.9% in 2006.

Financial income and expense, net

In 2006, net financial expense amounted to €3.9 million, corresponding primarily to interest paid on the Group's borrowings, partially offset by U.S. dollar foreign exchange gains and income from short-term investments.

For the year ended December 31, 2006 net financial expense included interest expense relating to the OCEANE convertible/exchangeable bonds issued on June 29, 2006. Interest due on these bonds represented €3.7 million, and the aggregate expense under IFRS – reflecting the effective interest rate – came to €6.9 million.

Profit for the period

Profit for the period came to €123.9 million, up from €68.9 million in 2005, representing a year-on-year increase of 80%. This figure includes the €7.3 million net-of-tax gain generated on the August 2006 sale of Société SA. The income tax charge for the year totaled €61.7 million, compared with €36.4 million in 2005.

9.2.1.4.1.1 Analysis of results for the Broadband segment

The Broadband segment includes the following operations:

- Internet Service Provider (ISP) operations, both through the switched telephone network and via ADSL, marketed under the Free, Free Haut Débit, Free Telecom and Freebox brands.

- Hosting and domain-name creation services, operated under the Online and Dedibox brands.

- Call center operations, carried out by Centrapel and Total Call.

- Wimax activities operated by IFW. Following additional analyses, Iliad's management allocated the goodwill arising on the acquisition of this company to the national 3.5 Ghz license included in the assets acquired, and recorded a deferred tax liability of €18.7 million.

Free is the subsidiary responsible for operating the Group's telecommunications network.

(in € millions)	Year ended December 31, 2006	Year ended December 31, 2005	% change
Revenues	**881.6**	**638.9**	**38.0**
Purchases used in production Payroll costs External charges Taxes other than on income Additions to provisions Other income and expenses from operations, net	(462.5) (36.1) (47.4) (7.9) (5.1) (14.7)	(366.3) (24.5) (27.7) (4.7) (3.5) (12.7)	26.3 47.3 71.1 68.1 45.7 15.7
EBITDA	**307.9**	**199.5**	**54.3**
Depreciation and amortization	144.9	115.5	25.5
Profit from ordinary activities	**163.0**	**84.0**	**94.0**

Revenues

The table below shows the breakdown by category of consolidated revenues for the Broadband segment for the years ended December 31, 2006 and 2005, as well as the percentage change between the two years.

(in € millions)	Year ended December 31, 2006	Year ended December 31, 2005	% change
ISP revenues *(ADSL, Pay-as-you-go, 50-hour plan)* Hosting and advertising revenues Inter-segment and other revenues	819.0 14.3 48.3	560.6 10.4 67.9	46.1 37.5 (28.9)
Total revenues	**881.6**	**638.9**	**38.0**

Broadband revenues for 2006 climbed by €243 million or 38% compared with a year earlier, boosted by the success of Free's ADSL broadband offer.

ISP revenues

	Year ended December 31, 2005	Six months ended June 30, 2006	Year ended December 31, 2006
Total ADSL subscribers	1,595,000	1,905,000	2,278,000
Unbundled subscribers	1,120,000	1,377,000	1,730,000
Percentage of unbundled subscribers	70.2%	72.3%	75.9%
Share of French residential ADSL market[14]	17.9%	18.2%	19.0%

[14] *Source*: France Telecom (2003) and ARCEP (2004 and 2005)

ISP revenues (Free, Free Telecom and Free Haut Débit), through both the switched telephone network and ADSL, totaled €819 million for the year ended December 31, 2006.

Revenue growth in the ISP business, totaling 46%, resulted from the following factors:

- **The continuing success of the broadband offer.** At December 31, 2006, total ADSL subscribers numbered 2,278,000, against 1,595,000 at December 31, 2005, reflecting a near 43% increase.

- **The increasing use of optional value-added services provided through the Freebox.** In 2006, revenues related to these services totaled €163.4 million, up from €74.8 million in 2005. During the year Free established itself as France's leading VoD (video on demand) platform with approximately 2.1 million movies downloaded from its three different services.

The decline in take-up of the "pay-as-you-go" and "50-hour plan" dial-up offers continued during 2006, with related revenues coming in at €23 million.

Hosting and advertising revenues

The marketing of domain names in France, value-added hosting services and the sale of advertising space on Free's portal generated hosting and advertising revenues of almost €14.3 million for the year ended December 31, 2006, up from €10.4 million in 2005.

Inter-segment and other revenues

Inter-segment and other revenues correspond primarily to the resale to the Traditional Telephony segment of call minutes on Free's directly-operated network, as well as proceeds from the sale of WiFi cards. These revenues were lower than in 2005 due to the contraction in Traditional Telephony business volumes.

Purchases used in production and external charges

Purchases used in production and external charges rose 30% in 2006 to €510 million. Gross profit recorded by the Broadband segment (defined as revenues less purchases used in production and external charges) came to €372 million, representing 44.1% of total revenues, excluding inter-segment sales, compared with 42.4% in 2005.

During 2006, the overall decline in costs of Option 5 subscriptions (see section 9.2.1.2) was offset by the impact of the opportunity offered to subscribers of increasing their available bandwidth to the maximum bandwidth of 10Mbps, which led to a rise in Free's connection and IP transit costs.

Free's marketing costs practically doubled in 2006, reflecting the reallocation of marketing budgets within the Group between the Traditional Telephony and Broadband segments.

Payroll costs

Payroll costs represented 4.3% of revenues, excluding inter-segment sales, on a par with the previous year. The management of technical problems experienced by Free's subscribers was significantly improved during 2006, with average queuing time amounting to 22 seconds for fully unbundled subscribers and 2 minutes 23 seconds for partially unbundled subscribers. The rise in payroll costs in absolute value terms was once again due to recruitments made at the Group's call centers, as the average number of employees in the call centers increased to 1,316 (including part-time workers) in 2006 from 834 in 2005. As a result of this focus on customer service, payroll costs outstripped revenues from incoming calls.

In addition, payroll costs for the year included employee stock option expense (see section 9.2.1.4.2).

Additions to provisions

Additions to provisions amounted to €5.1 million in 2006, and primarily corresponded to provisions for doubtful customer accounts. The net amount of costs related to customer risks decreased year-on-year as a percentage of revenue, reflecting the impact of the collection drive launched by the debt recovery department, which led to an overall drop in the number of bad debts.

Other income and expenses from operations, net

This item represented a net expense of €14.7 million, versus €12.7 million for the year ended December 31, 2005. The total includes royalties, bad debts (net of provision reversals), and gains and losses on asset disposals.

In 2006, expenses relating to audiovisual content (television channels) were directly recognized as purchases used in production whereas in 2005 they were classified as other expenses from operations.

Earnings before interest, tax, depreciation and amortization (EBITDA)

Broadband segment EBITDA jumped almost 54.3% in 2006 to €307.9 million. The EBITDA margin, excluding inter-segment sales, came to 36.6%, compared with 34.5% in 2005. This performance was due to (i) the greater number of France Telecom sites connected with optical fiber, which made it possible to increase the number of subscribers with access to broadband connections through the unbundling of the local loop (Option 1), and (ii) the fact that average gross profit per user for unbundled subscribers held firm at over €20 per month.

During 2006, the number of France Telecom sites connected with optical fiber expanded from over 675 to 908. The number of unbundled lines also rose sharply, from 1,120,000 at December 31, 2005 to 1,730,000 at December 31, 2006, of which approximately 58% were fully unbundled.

Profit from ordinary activities

Depreciation and amortization for the Broadband segment totaled €145 million, up 25.5% on 2005.

Profit from ordinary activities for the year came to €163 million, a €78.9 million increase compared to the year-earlier figure. It represented 19.3% of 2006 revenues (excluding inter-segment sales) versus 14.5% in 2005.

9.2.1.4.1.2 Analysis of results for the Traditional Telephony segment

The Traditional Telephony segment includes the following operations:

- Fixed-line telephony and prepaid phone card operations under the One.Tel, Kertel and Iliad Telecom brands.
- Telephony services provided to operators by Kedra.
- Reverse look-up directory services, Iliad's historic business, marketed under the names 3617 ANNU and Annu.com, accessible via Minitel, telephone, Internet and SMS text messaging.
- The e-commerce operations of Assunet.com, an online insurance broker.
- Holding structure activities.

(in € millions)	Year ended December 31, 2006	Year ended December 31, 2005	% change
Revenues	**151.2**	**178.0**	**(15.1)**
Purchases used in production	(83.6)	(102.7)	(18.6)
Payroll costs	(5.3)	(5.2)	1.9
External charges	(37.5)	(42.1)	(10.9)
Taxes other than on income	(0.8)	(0.8)	(0.0)
Additions to provisions	0.4	(1.0)	(140.0)
Other income and expenses from operations, net	(0.7)	(1.5)	(53.3)
EBITDA	**23.7**	**24.7**	**(4.0)**
Depreciation and amortization	(1.4)	(1.2)	16.7
Profit from ordinary activities	**22.3**	**23.5**	**(5.1)**

Revenues

The table below shows the breakdown by category of consolidated revenues for the Traditional Telephony segment for the years ended December 31, 2006 and 2005, as well as the percentage change between the two years.

(in € millions)	Year ended December 31, 2006	Year ended December 31, 2005	% change
Fixed telephony and prepaid phone card revenues	75.9	110.8	(31.5)
Inter-segment and other revenues	75.3	67.2	12.0
Total revenues	**151.2**	**178.0**	**(15.1)**

Revenues for the Traditional Telephony segment decreased to €15.1 million in 2006, reflecting the significant decline in the Group's fixed telephony and prepaid phone card businesses.

Fixed telephony and prepaid phone card revenues

Revenues from fixed telephony and prepaid phone cards, generated primarily by One.Tel and Kertel, fell to €76 million in 2006.

The year-on-year decrease stemmed primarily from the combination of the following three factors:

- **A reduction in the number of One.Tel customers.** Against a backdrop of contained marketing costs and growing take-up of ADSL voice offerings, the number of invoiced customers dropped from 298,000 in December 2005 to 220,000 in December 2006.

- **A 21% decline in average revenue per user (ARPU) between December 2005 and December 2006** to €10.2 per subscriber per month.

- **A contraction in Kertel's revenue contribution.** In 2006, Kertel contributed €38.4 million to consolidated revenue, compared with €51.7 million one year earlier.

Inter-segment and other revenues

Inter-segment and other revenues increased to €75 million. This rise corresponds to the impact of additional inter-segment re-billing of advertising expenses, partially offset by a 33% year-on-year drop in fees received in connection with the ANNU reverse look-up directory service and the flat sales to third-party operators reported by Kedra.

Purchases used in production and external charges

Purchases used in production and external charges decreased 16.3% to €121 million in 2006, primarily due to the termination of One.Tel marketing costs and changes in the prices of Kertel prepaid telephone cards.

Payroll costs

The reduction in payroll costs in the Traditional Telephony segment was offset by the impact of employee stock option expense (see section 9.2.1.4.2).

Earnings before interest, tax, depreciation and amortization (EBITDA) and profit from ordinary activities

The Traditional Telephony segment's EBITDA contracted to €23.7 million in 2006. The EBITDA margin, excluding inter-segment sales, came to 22%, compared with 17% the previous year.

Profit from ordinary activities totaled €22.2 million.

9.2.1.4.1.3 Cash flow statement

(in € millions)	Year ended December 31, 2006	Year ended December 31, 2005
Net cash generated from operating activities.............	281.2	225.8
Net cash used in investing activities	(286.5)	(262.2)
Net cash generated from financing activities.............	232.1	62.7
Net change in cash and cash equivalents	226.9	26.3
Cash and cash equivalents at year-end......................	276.3	49.4

Cash and cash equivalents increased by €227 million in 2006. The net change primarily reflects the financing received following Iliad's issue of OCEANE convertible/exchangeable bonds in June 2006, partially offset by the €84 million impact of repayments of borrowings.

Net cash generated from operating activities amounted to €281 million, 24.5% higher than in 2005. This total includes settlement of the balance due in relation to 2005 corporate income tax as well as advance payments of corporate income tax due in relation to 2006, including some €65 million for Group companies that generate revenue of over €500 million. In addition, at December 31, 2006, the Group was awaiting recovery of a €13 million VAT credit.

Acquisitions of property, plant and equipment and intangible assets (net of asset disposals) came to €284 million in 2006, breaking down as follows:

- €224 million worth of development expenditure (including Freebox modems and DSLAMs, access fees to the France Telecom service and portability service fees). This figure also includes the impact of the launch of the new Freebox HD in April 2006.

- Acquisitions relating to the network (including IRU contracts, France Telecom co-location rooms, civil engineering work, and transmission equipment), corresponding to €41 million.

- Acquisitions relating to the optical fiber network (FTTH) amounting to €8.4 million.

- €10.7 million relating to other investments (Dedibox, IFW, computer equipment, etc.).

During the year, Iliad purchased the Free shares issued on the exercise of founders' share subscription warrants (BSPCE) by Free employees, in order to retain full control of its subsidiary. The net outlay for these purchases of minority interests amounted to €5 million.

On June 29, 2006, Iliad carried out an issue of OCEANE bonds which are convertible into new shares or exchangeable for existing shares. The net proceeds raised from the issue amounted to €326 million. The bonds mature in January 2012 and bear interest at a rate of 2.2%. A total of 3,754,968 bonds were issued at a unit price of €88.05 with a conversion ratio of one bond for one share.

9.2.1.4.2 Ownership structure at December 31, 2006

At December 31, 2006, Iliad's share capital was composed of 54,151,550 ordinary shares, breaking down as follows:

- Executive Management: 40,025,317 shares, or 73.9% of the share capital
- Public: 14,126,233 shares, or 26.1% of the share capital

At December 31, 2006 there were three Iliad stock option plans in place, whose main characteristics are as follows:

	Grant date	Exercise price	Exercise date	Number of shares to be issued on exercise of options
Options	January 20, 2004	€16.30	January 20, 2008	409,434
Options	December 20, 2005	€48.44	December 20, 2009	268,466
Options	December 20, 2005	€48.44	December 20, 2010	268,465
			Total	946,365

9.2.1.4.3 Off-balance sheet commitments

Events after the balance sheet date

On January 11, 2007, Iliad signed an agreement with Proximania concerning the sale of Kertel SA. The sale was completed on February 7, 2007. The sale price amounted to €12 million plus Kertel's cash net of debt at the date of sale. The price includes a €6 million seller's loan repayable between June 29 and December 31, 2007.

In February 2007, Wal Services and two former Iliad employees – Messrs Chami and Gohon – issued a petition to the Paris High Court (*Tribunal de Grande Instance*) against Iliad and Messrs Poidatz, Niel, Boukobza and Rosenfeld, claiming that they were subject to fraud and duress in March 2002 when Iliad and Mr Niel acquired the plaintiffs' shares.

Under this petition – which has been issued 5 years after the facts in question and 3 years after Iliad's stock market floatation – the plaintiffs are claiming the restitution of their shares, and if such restitution proves impossible, compensation from Iliad and its senior managers amounting to €102 million each for Messrs Chami and Gohon and €802 million for Wal Services.

Although the outcome of this litigation cannot be determined at this stage, Iliad considers that the claims issued by Wal Services and Messrs Chami and Gohon are unfounded and that the plaintiffs were subject neither to fraud nor to any form of duress.

Glossary

In light of the discrepancies between operators' definitions concerning ADSL, Iliad wishes to reiterate the definitions it has been using since the inception of its services.

Total ADSL subscribers at the end of a period consists of the total number of customers identified by their individual "phone lines" who have signed up for Free's ADSL service, excluding those for whom an unsubscription notice has been registered.

Net Adds consists of the difference between Total ADSL subscribers at the end of two different periods.

Unbundled subscribers are ADSL subscribers who have signed up for Free's ADSL service on a Central Office unbundled by Free.

Broadband ARPU (Average Revenue per User) represents revenues from the flat-rate package and value-added services (excluding one-time revenues, e.g. migration from one offer to another or unsubscription fees), divided by the total number of ADSL subscribers invoiced for the period.

9.2.1.4.4 Group indebtedness

As far as Iliad is aware, the Group is not subject to any liquidity risk as a result of prepayment clauses entered into by Group companies or as a result of non-compliance with financial covenants (ratios, targets, etc.).

At December 31, 2006, the Group had confirmed credit lines of a maximum of €245 million, none of which had been drawn down. The longest maturity under these credit lines is until June 2011.

As mentioned above, on June 29, 2006, the Company issued 3,265,190 OCEANE convertible/exchangeable bonds at a unit value of € 88.05, maturing in January 2012. Following the exercise of the related greenshoe option, the number of bonds issued was increased to 3,754,968, representing a total nominal value of € 330,624,932.40. The net proceeds of the issue amounted to €326 million. A description of these OCEANE bonds is provided in section 21.1.4.2 of this registration document.

10. CASH FLOWS AND CAPITAL RESOURCES

For information on the Company's cash flows and capital resources see Section 4.3.3. of this registration document, as well as the notes to the 2006 consolidated financial statements.

11. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

11.1 RESEARCH AND DEVELOPMENT

The Group's research and development policy was initially structured around two main objectives: offering differentiated services to subscribers using dedicated equipment and reducing costs relating to the construction and operation of its network.

It was with these two objectives in mind that Freebox S.A. developed the Freebox modems and the Freebox DSLAMs installed by Free. The Group intends to continue to develop in-house the architecture of the equipment used both in the operation of its network and in the provision of services to its customers, as well as the software applications based on "open" systems such as Linux used by all Group companies.

The majority of the team responsible for the Group's research and development is based at Freebox S.A., Free S.A.S. and Citéfibre S.A. and is composed of 27 employees. In 2006, the Group devoted €1.4 million to research work versus €1.3 million in 2005 and €1.9 million in 2004, mainly relating to broadband operations.

The aim of the Group's research and development policy is to develop network architectures and software solutions that are tailored to specific offerings and needs, and to ensure that the corresponding equipment can be easily assembled by third party manufacturers under optimal financial terms. The R&D team is continuing to work on other technologies still in the experimental stage, while maintaining a technology watch on areas such as WiFi networks and the development of fiber-to-the-home technology.

11.2 INTELLECTUAL PROPERTY

11.2.1 Patents

To date the Group has not filed any patents.

11.2.2 Brands and trademarks

See Section 4.4.3.

12. TREND INFORMATION

No significant trends have impacted the Group’s operations since January 1, 2007.

13. PROFITS FORECASTS OR ESTIMATES

The Company has issued the following operational objectives for 2007:

1. To have an ADSL subscriber base of over 2.8 million by the end of 2007.
2. To connect 30,000 subscribers via FTTH technology by the end of 2007.
3. For unbundled subscribers to represent 80% of total ADLS subscribers.
4. To maintain an average gross margin per unbundled subscriber of €20 per month.

14. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1 MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

14.1.1 Composition of the Board of Directors

The members of the Company's Board of Directors are as follows:

Name	Office	Elected	Term expires
Cyril Poidatz	Chairman	12/12/2003	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Michaël Boukobza	Director/ Chief Executive Officer	12/12/2003*	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Xavier Niel	Director/ Senior Vice-President	12/12/2003	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Olivier Rosenfeld	Director/ Senior Vice-President	12/12/2003	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Antoine Levavasseur	Director/ Senior Vice-President	05/27/05	at the Annual Shareholders' Meeting to be held to approve the 2010 financial statements
Alain Weill	Director	12/12/2003	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Dominique Roux	Director	02/08/2006[15]	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements
Shahriar Tadjbakhsh	Director	03/11/2005[16]	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Jean-Louis Missika	Director	06/28/2004	At the Annual Shareholders' Meeting to be held to approve the 2009 financial statements.
Antoinette Willard	Director	02/06/2007[17]	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.

No family relationship exists among the members of the Board of Directors.

* Michaël Boukobza has informed the Board of Directors that he intends to step down from his position as a director of the Company.

[15] Dominique Roux's appointment by the Board of Directors was ratified at the Shareholders' Meeting held on May 29, 2006. He stepped down from his position on April 15, 2007.

[16] Shahriar Tadjbakhsh's appointment by the Board of Directors was ratified at the Shareholders' Meeting held on May 27, 2005. He stepped down from his position on December 22, 2006.

[17] Antoinette Willard's appointment by the Board of Directors is subject to ratification at the Shareholders' Meeting to be held on May 29, 2007.

Based on the Board of Directors' internal rules, at its March 12, 2007 meeting, the Board noted that for the year ended December 31, 2006 it included four independent directors: Alain Weill, Jean-Louis Missika, Shahriar Tadjbakhsh and Dominique Roux.

At the date this registration document was filed, the Board's independent directors were Alain Weill and Antoinette Willard as Jean-Louis Missika now holds an executive position within the Iliad Group.

The following table provides information on other administrative, management or supervisory positions held by members of the Board in French companies outside the Group during the past five years.

Director	Position	Company
Cyril Poidatz	-	-
Michaël Boukobza	-	-
Xavier Niel	Director	ATEME
Olivier Rosenfeld	-	-
Antoine Levavasseur	-	-
Alain Weill	Chairman of the Management Board	NextRadio
	Chairman of the Board of Directors	BFM & BFM TV
	Chairman and CEO	RMC
	Chief Executive Officer	NRJ
Shahriar Tadjbakhsh	-	-
Dominique Roux	Director	Fintel
		Millemercis.com
		RFO (State representative)
Jean-Louis Missika	Chairman and Chief Executive Officer	JLM Conseil
	Chairman	Jean-Louis Missika S.A.S.
	Member of the Supervisory Board	Modelabs
Antoinette Willard	Director	IXIS Convergence
	Director	IXIS Monde Obligations
	Director	Direct Funding

For the purposes of their directorships, directors are domiciled at the Company's head office.

To the best of the Company's knowledge, in the past five years, none of its directors have been:

– convicted of fraud, charged with any other offence or had any official public disciplinary action taken against them by statutory or regulatory authorities;

– involved in a bankruptcy, receivership or liquidation as a corporate officer or director;

– disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

The biographies of the members of the Company's Board of Directors are provided below:

Cyril Poidatz

Before joining the Group, Cyril Poidatz worked for ten years at Cap Gemini. For several years he served as Finance Director for Cap Gemini Italia, heading the restructuring of Cap Gemini's Italian divisions. Cyril Poidatz began his career as an auditor with Coopers & Lybrand. He joined the Group in 1998.

Michaël Boukobza

Michaël Boukobza holds a Master's degree in Management from Université Paris IX Dauphine and graduated from the École Supérieure de Commerce in Paris. He began his career in the mergers & acquisitions departments of Rothschild in Paris and Morgan Stanley in London. He went on to work with i-Bazar in fundraising and mergers & acquisitions. Michaël Boukobza joined the Group in January 2000.

Xavier Niel

Xavier Niel is the Group's founder and majority shareholder. He has been active in the data communications, Internet and telecommunications industry since the late 1980s. In 1993, prior to devoting himself full-time to the Group's development, he founded France's first ISP, Worldnet, which was sold to Kaptech (LDCom Group) in December 2000. Xavier Niel is the architect behind the Group's major strategic developments, from the launch of the ANNU service to its Internet access offer (based on the business model of France Telecom's repayment scheme) to the launch of the Freebox project.

Olivier Rosenfeld

A graduate of the École de Commerce Solvay, Olivier Rosenfeld began his career with Merrill Lynch's investment banking division, where he worked on privatization projects before joining the Goldman Sachs team handling primary issues in New York and Hong Kong. Olivier Rosenfeld joined the Group in January 2001.

Alain Weill

Alain Weill holds a degree in economics and is a graduate of the Institut Supérieur des Affaires. Between 1985 and 1989 he was Network Director for NRJ S.A., then Chief Executive Officer of Quarare (Sodexho Group). In 1990, he joined the management team of Compagnie Luxembourgeoise de Télédiffusion (CLT), then became Chairman and Chief Executive Officer of the network, a subsidiary of CLT and the Spanish group SER. In 1992, he was appointed to the senior management team of the NRJ Group, followed by NRJ Régies in 1995, where he has served as Deputy Chairman of the Management Board since 1997. He has served as Chairman of Next Radio S.A. since November 8, 2000, and is Chairman of RMC, BFM and BFM TV.

Shahriar Tadjbakhsh

Shahriar Tadjbakhsh holds a Bachelor of Arts degree from Northwestern University and a doctorate in law from Harvard Law School. He began his career as an associate at Cleary, Gottlieb, Steen & Hamilton, where he worked from 1987 to 1996. He is currently Managing Director of the investment banking division of Goldman Sachs International.

Jean-Louis Missika

Jean-Louis Missika holds a doctoral degree (*Doctorat d'État*) in Management (Paris IX Dauphine) and degrees from the Institut d'Études Politiques in Paris and the Institut d'Études Supérieures de Sciences Économiques (Paris I Panthéon-Sorbonne) and a degree in philosophy (Paris I Panthéon-Sorbonne). He began his career as adviser to the Chairman and Chief Executive Officer of Antenne 2, the French public broadcaster, from 1979 to 1984. He is currently Chairman and Chief Executive Officer of JLM

Conseil, a consulting firm specializing in media strategies, new media and communications strategies that he founded in 1998.

Dominique Roux

Dominique Roux is a professor at Paris Dauphine University, in charge of the doctorate program and the department of telecommunications economics. He is also a member of the Scientific Research Council at the French National Center of Cinematography, administrator of the Marseille school of journalism, member of the Scientific Council of the economic observatory at the Paris Chamber of Commerce, and member of the Circle of economists. He was a member of the governing body of the French Telecommunications Regulatory Authority from January 6, 1997 to January 3, 2005. He also serves as a State representative on RFO's Board of Directors.

Antoinette Willard

Antoinette Willard holds a degree from *Institut d'Etudes Politques de Paris*, an advanced post-graduate degree in management from the University of Paris-Dauphine and a language degree from *Ecole Nationale des Langues Orientales Vivantes*. She began her career at Crédit Lyonnais as an economist and subequently a market strategist, before focusing on asset management. In 1994 she was appointed Head of Fixed Income at Banque de Gestion Privée and then went on to become CEO of Transoptions Gestion, the bank's subsidiary in charge of managing derivatives. In 1998 she joined CDC IXIS Asset Management as Head of Fixed Income and Alternative and Structured Products. She subsequently joined the bank's parent company, IXIS, where she held the post of senior advisory banker in charge of French and European Financial Institutions between 2002 and 2005.

14.1.2 Composition of the senior management team

Name	Position	Appointed	Term expires
Michaël Boukobza[18]	Chief Executive Officer	07/01/2004	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Xavier Niel	Senior Vice-President	07/01/2004	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Olivier Rosenfeld	Senior Vice-President	12/12/2003	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Rani Assaf	Senior Vice-President	12/12/2003	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Franck Brunel	Senior Vice-President	12/12/2003	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Antoine Levavasseur	Senior Vice-President	12/12/2003	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.

The biographies of the Group's senior management team are provided below.

[18] Michel Boukobza has informed the Board of Directors that he intends to step down from his position as Chief Executive Officer of Iliad at the end of June 2007.

Michaël Boukobza. See Section 14.1.1 above.

Xavier Niel. See Section 14.1.1 above.

Olivier Rosenfeld. See Section 14.1.1 above.

Rani Assaf

Rani Assaf is in charge of the Group's IP and telecom network and the rollout of its DSL contract. Since 1999, he has been involved in implementing the Group's IP network infrastructure as well as its interconnection with the incumbent operator on a Cisco SS7 platform. He is also one of the founders of the Freebox project. Rani Assaf joined the Group in 1999.

Franck Brunel

Franck Brunel is in charge of the Group's regulatory affairs and is responsible for relations with the telecommunications authorities. Since 1999, he has been involved in preparing the Group's applications for the L-33.1 and L-34.1 licenses and has participated in all the multilateral and bilateral relations between the ARCEP (formerly ART), the incumbent operator and Iliad. Franck Brunel holds a doctoral degree (*Docteur ès Sciences*). He joined the Group in 1999.

Antoine Levavasseur

Antoine Levavasseur holds an engineering degree from the French engineering school EFREI. He joined Iliad in 1999 as manager of Free's system platform and servers. Since 1999, he has been involved in developing the subscriber management information system and operating and developing the e-mail platforms, web servers and applications used by subscribers.

14.2 ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT CONFLICTS OF INTEREST

At the date this registration document was filed, there were no potential conflicts of interest between any duties to the Company owed by the persons referred to in Section 14.1 above and their private interests and/or other duties. Likewise, none of the persons referred to in said Section have agreed to any restrictions on the disposal within a certain period of time of their holdings in the Company's securities.

14.3 DIRECTORS' AND SENIOR MANAGERS' INTERESTS IN THE COMPANY AND THE GROUP

At March 31, 2007, Iliad's directors and senior managers held the following interests in the Company:

Shareholder	Shares and voting rights	Percentage of share capital	Percentage of voting rights
Xavier Niel	36,203,690	66.86%	64.09%
Antoine Levavasseur	902,590	1.67%	3.15%
Rani Assaf	952,590	1.76%	3.33%
Cyril Poidatz	650,000	1.20%	1.13%
Olivier Rosenfeld	530,000	0.98%	0.93%
Michaël Boukobza	180,000	0.33%	0.50%
Franck Brunel	573,269	1.06%	2.00%
Alain Weill	11,928	0.02%	0.02%
Jean-Louis Missika	250	0.00%	0.00%
Dominique Roux	0	0.00%	0.00%
Antoinette Willard	0	0.00%	0.00%
Total	**40,004,317**	**73.87%**	**75.15%**

In addition, certain of Iliad's directors and senior managers hold interests in the Company's subsidiaries, as follows:

– **Freebox:** Xavier Niel, Cyril Poidatz, Michaël Boukobza and Antoine Levavasseur each hold one share in Freebox, and Rani Assaf holds 428 shares, representing total interests of approximately 1.72% of the company's capital and voting rights.

– **One.Tel:** Cyril Poidatz holds one share in One.Tel, which does not represent a significant holding in the company.

– **Centrapel:** Xavier Niel, Cyril Poidatz and Michaël Boukobza each hold one share in Centrapel, representing approximately an aggregate of approximately 0.01% of the company's capital and voting rights.

– **Assunet:** Xavier Niel and Michaël Boukobza each hold one share in Assunet, representing an aggregate of approximately 0.02% of the company's capital and voting rights.

15. REMUNERATION AND BENEFITS

15.1 TOTAL AMOUNT OF REMUNERATION PAID AND BENEFITS IN KIND GRANTED TO DIRECTORS AND SENIOR MANAGERS

15.1.1 Directors' fees

At the Annual Shareholders' Meeting of May 29, 2006, the amount of directors' fees was set at €60,000, to be allocated between the Company's independent directors for the year ended December 31, 2006. At its July 27, 2006 meeting, the Board of Directors decided to allocate these fees among the Board's individual independent directors, as set out in Section 15.1.3 below.

15.1.2 Remuneration paid and benefits in kind granted to senior managers during fiscal 2006

	Position	Compensation received *(in €)*			
		Fixed portion	Variable portion	Benefits in kind	**Total**
Cyril Poidatz	Chairman of the Board of Directors	125,070	N/A	N/A	125,070
Michaël Boukobza	Director/ Chief Executive Officer	113,340	N/A	N/A	113,340
Olivier Rosenfeld	Director/ Senior Vice-President	132,240	N/A	N/A	132,240
Xavier Niel	Director/ Senior Vice-President	173,150	N/A	98,906 included in fixed compensation	173,150
Rani Assaf	Senior Vice-President	102,810	N/A	N/A	102,810
Franck Brunel	Senior Vice-President	96,630	N/A	N/A	96,630
Antoine Levavasseur	Senior Vice-President	107,400	N/A	N/A	107,400
Alain Weill	Director	N/A	N/A	N/A	15,000*
Shahriar Tadjbakhsh	Director	N/A	N/A	N/A	15,000*
Jean-Louis Missika	Director	N/A	N/A	N/A	15,000*
Dominique Roux	Director	N/A	N/A	N/A	15,000*
Antoinette Willard	Director	N/A	N/A	N/A	N/A

** Directors' fees*

There is no specific pension scheme in place for the Company's senior managers.

There is no severance payment plan in force for the Group's senior managers holding corporate officers' positions.

15.1.3 Change in total remuneration paid to members of the senior management team in the past three fiscal years

	Position	Total compensation *(in €)* 2004	2005	2006
Cyril Poidatz	Chairman of the Board of Directors	112,860	118,980	125,070
Michaël Boukobza	Director/ Chief Executive Officer	80,640	94,980	113,340
Olivier Rosenfeld	Director/ Senior Vice-President	107,354	127,740	132,240
Xavier Niel	Director/ Senior Vice-President	126,000	171,744	173,150
Rani Assaf	Senior Vice-President	77,825	90,300	102,810
Franck Brunel	Senior Vice-President	55,927	76,260	96,630
Antoine Levavasseur	Senior Vice-President	63,547	90,060	107,400
Alain Weill	Director	15,000 (*)	15,000 (*)	15,000 (*)
Shahriar Tadjbakhsh	Director	15,000 (*)	15,000 (*)	15,000 (*)
Jean-Louis Missika	Director	15,000 (*)	15,000 (*)	15,000 (*)
Dominique Roux	Director	N/A	N/A	15,000 (*)

(*) Corresponding to directors' fees.

15.2 STOCK OPTIONS GRANTED TO CORPORATE OFFICERS IN 2006

The members of the Board of Directors and the Company's Senior Vice-Presidents have been granted stock options as follows:

	Total number of options*	Exercise dates
Michaël Boukobza *Director/Chief Executive Officer*	40,614	December 19, 2009 December 19, 2010
Olivier Rosenfeld *Director/Senior Vice-President*	40,614	December 19, 2009 December 19, 2010
Rani Assaf *Senior Vice-President*	40,614	December 19, 2009 December 19, 2010
Franck Brunel *Senior Vice-President*	40,614	December 19, 2009 December 19, 2010
Antoine Levavasseur *Director/Senior Vice-President*	40,614	December 19, 2009 December 19, 2010
Cyril Poidatz *Chairman*	40,614	December 19, 2009 December 19, 2010
TOTAL	**243,684**	

* Of which half are exercisable at each of the exercise dates.

15.3 AGREEMENTS ENTERED INTO BY THE COMPANY OR MEMBERS OF THE GROUP WITH THE COMPANY'S SENIOR MANAGERS OR PRINCIPAL SHAREHOLDERS

Consulting agreement with Jean Louis Missika S.A.S. (authorized in advance of signature at the December 11, 2006 meeting of the Board of Directors).

Agreements to acquire shares from executive directors (authorized in advance of signature at the December 11, 2006 meeting of the Board of Directors).

Agreements concerning the acquisition of shares in the Group's companies					
Purchaser	**Vendor**	**Company concerned**	**Number of shares**	**Price per share**	**Aggregate amount of the transaction**
ILIAD S.A.	C. Poidatz	KEDRA	1	€1	€1
ILIAD S.A.	M. Boukobza	KEDRA	1	€1	€1
ILIAD S.A.	X. Niel	KEDRA	1	€1	€1
ILIAD S.A.	O. Rosenfeld	KEDRA	1	€1	€1
ILIAD S.A.	C. Poidatz	KERTEL	1	€15	€15
ILIAD S.A.	M. Boukobza	KERTEL	1	€15	€15
ILIAD S.A.	X. Niel	KERTEL	1	€15	€15
ILIAD S.A.	O. Rosenfeld	KERTEL	1	€15	€15
ILIAD S.A.	R. Assaf	KERTEL	1	€15	€15
ILIAD S.A.	C. Poidatz	IH	1	€1	€1
ILIAD S.A.	M. Boukobza	IH	1	€1	€1
ILIAD S.A.	X. Niel	IH	1	€1	€1
ILIAD S.A.	O. Rosenfeld	IH	1	€1	€1
ILIAD S.A.	R. Assaf	IH	1	€1	€1
ILIAD S.A.	F. Brunel	IH	1	€1	€1
ILIAD S.A.	X. Niel	SASAM	1	€15.24	€15.24
ILIAD S.A.	X. Niel	PN	4,000	€10	€40,000
ILIAD S.A.	R. Assaf	FREEBOX	18	€6,666.67	€120,000.00

15.4 LOANS AND GUARANTEES GRANTED TO SENIOR MANAGERS

To date, no loans or guarantees have been granted or issued to any of the members of the Company's administrative or management bodies.

16. FUNCTIONING OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

16.1 ORGANIZATION OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

16.1.1 Organization of the Board of Directors

16.1.1.1 Composition of the Board – Election of directors (Articles 13 to 15 of the bylaws)

Subject to the exceptions provided by law, the Board of Directors is composed of a minimum of three and a maximum of eighteen members elected by the shareholders.

Each director must own at least 100 shares in the Company. If a director does not own the required number of shares on the date of his appointment, or if his shareholding decreases below that threshold during his term, he will be deemed to have resigned if the situation is not remedied within three months.

If a position on the Board becomes vacant due to the death or resignation of one or more directors, between two Shareholders' Meetings, the Board may replace those directors whose positions were vacated during their term of office. However, if the number of directors in office falls below the legal minimum threshold, the Board of Directors or if necessary, the Statutory Auditors, must immediately call a Shareholders' Meeting to elect the required number of directors.

The provisional appointments by the Board of Directors are subject to ratification by shareholders at the following Shareholders' Meeting. If the provisional appointments are not ratified, the decisions and actions taken by or with the support of the provisionally appointed directors nonetheless remain valid.

A director elected to replace another director may remain in office only for the remainder of his predecessor's term.

16.1.1.2 Directors' terms of office (Article 16 of the bylaws)

Directors are elected for a six-year period.

A director's duties cease at the end of the Annual Shareholders' Meeting called to approve the financial statements for the previous year and held during the year in which the director's term of office expires.

Outgoing directors may be re-elected without restriction.

16.1.1.3 Organization, meetings and decisions of the Board of Directors (Article 17 of the bylaws)

Chairman

The Board of Directors elects a Chairman from among its members who are not corporate members, and determines the Chairman's compensation.

The Chairman is appointed for a term not to exceed his term of office as director, and may be re-elected. The Board of Directors may remove the Chairman from office at any time.

In the event of temporary absence or death of the Chairman, the Board of Directors may delegate the Chairman's functions to another director. Should the Chairman be temporarily absent, the delegation is granted for a limited period and is renewable. In the event of the Chairman's death, the delegation remains in effect until a new Chairman is elected.

The Chairman represents the Board of Directors. He organizes and oversees its work, reports to the Shareholders' Meeting and executes its decisions. He ensures that the Company's management bodies operate effectively and that the directors are able to perform their duties.

Board meetings

The Board of Directors meets as often as is required in the Company's interests, on notice from the Chairman. If the Board has not met for over two months, directors representing at least one-third of the Board's members may call a meeting, specifying the agenda.

If the Company is managed by a Chief Executive Officer, the latter may also request that the Chairman convene a Board meeting to consider a specific agenda.

Requests made pursuant to the preceding two paragraphs are binding on the Chairman.

Notice of meeting may be given by any written means, including by letter, fax, telex or electronic transmission. The meeting must be called at least two days prior to it being held, except in an emergency, in which case it must be called no later than the day preceding the meeting, by any means. In all circumstances, a meeting may be called verbally without notice if all the Board members so agree.

An attendance register of Board meetings is kept and signed by the directors who attended the meeting concerned.

Quorum and majority

The Board cannot validly deliberate unless at least one-half of its members are present. Decisions are taken by a majority vote of the directors present or represented. In the event of a split decision, the Chairman has the casting vote.

Under the conditions set down by law, directors who attend a meeting via videoconference or any other means of telecommunications technology are deemed present for the purpose of calculating the quorum and voting majority.

Representation

Any director may authorize another director, by any written means, to represent him at a Board meeting. No director may have more than one proxy for a given meeting.

These provisions apply both to individuals and permanent representatives of corporate directors.

Duty of confidentiality

Directors and any person invited to attend Board meetings are required to treat as strictly confidential all matters identified as such by the Chairman of the Board.

Minutes of meetings

Issues discussed during Board meetings are recorded in minutes, which are numbered and signed. They are kept in a special register at the Company's head office, in accordance with the applicable regulations.

The minutes contain the names of directors present, excused and absent. They reflect the presence or absence of persons invited to attend the meeting pursuant to legal requirements, and the presence of any other person attending all or part of the meeting. The minutes bear the signature of the Chairman of the meeting and at least one director. If the Chairman is unable to attend, the minutes are signed by at least two directors.

Copies or excerpts of the minutes are certified in accordance with the applicable regulations.

16.1.1.4 Powers of the Board of Director (Article 18 of the bylaws)

The Board of Directors determines the Company's strategies and oversees their implementation.

Except for the powers directly vested in shareholders and within the scope of the corporate purpose, the Board is responsible for dealing with all matters related to the efficient management of the Company and for making all related decisions.

Actions by the Board commit the Company towards third parties, even when they fall outside the scope of the corporate purpose, unless it can prove that the third party knew that the action exceeded this scope, or could not have failed to know this under the circumstances. Publication of the bylaws does not, in itself, constitute such proof.

The Board of Directors performs all controls and procedures that it deems appropriate.

Directors must receive the information necessary to discharge their duties and may obtain any documents they consider useful from the Company's senior management team.

The Board of Directors may grant to its Chairman (with or without the possibility of sub-delegation) or to any representative of its choice – either a shareholder or not – all delegations of powers, subject to the limitations set down by law.

16.1.2 Senior Management (Article 19 of the bylaws)

16.1.2.1 Organization

French law provides that the Company's Management may be placed under the responsibility of either the Chairman of the Board of Directors or another individual appointed by the Board who holds the title of Chief Executive Officer.

The Board of Directors decides which mode of management structure to adopt for the Company.

The Board's decision concerning the choice of management structure is made by an absolute majority vote of the directors present or represented.

The option chosen by the Board of Directors must remain in effect for at least one year.

16.1.2.2 *Chief Executive Officer*

Appointment – Removal from office

When the Board of Directors opts to separate the duties of Chairman of the Board and Chief Executive Officer, it appoints the Chief Executive Officer and determines his term of office, compensation and any limitations of powers.

The Chief Executive Officer may be removed from office at any time by the Board of Directors. If the Chief Executive Officer is not the Chairman of the Board, he may be entitled to damages if it is determined that he was removed from office without fair cause.

The Chief Executive Officer is subject to the provisions of L.225-94-1 of the French Commercial Code concerning concurrent appointments as Chief Executive Officer, member of the Management Board, sole Chief Executive Officer, director, or member of the Supervisory Board of *sociétés anonymes* (joint-stock corporations) domiciled in France.

If the Chairman of the Board of Directors is also responsible for managing the Company, he is subject to those provisions concerning the Chief Executive Officer.

Powers

The Chief Executive Officer has the broadest powers to act on behalf of the Company in all circumstances within the scope of the corporate purpose, and except for those matters which by law may only be dealt with in Shareholders' Meetings or by the Board of Directors.

The Chief Executive Officer represents the Company vis-à-vis third parties. The Company is bound by the actions of the Chief Executive Officer, even when they fall outside the scope of the corporate purpose, unless it can be proven that the third party knew that the action exceeded this scope or could not have failed to know this under the circumstances. Publication of the bylaws does not, in itself, constitute such proof.

16.1.2.3 *Senior Vice-Presidents*

On the recommendation of the Chief Executive Officer, the Board of Directors may appoint one or more individuals holding the title of Senior Vice-President to assist the Chief Executive Officer.

The maximum number of Senior Vice-Presidents is five.

The Board of Directors, with the Chief Executive Officer's consent, determines the scope and duration of authority granted to Senior Vice-Presidents.

Senior Vice-Presidents have the same powers as the Chief Executive Officer vis-à-vis third parties.

The Board of Directors determines the compensation allocated to Senior Vice-Presidents.

Senior Vice-Presidents may be removed from office by the Board of Directors at any time on the recommendation of the Chief Executive Officer.

In the event of the Chief Executive Officer's absence or departure, the Senior Vice-Presidents retain their positions and powers until a new Chief Executive Officer is appointed, unless otherwise decided by the Board of Directors.

16.1.3 Meetings of the Board of Directors

The Company's Board of Directors met 13 times in 2006, compared with 11 times in 2005, and 21 times in 2004. The average attendance rate at these meetings was approximately 78%.

16.2 SERVICE CONTRACTS ENTERED INTO BETWEEN THE COMPANY AND MEMBERS OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

A consulting agreement has been signed between the Company and Jean Louis Missika S.A.S, represented by Jean-Louis Missika in his capacity as Chairman and Chief Executive Officer of this company and a director of Iliad. The agreement was authorized prior to its signature (see Section 15.3) and came into force on January 8, 2007.

16.3 INTERNAL RULES OF THE BOARD OF DIRECTORS AND DIRECTORS' CODE OF CONDUCT

The operations of the Company's Board of Directors are governed by a set of internal rules endorsed at the Board meeting of December 12, 2003 and amended at the Board meetings of March 9, 2005 and October 25, 2006.

The Board of Directors' internal rules include, *inter alia*, an appendix containing a code of conduct which sets out the duties and obligations of directors.

16.3.1 Members of the Board of Directors

The Board of Directors must be composed of directors selected for their expertise and experience in the Company's areas of business, as well as for their integrity. It may include independent directors as defined below.

16.3.2 Independent directors

The Board of Directors is required to verify that candidates for the office of director fulfill the independence criteria set forth in its internal rules. It reports the conclusions of its review to the shareholders at the Shareholders' Meeting called to elect the directors concerned or ratify appointments made by the Board of Directors.

Every year, the Board of Directors must review the independence of each director in compliance with the related criteria for independent directors and report its findings in its annual report.

In order to be considered independent, a director:

– cannot be an employee of the Company, hold a management position within the Company, or be an employee or director of the parent company or of one of its consolidated subsidiaries, either currently or during the previous five years;

– cannot be a corporate officer (within the meaning of COB recommendation 2002-01) of a company in which the Company holds, either directly or indirectly, a directorship, or in which a directorship is held by an employee of the Company designated as such or by a current or former (going back five years) corporate officer of the Company;

– cannot be a customer, supplier, investment banker or a commercial banker which is material for the Company or the Group or for which the Company or the Group represents a material proportion of the entity's activity;

– cannot have close families ties to a corporate officer;

- cannot have been an auditor of the Company during the past five years;

- cannot have been a director of the Company for more than twelve years;

- cannot represent a significant shareholder of the Company, taking into account that:

  (i) a shareholder who owns over 10% of the Company's capital or voting rights is considered significant; and

  (ii) below this threshold, the Board of Directors systematically reviews whether the director is independent, taking into account the composition of the Company's share capital and whether there exists potential for any conflicts of interest.

Based on these criteria, at its March 12, 2007 meeting, the Board of Directors noted that for the year ended December 31, 2006 the Board included four independent directors: Alain Weill, Jean-Louis Missika, Shahriar Tadjbakhsh and Dominique Roux.

At the date this registration document was filed, the Board's independent directors were Alain Weill and Antoinette Willard as Jean-Louis Missika now holds an executive position within the Iliad Group.

16.3.3 Meetings of the Board of Directors

The Board of Directors met on 13 occasions in 2006 upon request by the Chairman or another duly authorized person. If the Board has not met for over two months, a group of directors representing at least one-third of the Board members may call a meeting with a specific agenda.

The Chief Executive Officer may also request that the Chairman call a Board meeting, specifying an agenda.

The Board of Directors' internal rules stipulate the applicable procedures for attending Board meetings by videoconference.

16.3.4 Evaluation of the Board of Directors

The Company has not instituted formal measures to evaluate the Board of Directors' performance. However, with a view to applying best corporate governance practices, the Board of Directors intends to regularly include discussion of its operations in its agenda.

16.3.5 Committees of the Board of Directors

The Board of Directors may be assisted by specialist committees in performing its duties.

Subject to the membership rules described below, the Board of Directors is authorized to set up an Audit Committee and a Compensation Committee.

The Audit Committee comprises a minimum of three (3) and a maximum of five (5) members appointed by the Board of Directors and selected from among the directors. The majority of Audit Committee members must be selected from among the independent directors as defined above.

The Compensation Committee comprises a minimum of three (3) and a maximum of five (5) members appointed by the Board of Directors and selected from among the directors. The majority of Compensation Committee members must be selected from among the independent directors as defined above. The Board of Directors may compensate members of Board committees for the work performed in the context of those committees.

The Board of Directors may set up other specialist committees whenever it deems it appropriate.

16.3.5.1 Responsibilities of the Audit Committee

The Audit Committee is responsible for:

– reviewing individual and consolidated financial statements prior to their being presented to the Board of Directors;

– ensuring the relevance and consistency of accounting methods used in preparing the financial statements;

– verifying internal procedures for collecting and auditing information used in preparing the financial statements;

– providing all appropriate reports and recommendations on the above, both on a periodic basis when the accounts are closed, and as warranted by events;

– overseeing the process of selecting the Statutory Auditors and renewing their appointments, providing an opinion on the fees requested, and submitting the results of the selection process to the Board of Directors; and

– reviewing in detail the fees paid by the Company and the Group to the Statutory Auditors and verifying that the portion of fees paid to each audit firm relative to its revenue is not likely to impair the Auditors' independence.

16.3.5.2 Responsibilities of the Compensation Committee

The Compensation Committee is responsible for:

– making recommendations to the Board of Directors on the compensation and benefits to be allocated to corporate officers;

– establishing and conducting an annual review of the rules governing the variable portion of corporate officers' compensation, ensuring that it is consistent with their performance assessments and the Company's medium-term strategy;

– defining general policies for allocating stock options, with or without discounts;

– reviewing stock option plans for the Company's and/or Group's corporate officers and employees; and

– providing recommendations on compensation and incentive systems for managers of the Company.

Until now, the duties provided for in the Board of Directors' internal rules concerning the Audit Committee and the Compensation Committee have been directly performed by the Board of Directors and have not been formally designated.

16.3.6 Code of conduct applicable to trading in the Company's securities

The Board of Directors' internal rules implement Articles 222-14 and 222-15 of the General Regulations of the AMF concerning the obligation of directors to report transactions involving the Company's securities to the Company on an individual basis, and the Company's responsibility to inform the public of those trades through the press within five trading days from receipt of such report.

The Board of Directors' code of conduct prohibits directors from trading in the securities of companies for which they possess non-public information by reason of their positions.

If the Company's securities are traded on a regulated exchange, the directors are barred from buying or selling the Company's shares during the fifteen calendar days preceding the announcement of the Company's quarterly, half-year and annual earnings.

16.4 INTERNAL CONTROL

16.4.1 Report on the conditions governing the preparation and organization of the work of the Board of Directors and internal control procedures

In accordance with article L. 225-37 of the French Commercial Code, and in addition to the management report prepared by the Company's Board of Directors, the Chairman of the Board of Directors hereby reports to you on the conditions for preparing and organizing the work of the Board, and on the internal control procedures put in place by the Company.

This report describes the conditions for preparing and organizing the work of the Board of Directors of Iliad SA during fiscal 2006. It also sets out the internal control procedures implemented within the Iliad Group.

16.4.1.1 Corporate Governance

The Company is headed by a Chief Executive Officer who is responsible for the Company's management, together with a number of Senior Vice-Presidents. At its December 12, 2003 meeting, the Board of Directors elected to segregate the duties of Chairman of the Board of Directors and Chief Executive Officer. The Board of Directors has not placed any specific restrictions on the powers of the Chief Executive Officer.

At December 31, 2006 the Board of Directors comprised the following eight members:

- Cyril Poidatz, Chairman of the Board of Directors
- Michaël Boukobza, Director and Chief Executive Officer
- Xavier Niel, Director and Senior Vice-President
- Olivier Rosenfeld, Director and Senior Vice-President
- Antoine Levavasseur, Director and Senior Vice-President
- Alain Weill, Director
- Jean-Louis Missika, Director
- Dominique Roux, Director

In accordance with the criteria set out in the Board of Directors' internal rules adopted on December 12, 2003, as amended on February 9, 2005 and October 25, 2006, three directors qualified as independent: Alain Weill, Jean-Louis Missika and Dominique Roux.

The directors were elected at the Shareholders' Meeting held on December 12, 2003, for a term expiring at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2008, except for:

- Jean-Louis Missika, who was elected at the Shareholders' Meeting of June 28, 2004 for a period expiring at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2009.

- Antoine Levavasseur, who was elected at the Shareholders' Meeting of May 27, 2005, for a term expiring at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2010.

- Dominique Roux, who was appointed at the Board of Directors' meeting of February 8, 2006 and whose appointment was ratified at the Shareholders' Meeting held on May 29, 2006. Dominique Roux's term of office expires at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2008.

The Board of Directors determines the Company's overall business, economic, financial and technological strategies and oversees their implementation by Management.

Meetings of the Board of Directors

In 2006, Iliad's Board of Directors met thirteen (13) times, with an average attendance rate of around 78%.

Information provided to directors

Prior to every meeting, Board members receive a pack containing information about items on the agenda, in order to help them prepare for the meeting and make fully informed decisions.

Venue and participants

Board meetings take place at the Company's registered office, located at 8 rue de la Ville l'Evêque – 75008 Paris, France.

In accordance with article L.225-238 of the French Commercial Code, the Statutory Auditors were given notice of and attended the Board meetings devoted to the review and/or approval of the interim and annual financial statements.

Minutes of the meetings

The minutes of Board meetings are drawn up by the Board Secretary after each meeting. The directors receive a draft version on which they may comment, and the Chairman subsequently submits the minutes for their approval at the following Board meeting.

Operational structure of the Company's Senior Management team

Since June 2004, the Company's Senior Management team has been structured around a Management Committee headed by the Chairman of the Board of Directors. The Management Committee is the Group's decision-making body. It meets twice a week, and is responsible for tracking weekly reporting schedules, deciding on the Group's strategy and operations in conjunction with the Board, discussing and collectively deciding on key management issues, and setting annual objectives. The meetings are attended by the Chairman of the Board of Directors, the Chief Executive Officer, the Senior Vice-Presidents, and the head of the Group's Research & Development Department. The Chairman and CEO of Centrapel also regularly attends the meetings, as does the Group head of Debt Recovery. The issues covered also serve as a basis for management presentations given during Board of Directors' meetings.

This operational structure complies with corporate governance practices applicable in France.

Directors' compensation

Directors' fees

The Shareholders' Meeting of May 29, 2006 set at €60,000 the annual fees to be allocated among the Company's directors. In accordance with this decision, at its July 27, 2006 meeting the Board of Directors resolved to allocate this amount solely among non-employee directors who were members of the Board during 2006. The related fees were paid in September 2006.

Compensation payable to the Chairman, Chief Executive Officer and Senior Vice-Presidents

The Board of Directors sets the compensation to be paid to the Chairman, Chief Executive Officer and Senior Vice-Presidents. Compensation payable to the following directors was reviewed by the Board of Directors during its meeting of July 27, 2006:

- Cyril Poidatz (Chairman of the Board of Directors)
- Michaël Boukobza (Chief Executive Officer)
- Franck Brunel (Senior Vice-President)
- Antoine Levavasseur (Senior Vice-President)
- Rani Assaf (Senior Vice-President)

Variable compensation

No variable compensation system has been set up for the Group's senior managers.

Pension scheme

The Company has not set up a specific pension scheme for its senior managers.

Severance payment plan

There is no severance payment plan in force for the Group's senior managers holding corporate officers' positions.

16.4.1.2 Internal control procedures

(i) Presentation and organization of the Group

Since June 2003, the Group's senior management team and corporate functions have been located in one building at 8 rue de la ville l'Evêque, 75008 Paris, which has simplified the tasks of relaying information, and monitoring and harmonizing internal control procedures.

In addition, all of the Group's departments – encompassing finance and accounting, legal affairs, human resources, technology and marketing – are cross-functional and are identical for each Group entity. This structure enables the Group to be managed consistently and makes it easier to perform controls.

(ii) The objectives of internal control

Internal control is a process implemented by Management designed to provide reasonable assurance that the following objectives are achieved:

- efficiency and effectiveness of operations;
- reliability of financial information; and
- compliance with applicable laws and regulations.

An internal control system can only provide reasonable assurance – and not an absolute guarantee – that the company will achieve its objectives.

The Iliad Group's internal control system is structured around (i) internal rules, which set out regulations to be respected by employees within each Group company, and (ii) procedures and controls inherent to the individual systems of each department.

The Group does not currently have a specific Internal Audit department, but the Finance Department, as well as the accounting and management accounting control teams and the other departments described above are at the heart of the overall internal control system.

Each Group company reviews its accounting and financial data on a monthly basis.

(iii) Control processes for major risks

The Group has set up an internal control system that enables it to manage the risks relating to its business strategy, development and decision-making processes.

Risks relating to the Group's operations and business strategy

In 2000, the Group created a research and development team with a view to safeguarding its capacity to remain technologically innovative. This team reports directly to Senior Management.

In addition, in view of the Group's rapid growth and in order to anticipate recruiting needs – notably within the call center teams – a reporting procedure has been established to measure the rate of calls received and dealt with, and to monitor queuing time. These reporting schedules are relayed regularly to Management.

Management is also regularly provided with technical information concerning the Group's platform and network, as well as recruitment needs (in terms of number of staff and skills), and the financing required in order to develop the Group's technical infrastructure.

Risks relating to the Internet and telecommunications sectors

In accordance with the specific regulations relating to the Group's operations in the field of telecommunications, the Company's compliance with the applicable laws and regulations is regularly monitored by the compliance department. Risks relating to the Group's business sectors are principally monitored by an internal team dedicated to tracking regulations within the Internet and telecommunications sectors as well as the financial and legal impact of these regulations on the Group's operations. This team reports to the Senior Vice-President responsible for compliance issues.

Legal risks linked to Internet access

In order to limit the risks relating to the potential liability of Internet access and web hosting service providers, the subscription procedure set up by Free does not permit any anonymous users on its network. This procedure does not allow a new user to connect online, as new users must wait until they have received a confirmation letter with a login and password before they can connect to Free for the first time.

This procedure, which enables the Group to validate the name and address of each new subscriber, was set up when Free was initially launched and means that the Group has no anonymous users on its network. Consequently, Free can respond to and assist with any requests concerning the identity of any dubious users in the event of a legal claim.

The Company does not have a Compliance Officer but legal risks are monitored by a specific department. In addition, the Company has taken out specific insurance policies to cover the risks arising from its operations.

Security

The Group has set up procedures to guarantee the security and physical integrity of its network.

Control procedures relating to financial communication

The Company is required to keep its shareholders, the financial community and the general public informed about its financial position.

All financial information, including press releases, management reports, and financial statements, is drawn up by the Finance Department and is reviewed by Senior Management, including the Chairman of the Board of Directors, the Chief Executive Officer, the Senior Vice-Presidents and the Legal Department. In addition, this information is regularly submitted to the Company's directors for approval.

In order to restrict the risks relating to erroneous or contradictory information, an internal procedure is used whereby the Group’s press officer centralizes all strategic, commercial, financial and technical data that is released outside the Group. The information is supplied directly by Management to the press officer. Furthermore, in accordance with the aforementioned procedure, the press officer attends any and all interviews in order to ensure that the information relayed is consistent.

16.4.1.3 Financial information

The following procedures have been set up to implement controls over the Group's financial management and ensure that the accounting data provided is correct.

(i) Budgetary process

Each year, the Finance Department – assisted by management accounting control – draws up a forecast business model for the Group, based on the Group’s strategic decisions, and approved by Management. The assumptions used for the budgetary process are updated quarterly. The budget and quarterly reviews are split out into monthly calculations in order to provide a framework for the Group’s reporting procedures.

Each Group subsidiary uses the same budgetary process.

(ii) Monthly reporting process

A monthly reporting schedule is drawn up by the Group’s financial units. During 2006, management accounting control tracked the Group’s purchases and investments, notably those relating to the components used in the Freebox modem. The reports of the management accounting controller are transmitted to the Finance Department and incorporated into the overall reporting schedule, which contains key data for monitoring the Group’s operations and results. This process forms one of the cornerstones of the internal control and financial information system, as it is the key tool used by Management for tracking, controlling and monitoring the Group’s business activity.

The Board of Directors is informed of the latest available indicators during its meetings.

(iii) Accounts-closing process

The Group’s Finance Department performs a quarterly close for each Group company.

The Group’s organization structure, based on a single Finance Department for all of the Group’s companies and the use of a common accounting manual, enables consistent use of accounting policies and methods. In addition, the Group’s Finance Department tasks an external certified public accountant with reviewing the statutory accounts of each entity on at least a quarterly basis.

Quarterly consolidated financial data are presented to the Board of Directors.

(iv) Specific procedures relating to the preparation and processing of accounting and financial information

The internal control procedures in force within the Group relating to the major operating functions are as follows:

Sales: The revenues of each Group company are controlled by the Finance Department in conjunction with the Group's operating teams, by carrying out tests on sales movements, valuations and invoicing of calls and subscriptions, as well as on payment collection and debt recovery processes.

Capital expenditure: Controls on the telecommunication network’s capital expenditure and asset management programs are performed through a procedure based on predetermined authorized thresholds and budgets.

Purchases: Purchases other than capital expenditure are also controlled based on authorized thresholds, as well as by segregating tasks, with control of Internet operating costs being separated from control of fixed telephony costs.

Cash and cash equivalents: Control over cash management is performed through bank reconciliations, secure means of payment, and specific signature authorizations, including for off-balance sheet commitments.

Payroll: Employees’ salaries are controlled through a procedure that is based on segregating line managers’ controls.

16.4.2 Statutory Auditors’ report on the Chairman’s report on internal control procedures

STATUTORY AUDITORS' REPORT

PREPARED IN ACCORDANCE WITH ARTICLE L.225-235 OF THE FRENCH COMMERCIAL CODE, ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF ILIAD SA, ON THE INTERNAL CONTROL PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

(Year ended December 31, 2006)

PricewaterhouseCoopers Audit

63, rue de Villiers
92208 Neuilly-sur-Seine cedex
France

Boissière Expertise Audit

57, rue Boissière
75016 Paris
France

STATUTORY AUDITORS' REPORT

PREPARED IN ACCORDANCE WITH ARTICLE L.225-235 OF THE FRENCH COMMERCIAL CODE, ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF ILIAD SA, ON THE INTERNAL CONTROL PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

(Year ended December 31, 2006)

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

ILIAD SA

8, rue de La Ville L'Evêque
75008 Paris

To the shareholders,

In our capacity as Statutory Auditors of Iliad SA, and in accordance with Article L. 225-235 of the French Commercial Code (*Code de commerce*), we report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-37 of the French Commercial Code for the year ended December 31, 2006.

It is for the Chairman to give an account, in his report, notably of the conditions in which the duties of the Board of Directors are prepared and organized and the internal control procedures in place within the Company. It is our responsibility to report to you our observations on the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the Chairman's report;

- obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman of the Board's report, prepared in accordance with the provisions of the last paragraph of Article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine and Paris, May 11, 2007

The Statutory Auditors

PricewaterhouseCoopers Audit	**Boissière Expertise Audit**
Xavier Cauchois	Tita A. Zeïtoun

17. EMPLOYEES

17.1 HUMAN RESOURCES

17.1.1 Changes in the Group's workforce during the past three years

At March 31, 2007, the Group had a workforce of 1,831 employees, all with open-ended employment contracts. This number is rising constantly and significantly as a result of the Group's policy of strengthening its technical support and customer service teams working for its Centrapel and Total Call subsidiaries. This active recruitment policy is aimed at meeting the increase in the number of the Group's subscribers, particularly those using telephony services, and at enhancing the support services offered to customers.

The Group also offers callout support to its subscribers. In the case of connection problems, Free's technicians visit the subscriber to establish their cause (faulty user equipment, faulty jumpers, DSLAM failure, etc.) and rectify them. This service is paid for by subscribers unless their personal equipment is not the cause of the problem.

Agreements relating to the reduction of working hours to 35 hours per week have been entered into within the Group companies in compliance with applicable legislation.

17.1.2 Analysis of the Group's workforce during the past three years

Breakdown by socio-professional category

	Number of employees		
	Management	Non-management	**Total**
December 31, 2005	111	1,017	**1,128**
December 31, 2006	177	1,600	**1,777**
March 31, 2007	174	1,657	**1,831**

Breakdown by line of business

	Number of employees		
	Internet	Telephony	**Total**
December 31, 2005	1,053	75	**1,128**
December 31, 2006	1,709	68	**1,777**
March 31, 2007	1,782	49	**1,831**

17.2 STOCK OPTIONS AND FOUNDERS' WARRANTS GRANTED BY THE COMPANY, EXERCISED OR HELD DURING THE FISCAL YEAR ENDED DECEMBER 31, 2006

17.2.1 Stock options and founders' warrants granted during the year

The Company did not grant any founders' warrants or set up any stock option plans during 2006.

17.2.2 Stock options and founders' warrants exercised during the year

There are no outstanding founders' warrants issued by the Company.

17.2.3 Stock options held

The following table sets out the main characteristics of the stock options granted to the ten employees of the Group (other than senior managers) who hold the largest number of options.

	Number of options	Exercise period[19]	New shares to be issued on exercise of options	Exercise price (in €)
January 20, 2004 plan				
The ten Group employees granted the highest number of options	270,643	from Jan. 20, 2008 to Jan. 19, 2014	270,643	16.30
December 20, 2005 plan				
The ten Group employees granted the highest number of options	20,164	From Dec. 20, 2009 to Dec. 19, 2015	20,164	48.44
December 20, 2005 plan				
The ten Group employees granted the highest number of options	20,164	From Dec. 20, 2010 to Dec. 19, 2015	20,164	48.44

17.3 FOUNDERS' WARRANTS ISSUED BY FREE

Free, a 100%-owned subsidiary of Iliad, issued founders' warrants ("Free Founders' Warrants") to 14 of its employees. The Company made an offer to the holders of these warrants to buy the Free shares issued upon their exercise – representing a maximum of 1,623,000 shares or 2% of Free's capital and voting rights – every six months beginning June 30, 2004. All of the warrant holders accepted the Company's offer to buy their Free shares.

In 2006, nine holders of Free Founders' Warrants exercised the 226,900 remaining warrants for the same number of new Free shares.

The total price paid by the holders of the 226,900 warrants amounted to €220,093.

[19] Except if the beneficiary leaves the Company.

During 2006 the Company purchased all of the Free shares held by minority shareholders as follows:

- Title to the 290,500 Free shares was transferred to the Company during the first half of 2006. The Company paid the purchase price for these 290,500 Free shares to Free's shareholders within several days following the transfer of title.

- Title to the 33,000 remaining Free shares was transferred to the Company during the second half of 2006. The Company paid the purchase price for these 33,000 Free shares to Free's shareholders within several days following the transfer of title.

Taking into account these transactions, all of the Free Founders' Warrants have been exercised and the Company owns the entire capital of Free.

17.4 EMPLOYEE PROFIT-SHARING

Not applicable.

18. MAJOR SHAREHOLDERS

18.1 IDENTIFICATION OF SHAREHOLDERS

18.1.1 Shareholding structure

At March 31, 2007, the Company's capital and voting rights broke down as follows:

	Number of shares	%	Number of voting rights	%
Xavier Niel [a]	36,203,690	66.86%	36,703,690	64.09%
Antoine Levavasseur [a]	902,590	1.67%	1,805,180	3.15%
Rani Assaf [b]	952,590	1.76%	1,905,180	3.33%
Cyril Poidatz [a]	650,000	1.20%	650,000	1.13%
Olivier Rosenfeld [a]	530,000	0.98%	530,000	0.93%
Michaël Boukobza [a]	180,000	0.33%	285,000	0.50%
Franck Brunel [b]	573,269	1.06%	1,146,538	2.00%
Alain Weill [c]	11,928	0.02%	11,928	0.02%
Jean-Louis Missika[c]	250	0.00%	250	0.00%
Public	14,147,233	26.13%	14,234,135	24.85%
Total	**54,151,550**	**100.00%**	**57,271,901**	**100.00%**

(a) Senior manager and director of the Company
(b) Shareholder and senior manager of the Company
(c) Shareholder and director of the Company

To the best of the Company's knowledge, there are no shareholders other than those listed above who directly or indirectly hold more than 1% of the Company's capital and voting rights.

18.1.2. Movements in voting rights during the past three years

At the close of the past three fiscal years, the Company's voting rights broke down as follows (as a percentage of the total):

Shareholder	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2006
Xavier Niel [a]	69.45%	67.62%	**64.09%**
Antoine Levavasseur [a]	1.97%	1.76%	**3.15%**
Rani Assaf [b]	1.78%	1.76%	**3.33%**
Olivier Rosenfeld [a]	1.36%	1.15%	**0.93%**
Cyril Poidatz[a]	1.35%	1.20%	**1.13%**
Michaël Boukobza[a]	1.39%	1.11%	**0.50%**
Franck Brunel[b]	1.37%	1.12%	**2.00%**
Alain Weill[c]	0.16%	0.10%	**0.02%**
Jean Louis Missika[c]	-	0.01%	**0.00%**
Sub-total – senior managers	*78.83%*	*75.85%*	**75.15%**
Goldman Sachs fund	1.75%	0%	
Iliad SA (treasury shares)	0.00%	0.08%	0.04%
Public	19.42%	24.07%	24.85%
Total	**100.00%**	**100.00%**	**100.00%**

(a) Senior manager and director of the Company
(b) Shareholder and senior manager of the Company
(c) Shareholder and director of the Company

18.2 VOTING RIGHTS OF SHAREHOLDERS

At Ordinary and Extraordinary Shareholders' Meetings, each shareholder has a number of votes equal to the number of shares held, without limitation.

However, the Extraordinary Shareholders' Meeting held on December 12, 2003 decided to attribute double voting rights to all fully paid shares registered in the name of the same shareholder for at least three years as from the listing of the Company's shares on a regulated market.

The Company's major shareholders held the following shares carrying double voting rights at March 31, 2007.

Major shareholders with double voting rights	Number of shares carrying double voting rights
Xavier Niel	500,000
Antoine Levavasseur	902,590
Rani Assaf	952,590
Olivier Rosenfeld	0
Cyril Poidatz	0
Michaël Boukobza	105,000
Franck Brunel	573,269

In addition, in the event of a capital increase by the capitalization of reserves, earnings or premiums, or when shares are exchanged as part of a stock split or reverse stock split, the new registered shares allocated to a shareholder in respect of existing shares carrying double voting rights will also have double voting rights from the date of issue, provided that they are held as registered shares.

Any share converted into bearer form or whose ownership is transferred is stripped of double voting rights, in accordance with Article 28-1 of the Company's bylaws. However, registered shares are not stripped of voting rights and the qualifying period continues to run following the transfer of shares included in the estate of a deceased shareholder, or in connection with the settlement of the marital estate or an inter vivos gift to a spouse or relative in the direct line of succession.

Any merger or demerger of the Company would have no impact on double voting rights which can be exercised within the new company if the latter's bylaws include such a provision.

Double voting rights may only be abolished by an Extraordinary Shareholders' Meeting after prior approval by a special meeting of the shareholders holding those rights.

18.3 SHAREHOLDERS' AGREEMENTS, LOCK-UP UNDERTAKINGS AND PARTIES ACTING IN CONCERT

18.3.1 Shareholders' agreements

Not applicable.

18.3.2 Lock-up undertakings

Not applicable.

18.3.3 Parties acting in concert

To the best of the Company's knowledge, there are no shareholders acting in concert, other than the Company's senior managers who are also shareholders – corresponding to Xavier Niel, Rani Assaf, Franck Brunel, Antoine Levavasseur, Michaël Boukobza, Cyril Poidatz, Olivier Rosenfeld and Alain Weill – who act jointly in their capacity as senior managers of the Company.

18.4 ARRANGEMENTS WHICH MAY RESULT IN A CHANGE IN CONTROL OF THE COMPANY

Not applicable.

19. RELATED PARTY TRANSACTIONS

See Note 31 to the 2006 consolidated financial statements and Section 15.3 above. For relationships with subsidiaries, also see Section 7 – "Organizational structure" and the Statutory Auditors' special report in Section 20.2 of this registration document.

20. FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2006, 2005 AND 2004

In accordance with article 28 of European Commission Regulation (EC) number 809/2004, the following information has been incorporated by reference into this registration document:

- The consolidated financial statements of the Iliad Group and the report of the Statutory Auditors on the consolidated financial statements for the year ended December 31, 2004 as shown in Section 5.4.1 of the registration document filed on May 24, 2005 under number R. 05-072.

- The consolidated financial statements of the Iliad Group and the report of the Statutory Auditors on the consolidated financial statements for the year ended December 31, 2005 as shown in Section 20.1 of the registration document filed on May 18, 2006 under number R. 06-063.

CONTENTS

CONSOLIDATED INCOME STATEMENT

(in € thousands)	Note	2006	2005
Revenues ….………………………………………..............	4	**950,261**	**724,201**
Purchases used in production …………………………………………..	5	(483,682)	(385,886)
Payroll costs ……………………………………………………...............	6	(41,400)	(29,811)
External charges ……………………………………………………..		(64,804)	(59,940)
Taxes other than on income………………………………………….....		(8,634)	(5,530)
Additions to provisions ………………………………………………...	9	(4,742)	(4,463)
Other income and expenses from operations, net ……………………...	8	(15,414)	(14,258)
Earnings before interest, tax, depreciation and amortization (EBITDA)		***331,585***	***224,313***
Depreciation, amortization and provisions for impairment of non-current assets	9	(146,391)	(116,627)
Profit from ordinary activities ……………………………..................		**185,194**	**107,686**
Other operating income and expense, net ………………………………	10	(3,000)	0
Operating profit ………………………………………………………		**182,194**	**107,686**
Income from cash and cash equivalents …………………………………	11	5,343	499
Finance costs, gross ………………………………..............................	11	(10,026)	(1,686)
Finance costs, net ……………………………………………………....	11	**(4,683)**	**(1,187)**
Other financial income and expense, net ……………………............	11	741	(1,608)
Corporate income tax …………………………………………………..	12	(61,650)	(36,371)
Profit for the period before profit from discontinued operations………..		**116,602**	**68,520**
Profit for the period, net of taxes, from discontinued operations……….	13	**7,269**	**378**
PROFIT FOR THE PERIOD		**123,871**	**68,898**
▪ *Attributable to equity holders of the parent……………………………*		***123,861***	***68,902***
▪ *Minority interests…………………………………………………*		***10***	***(4)***

CONSOLIDATED INCOME STATEMENT (CONT'D)

. Basic earnings per share for profit from continuing operations (in €)	14	2.15	1.27
. Diluted earnings per share for profit from continuing operations (in €)	14	2.14	1.25
. Basic earnings per share for profit from discontinued operations (in €)	14	0.13	0.01
. Diluted earnings per share for profit from discontinued operations (in €)	14	0.13	0.01
. Basic earnings per share (in €)	14	2.29	1.28
. Diluted earnings per share (in €)	14	2.27	1.26

CONSOLIDATED BALANCE SHEET (ASSETS)

(in € thousands)		At December 31, 2006	At December 31, 2005
Goodwill ……………………………………………...	17	34,574	24,922
Intangible assets …………………………………………	18	56,411	55,592
Property, plant and equipment …………………………..	20	533,204	357,244
Other long-term financial assets …………………………	21	4,136	4,639
Deferred income tax assets ………………………………	12	3,728	2,232
TOTAL NON-CURRENT ASSETS ………………….		**632,053**	**444,629**
Inventories ………………………………………………	22	2,936	5,965
Trade and other receivables ………………………………	23	122,775	100,455
Other short-term financial assets …………………………	21	325	329
Cash and cash equivalents ………………………………	24	279,540	51,089
TOTAL CURRENT ASSETS …………………………		**405,576**	**157,838**
TOTAL ASSETS ……………………………………….		**1,037,629**	**602,467**

CONSOLIDATED BALANCE SHEET (EQUITY AND LIABILITIES)

(in € thousands)		At December 31, 2006	At December 31, 2005
Share capital	25	12,000	12,000
Additional paid-in capital		84,624	86,722
Retained earnings and other reserves	25	286,014	149,853
TOTAL EQUITY		**382,638**	**248,575**
. Attributable to equity holders of the parent		***382,629***	***248,574***
. Minority interests		***9***	***1***
Long-term provisions	27	1,015	595
Long-term financial liabilities	28	302,874	66,023
Deferred income tax liabilities	12	29,578	19,430
Other non-current liabilities	29	11,501	9,798
TOTAL NON-CURRENT LIABILITIES................		**344,968**	**95,846**
Short-term provisions	27	1,467	738
Taxes payable		22,187	22,352
Trade and other payables	29	275,423	211,379
Short-term financial liabilities	28	10,946	23,577
TOTAL CURRENT LIABILITIES		**310,023**	**258,046**
TOTAL EQUITY AND LIABILITIES		**1,037,629**	**602,467**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in € thousands)	Share capital	Additional paid-in capital	Own shares held	Reserves	Retained earnings	Total equity
At January 1, 2005	**10,000**	**83,763**	**(39)**	**375**	**84,378**	**178,477**
Movements in 2005						
▪ Capital increase	2,000	2,959		900	(2,770)	3,089
▪ Dividends paid by Iliad SA					(2,165)	(2,165)
▪ Profit for the period					68,898	68,898
▪ Purchases/sales of own shares			9			9
▪ Impact of stock options				318		318
▪ Other				(51)		(51)
At December 31, 2005	**12,000**	**86,722**	**(30)**	**1,542**	**148,341**	**248,575**

At January 1, 2006	**12,000**	**86,722**	**(30)**	**1,542**	**148,341**	**248,575**
Movements in 2006						
▪ Capital increase						
▪ Dividends paid by Iliad SA					(10,829)	(10,829)
▪ Dividends paid by subsidiaries					(83)	(83)
▪ Profit for the period					123,871	123,871
▪ Purchases/sales of own shares			(928)			(928)
▪ Impact of stock options				1,815		1,815
▪ Equity component of convertible bonds				22,310		22,310
▪ Other		(2,098)			5	(2,093)
At December 31, 2006	**12,000**	**84,624**	**(958)**	**25,667**	**261,305**	**382,638**

Note: Minority interests have not been analyzed as they represent a non-material amount.

CONSOLIDATED CASH FLOW STATEMENT

(in € thousands)	Note	2006	2005
Profit for the period (including minority interests)		**123,871**	**68,898**
+ / - Depreciation, amortization and provisions against non-current assets and net additions to provisions for contingencies and charges	9	147,974	116,464
- / + Unrealized gains and losses on changes in fair value	21	276	93
+ / - Income and expenses related to stock options and other share-based payments		1,815	318
- / + Other income and expenses, net		362	0
- / + Gains and losses on disposals of assets		(10,009)	(6,471)
- / + Dilution gains and losses		0	0
- / - Share of profit of associates		0	0
- Dividends (investments in non-consolidated undertakings)		0	0
Cash flows from operations after finance costs, net, and income tax		264,289	179,302
+ Finance costs, net	11	4,683	1,188
+ / - Income tax expense (including deferred taxes)	12	61,650	36,371
Cash flows from operations before finance costs, net, and income tax (A)		**330,622**	**216,861**
- *Income tax paid* **(B)**		(64,880)	(16,360)
+ / - Change in operating working capital requirement (including employee benefit obligations) **(C)**	15	15,502	25,316
= NET CASH GENERATED FROM OPERATING ACTIVITIES (D) = (A + B + C)		**281,244**	**225,817**
- Acquisitions of property, plant and equipment and intangible assets	15	(289,422)	(217,713)
+ Disposals of property, plant and equipment and intangible assets		5,811	10,030
- Acquisitions of investments in non-consolidated undertakings		0	0
+ Disposals of investments in non-consolidated undertakings		0	0
+ / - Effect of changes in Group structure - acquisitions		(10,546)	(54,806)
+ / - Effect of changes in Group structure - disposals		7,822	(16)
+ Dividends received from associates and non-consolidated undertakings		0	0
+ / - Change in outstanding loans and advances		(139)	300
+ Investment grants received		0	0
+ / - Other		0	0
= NET CASH USED IN INVESTING ACTIVITIES (E)		**(286,474)**	**(262,205)**
+ Proceeds from capital increases:			
. Paid by shareholders of the parent company		0	0
. Paid by minority shareholders of consolidated companies		0	4
+ Proceeds received on the exercise of stock options		0	3,089
- / + Own-share transactions		(928)	10
- Dividends paid during the year:			
. Dividends paid to parent company shareholders		(10,829)	(2,166)
. Dividends paid to minority shareholders of consolidated companies		(84)	0
+ Proceeds from new borrowings	28	326,262	71,287
- Repayment of borrowings (including finance leases)	28	(84,139)	(8,325)
- Net interest paid (including on finance leases)		1,856	(1,188)
= NET CASH GENERATED FROM FINANCING ACTIVITIES (F)		**232,138**	**62,711**
+ / - Effect of exchange-rate movements on cash and cash equivalents **(G)**		0	0
= NET CHANGE IN CASH AND CASH EQUIVALENTS (D + E + F + G)		**226,908**	**26,323**
Cash and cash equivalents at beginning of year	15	49,416	23,093
Cash and cash equivalents at year-end	15	276,324	49,416

NOTE 1: ACCOUNTING PRINCIPLES

1-1. General information

Iliad SA is a French joint stock company (*société anonyme*) registered in France and listed on the Eurolist market of Euronext Paris under the symbol ''ILD''. The address of the registered office is 8 rue de la Ville l'Eveque, 75008 Paris, France.

The Iliad Group is a leading operator in the French internet access and telecommunications markets. Its activities are carried out by Free (France's leading alternative broadband operator), One Tel and Iliad Telecom (fixed telephony operators), and IFW (specialized in Wimax specialist).

The Board of Directors approved the consolidated financial statements for the year ended December 31, 2006 on March 12, 2007 and authorized their publication on the same date. These financial statements will only be definitive after approval by the Company's shareholders.

1-2. Applicable accounting standards

The principal accounting policies adopted for the preparation of these consolidated financial statements are set out below. Unless otherwise specified, the same policies have been consistently applied for all of the periods presented.

Basis of preparation

The consolidated financial statements of the Iliad Group have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union. The historical cost convention has been applied, except for financial assets and liabilities (including derivatives) measured at fair value through profit or loss.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

The following interpretations and amendments to published standards were mandatory in 2006:

- *IAS 19 (Amendment), Employee Benefits,* effective for annual periods beginning on or after January 1, 2006. This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Iliad Group has not elected to apply an alternative recognition approach, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

- *IFRIC 4, Determining whether an Arrangement Contains a Lease*. IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Iliad Group does not have any contracts that fall within the scope of IFRIC 4.

- *IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.* The impacts of applying IFRIC 6 have been taken into account by the Group.

Standards, amendments and interpretations effective for accounting periods beginning on or after January 1, 2006 but which are not relevant to the Iliad Group:

- *IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions*. This amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in a cash flow hedge in consolidated financial statements, subject to certain conditions. It is not relevant to Iliad's operations as the Group did not have any material intragroup transactions that would qualify for this accounting treatment in the consolidated financial statements at December 31, 2006 or 2005.

- *IAS 39 (Amendment), The Fair Value Option*. This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. This amendment did not have an impact on the classification and measurement of the Group's financial instruments classified at fair value through or loss.

- *IAS 21 (Amendment), Net Investment in a Foreign Operation.* This amendment is not relevant to the Group as it has no significant investments in foreign operations.

- *IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts.* This amendment requires issued financial guarantees, other than those previously asserted by the Group to be insurance contracts, to be initially recognized at fair value and subsequently measured at the higher of: (i) the unamortized balance of the related fees received and deferred, and (ii) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it is not relevant to the Group.

- *IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources*. These amendments are not relevant to Iliad's operations as the Group does not explore for or evaluate mineral resources.

- *IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*. IFRIC 5 is not relevant to the Group's operations.

New standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

- *IFRIC 8, Scope of IFRS 2* (effective for annual periods beginning on or after May 1, 2006). IFRIC 8 states that IFRS 2 applies to all transactions in which an entity receives goods or services as consideration for the issue of equity instruments of the entity as well as transactions in which an entity incurs liabilities, in respect of goods or services received, that are based on the price (or value) of the entity's shares or other equity instrument of the entity. This includes transactions in which the entity cannot identify specifically some or all of the goods or services received, in which case the unidentifiable goods or services must be measured at the grant date. Iliad's management team is currently assessing the impact of IFRIC 8 on the Group's operations.

- *IFRIC 10, Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after November 1, 2006). IFRIC 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from January 1, 2007 but it is not expected to have any impact on the Group's accounts.

- *IFRS 7, Financial Instruments: Disclosure*, and *Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures* (both effective for annual periods beginning on or after January 1, 2007). Iliad's management team is currently assessing the impact of IFRS 7 and the amendment to IAS 1, which will be applied by the Group from January 1, 2007.

Interpretations to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after May 1, 2006 or later periods but are not relevant to the Group's operations.

- *IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies* (effective for annual periods beginning on or after March 1, 2006). IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. Iliad's management team considers that this interpretation is not relevant to the Group's operations, as none of the Group's entities have a currency of a hyperinflationary economy as its functional currency.

- *IFRIC 9, Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after June 1, 2006). Management believes that this interpretation should not have a significant impact for the Group.

1-3. CONSOLIDATION

Consolidation methods

Subsidiaries

Subsidiaries are entities that are controlled by the Group. Control is presumed to exist when the Group has the power to govern an entity's financial and operating policies, either directly or indirectly, so as to obtain benefits from its activities, generally accompanying a shareholding representing more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and they are deconsolidated from the date that control ceases.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group does not have any investments in special-purpose entities, associates or joint ventures.

Eliminations on consolidation

Intragroup balances, transactions and unrealized gains on transactions between Group companies are eliminated in the consolidated financial statements.

Unrealized losses are also eliminated but are considered to be an impairment indicator of the asset transferred. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are eliminated in the same way unless the transaction provides evidence of an impairment of the asset transferred.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition.

Goodwill arising on acquisitions of subsidiaries is recognized as an intangible asset. Goodwill on acquisitions of associates is included in investments in associates. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The consolidated financial statements are presented in thousands of euros, unless otherwise indicated.

Foreign currency translation

Assets and liabilities of the Group that are denominated in foreign currencies are translated into euros at the year-end rate. Income and expense items are translated at average exchange rates for the year.

All resulting exchange differences are recognized directly in equity.

Fiscal year-end

All Group companies have a December 31 fiscal year-end.

1-4. PRESENTATION OF THE FINANCIAL STATEMENTS

As permitted under IAS 1, *Presentation of Financial Statements*, the Group's income statement is presented by nature.

Operating profit corresponds to profit for the period, before:

- Financial income and expense (as defined in Note 11)
- Current and deferred taxes
- Profit from discontinued operations.

Profit from ordinary activities corresponds to operating profit as defined above, before ''Other operating income and expense, net''. The latter includes income and expenses which are rare, unusual and infrequent, which represent particularly material amounts and whose presentation within other items relating to ordinary activities could be misleading for users of the financial statements in their understanding of the Group's performance.

The Iliad Group has presented EBITDA (earnings before interest, tax, depreciation and amortization) on a separate line. This item corresponds to profit from ordinary activities before depreciation and amortization (or provisions) recorded in relation to property, plant and equipment and intangible assets. EBITDA is a key indicator for the Group's operational management.

1-5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies applied by the Group are as follows:

Revenues

Revenues from the Group's operations are recognized and presented as follows in accordance with IAS 18, *Revenue*:

- Revenues from usage of connection time are recognized in the period in which the usage took place.

- Revenues from subscriptions and fixed-rate packages are recognized over the period covered by the subscriptions or packages.

- Revenues from the sale or provision of content are presented as a gross amount when the Group is deemed to be the party in the transaction with primary responsibility in relation to the end-customer. These revenues are presented net of the amounts due to the content supplier when the latter is responsible for supplying the content to the end-customer and setting the retail price.

- Revenues from the sale of advertising banners are spread over the period during which the banners are displayed.

- Finally, for prepaid telephone cards, invoices are issued at the time of shipping or activating the card, but revenues are recognized only as the card is used (and the corresponding traffic costs are recorded as expenses) or at their expiry date. At the balance sheet date, the unused portion of the invoiced amount is recorded under "Deferred income".

Foreign currency transactions

The recognition and measurement rules for foreign currency transactions are set out in IAS 21, *The Effects of Changes in Foreign Exchange Rates*. In accordance with that standard, transactions denominated in foreign currencies are recorded at their value in euros at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated at the applicable closing rate and any exchange differences are recognized in profit or loss as follows:

- as operating items for commercial transactions.
- as financial income or expense for financial transactions.

Earnings per share

The Iliad Group presents basic and diluted earnings per share.

Basic earnings per share are obtained by dividing profit for the period by the weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated by adjusting the figures for profit for the period and the weighted average number of shares outstanding, for the impact of all potential dilutive instruments.

Intangible assets other than goodwill

Intangible assets primarily include:

- Development costs capitalized in accordance with IAS 38, which are amortized over the period during which the Group is expected to consume the related future economic benefits. These costs are incurred in relation to designing new materials and are recognized as intangible assets when they relate to distinctly separate projects for which (i) the costs can be clearly identified, (ii) the technical feasibility of successfully completing the project can be demonstrated, and (iii) it is probable that future economic benefits will be generated. These conditions are deemed to be met when the six general criteria defined in IAS 38 are fulfilled.

- Registered codes and names, which are amortized over the estimated period of use.

- Software, which is amortized on a straight-line basis over a period of one to three years.

Property, plant and equipment

Property, plant and equipment are stated at the acquisition cost, including transaction expenses, or at production cost. Cost includes any expenses directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management.

Depreciation is calculated by the straight-line method, based on the following expected useful lives:

▪ Buildings	20 to 30 years
▪ Technical equipment	3 to 14 years
▪ General equipment	10 years
▪ Computer equipment	3 to 5 years
▪ Office furniture and equipment	2 to 10 years

- Access fees for co-location facilities used to conduct unbundling operations are depreciated over a 10-year period.
- Other service access fees, particularly those required for the development of broadband Internet operations, are depreciated over three years.
- Amounts paid as consideration for obtaining indefeasible rights of use (IRU) on dark optical fibers are depreciated over the term of use of the fiber concerned, which can be 11, 15, 25 or 27 years.

At each balance sheet date, the Group assesses whether the depreciation schedules reflect the useful lives of its assets, and makes amendments where necessary.

Borrowing costs

The Group has not elected to capitalize borrowing costs.

Finance leases

Material assets acquired under finance leases are capitalized in the consolidated financial statements.

In accordance with IAS 17, leases are considered to be finance leases when they have the effect of transferring to the lessee substantially all the risks and rewards inherent to ownership of the asset covered by the lease.

In such cases:

- At the commencement of the lease term, the assets acquired are recognized in the balance sheet based on the fair value of the leased property or, if lower, the present value of the minimum lease payments. They are subsequently depreciated over the shorter of the lease term and their useful life.

- The related obligation is recorded under debt, based on the lease terms.

- Lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

Impairment of assets

Assets that have an indefinite useful life, for example land, are not subject to depreciation or amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets

Financial assets held for trading are classified as financial assets at fair value through profit or loss and are recognized as current assets. Gains and losses arising from changes in the fair value of these investments are presented in the income statement.

Financial assets that the Iliad Group has the positive intention and ability to hold to maturity are classified as held-to-maturity investments and measured at amortized cost. Gains and losses on these investments are recognized in the income statement.

Loans and receivables are also measured at amortized cost, with gains and losses recognized in the income statement.

The Group's other investments are classified as available-for-sale financial assets and are measured at fair value. Changes in the fair value of available-for-sale financial assets are recognized directly in equity. When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity is removed from equity and recognized in the income statement.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost. A provision is recorded for doubtful accounts based on the estimated risk of non-recovery.

The likelihood of payment is estimated based on the best possible assessment of the risk of default on the receivable concerned.

Deferred taxes

In accordance with IAS 12, *Income Taxes*, deferred taxes are computed by the liability method, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date, on:

- all temporary differences between the carrying amount of an asset or liability and its tax base, except for goodwill;

- tax loss carryforwards when their utilization is considered probable;

- consolidation adjustments and eliminations which have an impact on the tax base for future periods.

Net deferred tax balances are calculated based on each company's tax situation or on the overall results of companies belonging to the tax group.

Net deferred tax assets are recognized only if the company or tax group to which they relate has a reasonable likelihood of being able to utilize them in future years.

As required under IAS 12, deferred tax assets and liabilities are not discounted.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, short-term investments with original maturities of three months or less and highly-liquid investments in money-market mutual funds. Short-term investments are marked-to-market at each balance sheet date.

Bank overdrafts are classified as current financial liabilities.

Own shares

Own shares held are recognized as a deduction from equity based on their acquisition cost. Gains and losses on the disposal of own shares held are recorded in retained earnings.

Provisions

In accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, when the Group's obligations to third parties known at the balance sheet date are certain or likely to cause an outflow of resources for the benefit of a third party, without at least equivalent consideration, a provision is recorded when the amount concerned can be estimated with sufficient reliability.

Borrowings

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date, in which case they are classified as non-current liabilities.

Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value, net of directly attributable transaction costs incurred. They are subsequently measured at amortized cost.

Convertible bonds

The fair value of the liability component of a convertible bond is determined based on prevailing market interest rates for similar bonds with no conversion rights. This amount is recognized as a liability based on amortized cost until the liability is settled when the bonds are converted or reach maturity. The balance of the bond issue proceeds is allocated to the conversion option and recognized in equity, net of tax.

Employee benefits

Other than share-based payments – which are described in a specific note – the only employee benefits within the Iliad Group correspond to pension benefits.

In accordance with IAS 19, *Employee Benefits*, actuarial valuations of post-employment benefit obligations under defined benefit plans are made using the projected unit credit method, with employee rights recorded on an accruals basis.

For each active participant, the benefit likely to be paid is estimated based on the rules defined in the applicable collective-bargaining agreement and/or company-level agreement, using personal data projected to the standard age for payment of the benefit. The Group's total obligations toward each participant (total actuarial value of future benefits) are then calculated by multiplying the estimated benefit by an actuarial factor, which takes into account the following:

- Assumptions concerning the employee’s probability of either leaving the Group or dying before the age of payment of the benefit,
- The discounted value of the benefit at the valuation date.

These total benefits are then allocated over each of the past and future years for which the participant accrued rights under the program. The company's actuarial liability corresponds to the portion of its obligation relating to accrued service at the balance sheet date.

The individual results of the valuation are then aggregated to obtain Group-level results.

The following economic assumptions were used to measure the Group’s post-employment benefit obligation at December 31, 2005:

- Discount rate: 5%
- Inflation rate: 2%
- Salary growth rate: 3%

The following economic assumptions were used to measure the Group’s post-employment benefit obligation at December 31, 2006:

- Discount rate: 4.25%
- Inflation rate: 2%
- Salary growth rate: 3%

Deferred income

Based on the revenue recognition methods described above, deferred income includes the following:

- the portion of advertising revenues invoiced during the year that corresponds to display periods subsequent to the balance sheet date;

- the unused portion of revenues from prepaid telephone cards.

Stock option plans

In accordance with IFRS 2, *Share-based Payment*, share purchase and subscription options, employee share issues, and share awards to Group employees are measured at fair value at the grant date.

Calculations of the fair value of stock options are performed based on criteria such as the exercise price of the options, the life of the options, the current price of the underlying shares, the volatility range of the share price, expected dividends on the shares and the risk-free interest rate over the life of the options. The fair value of stock options is recognized in payroll costs on a straight-line basis over the vesting period (i.e. the period between the grant date and the exercise date), with a corresponding adjustment to equity for equity-settled plans and to employee-related liabilities for cash-settled plans.

Stock options granted prior to November 7, 2002 have not been restated.

NOTE 2: SCOPE OF CONSOLIDATION

List of consolidated companies and consolidation methods

The scope of consolidation and consolidation methods used are described in Note 35 for the year ended December 31, 2006 and Note 36 for the year ended December 31, 2005.

2-1. CHANGES IN SCOPE OF CONSOLIDATION IN 2006

A table presenting changes in the scope of consolidation in 2006 is provided in Note 37.

The changes during the year correspond to:

- The purchase of minority interests in Free and Freebox.

- The incorporation of a wholly-owned subsidiary, IRE, on April 20, 2006. The main corporate purpose of IRE – which was fully consolidated in the 2006 financial statements – is to acquire assets and rights to be used by the Broadband segment.

- The takeover of PN, acquired for €40,000. Set up in 2006, PN is specialized in telecommunications – particularly developing and building optical fiber networks – and holds a license to lay an optical fiber network within Paris. PN was fully consolidated in the 2006 financial statements.

- The purchase of Citéfibre on October 19, 2006, which is now 99.78% owned by Iliad. Citéfibre was fully consolidated in the 2006 financial statements.

  Citéfibre is an independent multimedia service provider and is listed on Euronext's "Free Market". It has created a fiber-to-the-home (FITH) infrastructure for individuals and SMEs in Paris (mainly in the 15th *arrondissement*). This acquisition will enable the Iliad Group to gain a firmer foothold in the optical fiber sector.

  The key figures relating to the acquisition are summarized in the table below:

(in € thousands)	Citéfibre
Acquisition price of shares (1)	2,935
% acquired (2)	99.78%
Net assets (3) *	(212)
Adjusted net assets (4) *	(911)
Equity in adjusted net assets (5) = (2) x (4)	(909)
Goodwill (6) = (1) – (5)	**3,844**

* Based on the company's financial statements for the year ended September 30, 2006.

The impact of the acquisition on the Group's cash position was as follows:

▪ Cash outflow on purchase of Citéfibre	(2,935)
▪ Cash outflow related to the Group taking over the financial advances granted to Citéfibre by its former shareholders	(1,991)
▪ Cash held by Citéfibre at acquisition date	325
Net cash outflow	**(4,601)**

During the period ended December 31, 2006 (representing an exceptional three-month accounting period in order to align the company's reporting date with that of the Group's other companies), Citéfibre recorded revenues of €67,000 and an operating loss of €1,020,000.

During the previous period (i.e. the 12 months ended September 30, 2006), Citéfibre recorded revenues of €102,000 and an operating loss of €2,925,000.

- The disposal of the Group's stake in Société.com

  On August 2, 2006 Iliad sold its entire interest in Société SA (Société.com).

  The divestment of the company had no significant impact on the financial information provided in this report as it accounted for less than 0.25% of total consolidated revenues and operating profit for the period.

  Out of the total €7,840,000 sale price, €6,840,000 was paid on completion of the sale, with the balance of €1,000,000 payable in two equal installments on December 15, 2006 and June 15, 2007.

2-2. CHANGES IN SCOPE OF CONSOLIDATION IN 2005

The changes in 2005 correspond to:

- The acquisition of additional shares in Free and Freebox, two companies which were already fully consolidated Iliad subsidiaries.
- The incorporation of a wholly-owned subsidiary, Total Call, on March 14, 2005. Total Call was fully consolidated in the 2005 financial statements.
- The incorporation of Dedibox on November 21, 2005. This company, which is 90%-owned by Iliad, was fully consolidated in the 2005 financial statements.
- The acquisition of IFW (formerly Altitude Telecom):

On November 15, 2005, Iliad acquired Altitude Telecom which was subsequently renamed IFW. This wholly-owned Iliad subsidiary specializes in Wimax technology and holds a 3.5 GHz license for the whole of mainland France. IFW was fully consolidated in Iliad's 2005 financial statements. The acquisition of this company opened up a new avenue of growth for the Group.

The impact of the acquisition on the Group's cash position was as follows:

▪ Cash outflow on purchase of IFW	(58,266)
▪ Cash held by IFW at acquisition date	5,236
Net cash outflow	**(53,030)**

The sale agreement relating to IFW contained two clauses which may impact the acquisition price in subsequent periods:

✓ Out of the total acquisition price, €1,003,000 was deposited in an escrow account. This amount is intended to cover any net debt carried by IFW in excess of that determined on the acquisition date and identified between that date and December 31, 2006. If any such additional debt is determined, the acquisition price will be reduced by a corresponding amount, capped at €1,003,000.

- ✓ An additional amount up to a maximum of €1 million may be payable if certain clauses of the agreement are exercised by the seller between January 1, 2007 and December 31, 2010. At the time the 2005 financial statements were prepared the exercise terms and conditions laid down in said clauses were being analyzed. At that stage Group Management did not consider it probable that an additional amount would be payable.

In 2005, IFW reported an operating loss of €1,231,000, including €113,000 after November 15, 2005, the date of its acquisition by the Iliad Group.

Revenues reported by IFW in 2005 amounted to €923,000, including €4,000 after November 15, 2005, the date of its acquisition by the Iliad Group.

An analysis of the impact of this transaction is provided in Note 17.

- The disposal of the Group's stake in Endeis Telecom

On October 1, 2005, the Iliad Group sold its 50% stake in Endeis Telecom for €250,000.

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. It continually evaluates these estimates and assumptions which are based both on past experience and on other factors deemed reasonable to be used for assessing the carrying amount of assets and liabilities. Actual amounts may differ significantly from these estimations should different assumptions or conditions apply.

The main accounting estimates and judgments used by the Group relate to the following:

- Useful lives and impairment of assets.
- Assessment of doubtful receivables and calculation of the corresponding provisions.
- Impairment tests when the recoverable amount is determined using value-in-use calculations.

NOTE 4: REVENUES

An analysis of revenues by business segment is provided in Note 16.

As substantially all of the Group’s operations are in France, presenting data by region would not be significant.

NOTE 5: PURCHASES USED IN PRODUCTION

Purchases used in production include:

- Interconnect costs invoiced by other operators.
- Costs relating to unbundling operations.
- Acquisitions of goods or services for resale or for use in designing goods or services invoiced by the Group.

NOTE 6: HUMAN RESOURCES DATA

Payroll costs

Payroll costs break down as follows:

(in € thousands)	2006	2005
▪ Wages and salaries	28,708	21,210
▪ Payroll taxes	10,877	8,283
▪ Stock option expense	1,815	318
Total	**41,400**	**29,811**

Number of employees at year-end

Iliad Group employees can be analyzed as follows by category:

	At Dec. 31, 2006	At Dec. 31, 2005
▪ Management	177	111
▪ Other	1,600	1,017
Total	**1,777**	**1,128**

The increase in the number of employees is due to recruitments for Iliad's call centers.

Headcount by segment is presented in the "Segment reporting" table.

Post-employment benefits

The methods used for recognizing and measuring pension and other post-employment benefit obligations comply with IAS 19, *Employee Benefits,* as amended.

Post-employment benefit obligations totaled €407,000 at December 31, 2006, compared with €159,000 at December 31, 2005.

NOTE 7: DEVELOPMENT COSTS

Development costs – which are primarily incurred by Freebox – include the cost of developing new products, tailoring existing products to the Internet, and research and development of databases for new applications.

(in € thousands)	2006	2005
▪ Amortization of capitalized development costs	877	569
▪ Development costs recognized directly in the income statement	602	745
Total	**1,479**	**1,314**

NOTE 8: OTHER INCOME AND EXPENSES FROM OPERATIONS, NET

This item breaks down as follows:

(in € thousands)	2006	2005
▪ Other expenses:		
. Carrying amount of non-current assets sold	(3,511)	(3,688)
. Royalties and similar fees	(14,063)	(14,921)
. Bad debts	(5,197)	(6,274)
. Other	(395)	(163)
▪ Other income:		
. Proceeds from sales of non-current assets	5,884	10,028
. Other	1,868	760
Total	**(15,414)**	**(14,258)**

Comments on 2005 and 2006 data

‘‘Royalties and similar fees’’ primarily comprise expenses payable by the Group within the scope of its operations, including royalties, payments to the Universal Service Fund and costs relating to the use of various licenses.

The significant increase in 2006 in the “Other” caption under income reflects the favorable outcome of a legal claim during the year.

NOTE 9: DEPRECIATION, AMORTIZATION AND PROVISIONS

The following table shows the breakdown between the various components of depreciation, amortization and provisions:

Depreciation, amortization and provisions for impairment in value of non-current assets

(in € thousands)	2006	2005
▪ Depreciation and amortization expense		
. Intangible assets	1,104	872
. Property, plant and equipment	143,974	113,773
▪ Provisions for impairment in value of property, plant equipment	1,313	1,982
Total	**146,391**	**116,627**

Additions to other provisions

(in € thousands)	2006	2005
▪ Provisions for contingencies and charges	1,140	103
▪ Provisions for impairment in value of inventories and trade receivables	3,602	4,360
Total	**4,742**	**4,463**

Comments on 2005 and 2006 data

The high level of depreciation and amortization relating to non-current assets in both 2005 and 2006 reflects the major capital expenditure incurred by the Group over the past few years.

NOTE 10: OTHER OPERATING INCOME AND EXPENSE, NET

This item breaks down as follows:

(in € thousands)	2006	2005
▪ Contribution to the Free Foundation	3,000	0
Total	**3,000**	**0**

Comments on 2006 data

The Iliad Group has made a financial commitment to the Free Corporate Foundation, whose purpose is to implement measures aimed at promoting and developing the Internet and web-based services. In 2006 the Group undertook to pay €300,000 every six months for a period of five years spanning from 2007 to 2011, representing an aggregate amount of €3,000,000.

In accordance with IAS 32, this commitment has been recognized in full on the liabilities side of the balance sheet, and in view of its specific nature, the corresponding expense for the period has been recorded under "Other operating income and expense, net" in the income statement.

NOTE 11: FINANCIAL INCOME AND EXPENSE

Financial income and expense can be analyzed as follows:

(in € thousands)	2006	2005
▪ Income from cash and cash equivalents	5,343	499
▪ Finance costs, gross	(10,026)	(1,686)
Finance costs, net	**(4,683)**	**(1,187)**
▪ Other financial income and expense		
. Translation adjustments	1,567	(1,660)
. Other	(826)	52
Financial income and expense, net	**(3,942)**	**(2,795)**

Income from cash and cash equivalents corresponds to income from short-term investments.

Finance costs, gross comprises interest on borrowings and finance leases.

The expense for the year relating to the Group's OCEANE bonds includes interest payable both on the bonds at December 31, 2006 and on the bond premium.

NOTE 12: CORPORATE INCOME TAX

Analysis of the corporate income tax charge

The corporate income tax charge breaks down as follows:

(in € thousands)	2006	2005
▪ Current tax charge	64,714	32,578
▪ Deferred tax charge	(3,064)	3,793
Total tax charge	**61,650**	**36,371**

Tax group

The Iliad Group has set up a tax group, which in 2006 included all consolidated companies except Assunet, Total Call, Dedibox, IRE, PN and Citéfibre.

Tax proof

The table below reconciles the Group's theoretical tax rate with the effective tax rate calculated on consolidated profit from continuing operations before tax.

	31/12/2005	31/12/2006
Profit for the period	**123,871**	**68,898**
▪ Corporate income tax	61,650	36,371
▪ Profit for the period, net of taxes, from discontinued operations	(7,269)	(378)
Consolidated profit from continuing operations before tax	**178,252**	**104,891**
Theoretical tax rate	***34.43%***	***34.93%***
▪ Net impact of permanent differences	0.27%	0.07%
▪ Impact of unrecognized tax loss carryforwards	0.31%	0.11%
▪ Impact of the commitment to the Free Foundation	- 0.43%	/
▪ Other impacts	0.01%	0.43%
Effective tax rate	***34.59%***	***34.68%***

Deferred taxes

Movements in deferred taxes in 2006 can be analyzed as follows:

Type of movement	Value of DT assets/ (liabilities) at Jan. 1, 2006	Credits	(Charges)	Changes in Group structure	Currency translation	Other (1)	Value of DT assets/ (liabilities) at Dec. 31, 2006
Recognition of deferred tax assets arising from tax loss carryforwards	0	0	0	0	0	0	0
Consolidation entries	799	1,832	735	0	0	(11,716)	(9,820)
Temporary differences	687	2,654	687	0	0	0	2,654
Other	(18,684)	0	0	0	0	0	(18,684)
Total	**(17,198)**	**4,486**	**1,422**	**0**	**0**	**(11,716)**	**(25,850)**

DT assets at Jan. 1, 2006	2,232
DT liabilities at Jan. 1, 2006	19,430
Net DT liabilities at Jan. 1, 2006	**(17,198)**

DT assets at Dec. 31, 2006	3,728
DT liabilities at Dec. 31, 2006	29,578
Net DT liabilities at Dec. 31, 2006	**(25,850)**

(1) Other movements correspond to the deferred tax impact of the equity component of the 2006 bond issue (see Note 28).

Movements in deferred taxes in 2005 can be analyzed as follows:

Type of movement	Value of DT assets/ (liabilities) at Jan. 1, 2005	Credits	(Charges)	Changes in Group structure	Currency translation	Other (1)	Value of DT assets/ (liabilities) at Dec. 31, 2005
Recognition of deferred tax assets arising from tax loss carryforwards	3,514	0	3,514	0	0	0	0
Consolidation entries	997	926	1,124	0	0	0	799
Temporary differences	769	546	627	(1)	0	0	687
Other	0	0	0	0	0	(18,684)	(18,684)
Total	**5,280**	**1,472**	**5,265**	**(1)**	**0**	**(18,684)**	**(17,198)**

DT assets at Jan.1, 2005	5,280
DT liabilities at Jan. 1, 2005	0
Net DT assets at Dec. 31, 2005	**5,280**

DT assets at Dec. 31, 2005	2,232
DT liabilities at Dec. 31, 2005	19,430
Net DT liabilities at Dec. 31, 2005	**(17,198)**

(1) Other movements reflect the deferred tax impact of the Wimax license included in intangible assets (see Notes 17 and 18).

Unrecognized deferred tax assets

Unrecognized deferred tax assets concern:

- tax loss carryforwards of companies outside the Iliad tax group, which have been in a loss-making position for several years and are not expected to return to profit in the near future;

- tax loss carryforwards that are not expected to be utilized based on the projected future earnings of the companies concerned at the balance sheet date, or when the companies concerned have been historically loss-making and their turnaround is in progress.

Unrecognized deferred taxes break down into the following broad categories:

(in € thousands)	At Dec. 31, 2006	At Dec. 31, 2005
▪ Temporary differences	1	0
▪ Tax loss carryforwards	3,801	1,819
▪ Consolidation entries	11	0
Total	**3,813**	**1,819**

NOTE 13: PROFIT FROM DISCONTINUED OPERATIONS

On August 2, 2006 Iliad sold its entire interest in Société SA (Société.com). Formed in 1999, Société SA provides legal and financial information on companies, as well as brand data, via both free and paying services on its website, www.societe.com. Société SA was part of the Group's Traditional Telephony segment.

The divestment of the company had no significant impact on the financial information provided in this report as it accounted for less than 0.25% of total consolidated revenues and operating profit for the period. Out of the total €7,840,000 sale price, €6,840,000 was paid on completion of the sale, with the balance of €1,000,000 payable in two equal installments on December 15, 2006 and June 15, 2007.

Profit for the period, net of taxes, from discontinued operations can be analyzed as follows:

▪ Net earnings of discontinued operations	157
▪ Net disposal proceeds	7,112
Profit for the period, net of taxes, from discontinued operations	**7,269**

The net disposal proceeds break down as follows:

▪ Pre-tax disposal proceeds	7,456
▪ Disposal-related tax	(344)
Net disposal proceeds	**7,112**

Net earnings of discontinued operations represents to the profit generated by Société.com between January 1, 2006 and July 31, 2006, which breaks down as follows:

(in € thousands)	**Period ended August 2, 2006**
	Data reported by Société.com (fully attributable to the Iliad Group)
Revenues	1,095
Earnings before interest, tax, depreciation and amortization (EBITDA)	409
Profit from ordinary activities	219
Operating profit	219

NOTE 14: BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share

Number of shares used for calculation	2006	2005
▪ Number of shares at the year-end	54,151,550	54,151,550
▪ Weighted average number of shares	54,139,975	54,006,411

Diluted earnings per share

Number of shares used for calculation	2006	2005
▪ **Weighted average number of shares outstanding (see above)**	**54,139,975**	**54,006,411**
▪ **Number of share equivalents:**		
. **Founders' share subscription warrants (BSPCEs)**	**0**	**141,780**
. **Stock options**	**327,566**	**460,452**
Maximum weighted average number of shares after dilution	54,467,541	54,608,643

The OCEANE bonds issued on June 29, 2006 had no dilutive impact at the balance sheet date.

NOTE 15: NOTES TO THE CASH FLOW STATEMENT

Cash flows from operating activities

Net cash generated from operating activities is determined by the indirect method, which consists of adding back to or deducting from profit for the period (i) all non-cash transactions, (ii) deferrals or adjustments concerning past or future cash inflows or outflows related to operations, and (iii) all cash flows relating to investing or financing activities.

Changes in operating working capital requirement

Changes in working capital requirement during the year can be analyzed as follows:

2006	Note	Balance at Jan. 1, 2006	Net debits	Net credits	Changes in Group structure	Other	Balance at Dec. 31, 2006
▪ Net inventories	22	5,965		3,029			2,936
▪ Net trade receivables	23	61,853	5,682		(180)		67,355
▪ Net other receivables	23	38,602	16,232		586		55,420
▪ Supplier payables	29	108,833		27,520	360		136,713
▪ Other liabilities		55,635		6,867	641		63,143
Total		**(58,048)**	**21,914**	**37,416**	**(595)**		**(74,145)**
Change in operating working capital requirement in 2006				**15,502**			

2005	Note	Balance at Jan. 1, 2005	Net debits	Net credits	Changes in Group structure	Other	Balance at Dec. 31, 2005
▪ Net inventories	22	10,086		4,121			5,965
▪ Net trade receivables	23	53,696	8,529		(372)		61,853
▪ Net other receivables	23	48,782		10,135	(45)		38,602
▪ Supplier payables	29	96,334		11,790	(709)		108,833
▪ Other liabilities		47,893		7,799	57		55,635
Total		**(31,663)**	**8,529**	**33,845**	**(1,069)**		**(58,048)**
Change in operating working capital requirement in 2005				**25,316**			

Other liabilities

This item can be analyzed as follows:

	Note	Dec. 31, 2006	Dec. 31, 2005
Total trade and other payables	29	286,924	221,177
▪ Suppliers of goods and services (incl. VAT)	29	(136,713)	(108,833)
▪ Suppliers of non-current assets (excl. VAT)		(84,921)	(56,660)
▪ Other items with no impact on working capital requirements		(2,147)	(49)
Recognized in cash flow statement		**63,143**	**55,635**

Acquisitions of non-current assets

Acquisitions of non-current assets break down as follows:

	Note	2006	2005
▪ Intangible assets	18	1,617	1,075
▪ Property, plant and equipment	20	315,540	206,200
▪ Suppliers of non-current assets (excl. VAT)			
. at beginning of year		56,660	67,098
. impact of changes in Group structure		526	0
. at year-end		(84,921)	(56,660)
Recognized in cash flow statement		**289,422**	**217,713**

Cash and cash equivalents

	Note	Cash and cash equivalents at Dec. 31, 2006	Cash and cash equivalents at Dec. 31, 2005
Cash	24	275,270	35,584
Marketable securities	24	4,270	15,505
Sub-total		***279,540***	***51,089***
Bank borrowing facilities	28	(3,216)	(1,673)
Total		**276,324**	**49,416**

Non-monetary flows relating to investing and financing activities

The following table presents transactions carried out by the Iliad Group that did not have an impact on cash flows, and which are therefore not included in the cash flow statement.

(in € thousands)	2006	2005
▪ Acquisitions of assets under finance leases	7,745	2,997
▪ Acquisition of a company through a share issue	0	0
▪ Conversion of debt into equity	0	0

NOTE 16: SEGMENT REPORTING

Segment reporting format

The Iliad Group's primary segment reporting format is business segments.

As almost all of its operations are in France, the Group only has one geographic segment.

Identifying business segments

The Group's operations are made up of two business segments, defined based on operating criteria:

- The **Broadband** segment, which includes Internet service provider operations (marketed under Free and related brands), hosting services (the Online, BookMyName and Dedibox brands), call center operations (Centrapel and Total Call), Wimax activities (operated by IFW) and optical fiber operations (carried out by IRE, PN and Citéfibre).

- The **Traditional Telephony** segment, which includes switched fixed-line telephony (One.Tel and Iliad Telecom), prepaid phone cards (Kertel), resale of minutes to operators (Kedra), directory services (mainly the ANNU reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging) and e-commerce operations (Assunet.com).

The former Internet segment has been renamed Broadband in order to reflect the dominant proportion of revenues generated by ADSL broadband and optional value-added services. All of the Group's other offerings – which now account for a much less significant proportion of revenues – have been brought together within the Traditional Telephony segment. The new segment reporting format complies with the criteria set out in IAS 14.

These business segments may change in the future, depending on operating criteria and the development of the Group's businesses.

Analysis of the consolidated income statement by business segment

2006	Broadband	Traditional Telephony	Inter-segment	Total
Revenues				
External revenues	842,222	108,039		**950,261**
Inter-segment revenues	39,358	43,205	(82,563)	**0**
Total revenues	881,580	151,244	(82,563)	**950,261**
Earnings				
EBITDA	307,918	23,667	0	**331,585**
Depreciation and amortization	144,961	1,430	0	**146,391**
Profit from ordinary activities	162,957	22,237	0	**185,194**

2005	Broadband	Traditional Telephony	Inter-segment	Total
Revenues				
External revenues	578,114	146,087		**724,201**
Inter-segment revenues	60,809	31,948	(92,757)	**0**
Total revenues	638,923	178,035	(92,757)	**724,201**
Earnings				
EBITDA	199,547	24,766	0	**224,313**
Depreciation and amortization	115,472	1,155	0	**116,627**
Profit from ordinary activities	84,075	23,611	0	**107,686**

Capital expenditure by business segment

2006	Broadband	Traditional Telephony	Inter-segment	Total
Intangible assets	1,614	2	0	**1,616**
Property, plant and equipment	295,267	454	0	**295,721**

2005	Broadband	Traditional Telephony	Inter-segment	Total
Intangible assets	55,264	77	0	**55,341**
Property, plant and equipment	217,385	983	0	**218,368**

Employee numbers by business segment

2006	Broadband	Traditional Telephony	Inter-segment	Total
Number of employees at year-end	1,709	68	0	**1,777**

2005	Broadband	Traditional Telephony	Inter-segment	Total
Number of employees at year-end	1,053	75	0	**1,128**

Analysis of consolidated assets by business segment

At December 31, 2006	Broadband	Traditional Telephony	Total
Non-current assets (excl. deferred taxes)	**623,046**	**5,279**	**628,325**
Current assets (excl. cash and cash equivalents)	**101,540**	**24,496**	**126,036**
Inventories	2,364	572	**2,936**
Trade and other receivables	98,851	23,924	**122,775**
Other short-term financial assets	325	0	**325**
Cash and cash equivalents			**279,540**

At December 31, 2005	Broadband	Traditional Telephony	Total
Non-current assets (excl. deferred taxes)	**435,473**	**6,924**	**442,397**
Current assets (excl. cash and cash equivalents)	**72,488**	**34,261**	**106,749**
Inventories	4,902	1,063	**5,965**
Trade and other receivables	67,257	33,198	**100,455**
Other short-term financial assets	329	0	**329**
Cash and cash equivalents			**51,089**

Analysis of consolidated equity and liabilities by business segment (excluding Group financing)

At December 31, 2006	Broadband	Traditional Telephony	Total
Non-current liabilities (excl. deferred taxes)	**19,794**	**2,008**	**21,802**
Long-term provisions	498	517	**1,015**
Long-term financial liabilities	9,259	27	**9,286**
Other non-current liabilities	10,037	1,464	**11,501**
Current liabilities (excl. tax liabilities)	**250,182**	**32,119**	**282,301**
Short-term provisions	1,337	130	**1,467**
Trade and other payables	244,046	31,377	**275,423**
Short-term financial liabilities	4,799	612	**5,411**

At December 31, 2005	Broadband	Traditional Telephony	Total
Non-current liabilities (excl. deferred taxes)	**12,185**	**3,231**	**15,416**
Long-term provisions	88	507	**595**
Long-term financial liabilities	4,997	26	**5,023**
Other non-current liabilities	7,100	2,698	**9,798**
Current liabilities (excl. tax liabilities)	**182,793**	**36,901**	**219,694**
Short-term provisions	375	363	**738**
Trade and other payables	175,240	36,139	**211,379**
Short-term financial liabilities	7,178	399	**7,577**

NOTE 17: GOODWILL

Goodwill breaks down as follows:

(in € thousands)	At December 31, 2006			At Dec. 31, 2005
	Gross	Impairment	Net	Net
FREE	7,757	0	7,757	2,676
KERTEL	2,721	0	2,721	2,721
FREEBOX	1,568	0	1,568	841
IFW (1)	18,684	0	18,684	18,684
CITEFIBRE (2)	3,844	0	3,844	0
Total	**34,574**	**0**	**34,574**	**24,922**

(1) Goodwill relating to IFW was still being analyzed at December 31, 2005.
(2) Goodwill relating to Citéfibre was still being analyzed at December 31, 2006.

The main movements in goodwill in 2006 and 2005 were as follows:

(in € thousands)	2006	2005
Net amount at Jan. 1	24,922	4,460
Increase following acquisitions:		
▪ FREE	5,081	937
▪ FREEBOX	727	841
▪ IFW	0	18,684
▪ CITEFIBRE	3,844	
Net amount at Dec. 31	**34,574**	**24,922**

Changes in 2006

➢ FREE

In 2005 and 2006, Free, a wholly-owned Iliad subsidiary, issued shares further to the exercise of founders' share subscription warrants (BSPCE) granted in prior years to certain employees. As Iliad wished to retain full ownership of Free, the Company purchased these newly issued shares from the beneficiaries of the exercised warrants.

Total goodwill of €937,000 and €5,081,000 was recorded in the consolidated balance sheets in relation to these share purchases in 2005 and 2006 respectively.

➢ FREEBOX

In 2005 and 2006, the Group purchased several minority interests, recording €841,000 and €727,000 respectively in related goodwill.

➢ IFW

In 2006, Management finalized its analysis of the fair value of the identifiable assets, liabilities and contingent liabilities of Altitude Telecom, which was acquired in November 2005 and has since been renamed IFW.

Following this analysis, the full €54,266,000 originally recorded as goodwill was allocated to the fair value of IFW's 3.5 GHz Wimax license for mainland France which was included in the assets purchased on the acquisition of the company. Consequently, this amount has been reclassified under intangible assets.

The €18,684,000 still recorded under goodwill for IFW reflects the recognition of a deferred tax liability in the same amount concerning IFW's Wimax license.

As the goodwill analysis relating to the acquisition of IFW was completed within 12 months of the acquisition date, the 2005 financial statements have been adjusted as follows:

- Impact on goodwill: (€35,582,000), representing the reclassification of the original goodwill amount of €54,266,000 and the corresponding recognition of a deferred tax liability.
- Impact on intangible assets: €54,266,000.
- Impact on deferred taxes: €18,684,000.

These adjustments had no impact on the consolidated income statement.

➢ CITEFIBRE

The fair value of Citéfibre's identifiable assets, liabilities and contingent liabilities was in the process of being analyzed at the balance sheet date. Management estimates that this analysis will be completed within the twelve months following the acquisition.

NOTE 18: OTHER INTANGIBLE ASSETS

Other intangible assets break down as follows:

(in € thousands)	At December 31, 2006			At December 31, 2005		
	Gross	Amortization	Net	Gross	Amortization	Net
Acquisitions:						
▪ Development costs	231	52	179	77	8	69
▪ Wimax license	54,266	0	54,266	54,266	0	54,266
▪ Other	1,406	735	671	1,001	678	323
Internally-generated intangible assets						
▪ Development costs	2,137	842	1,295	1,542	608	934
▪ Other	0	0	0	0	0	0
Total	**58,040**	**1,629**	**56,411**	**56,856**	**1,294**	**55,592**

There are no restrictions on the legal title of the Group's intangible assets, and none of these assets have been pledged as security for borrowings.

Changes in net intangible assets can be analyzed as follows:

(in € thousands)	2006	2005
Net amount at Jan. 1	55,592	975
. Acquisitions	379	176
. Internally-generated intangible assets	1,238	899
Disposals	0	0
Impact of changes in Group structure	306	0
Amortization	(1,104)	(872)
Translation adjustments	0	0
Reclassifications	0	148
Allocation of the fair value of the Wimax license	0	54,266
Net amount at Dec. 31	**56,411**	**55,592**

The Group will begin to amortize the Wimax license when it is able to launch the related commercial offering to the general public.

Impairment of intangible assets

There was no indication at the balance sheet date that any intangible assets were impaired, either at the level of the Iliad Group, or at the level of each cash-generating unit (CGU). Consequently no impairment tests were performed.

NOTE 19: IMPAIRMENT TESTS ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Allocating goodwill to CGUs

The CGUs identified by the Iliad Group correspond to the Group's business segments.

For the purpose of impairment testing, goodwill was allocated to two CGUs:

- Goodwill relating to Free, Freebox and IFW was allocated to the Broadband CGU, to which Citéfibre goodwill will also be allocated once the analysis that is currently in process is completed. The aggregate amount of this goodwill was €13,169,000.

- Goodwill relating to Kertel was allocated to the Traditional Telephony CGU, totaling €2,721,000.

Allocation of intangible assets with indefinite useful lives

The Iliad Group does not have any intangible assets with indefinite useful lives.

Impairment tests

The recoverable amounts of the Group's CGUs were determined, based on fair value less costs to sell. No impairment losses were recorded, as the recoverable amounts of the CGUs were not lower than their carrying amounts.

As over 90% of the Group's operations correspond to the Broadband CGU, the fair value less costs to sell of this CGU was determined by reference to the Group's market value.

NOTE 20: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment can be analyzed as follows:

(in € thousands)	At December 31, 2006			At December 31, 2005		
	Gross	Depreciation	Net	Gross	Depreciation	Net
▪ Land and buildings	963	331	632	963	299	664
▪ Network usage rights	118,956	10,853	108,103	104,294	6,073	98,221
▪ Service access fees	203,681	84,032	119,649	142,449	42,423	100,026
▪ Network equipment (1)	419,188	128,981	290,207	218,614	69,563	149,051
▪ Other	22,175	7,562	14,613	14,775	5,493	9,282
Total	**764,963**	**231,759**	**533,204**	**481,095**	**123,851**	**357,244**
(1) of which finance leases	19,588	10,382	9,206	12,446	7,664	4,782

There are no restrictions on the legal title of the Group's property, plant and equipment, and none of these assets have been pledged as security for borrowings.

Changes in net property, plant and equipment can be analyzed as follows:

(in € thousands)	2006	2005
Net amount at Jan. 1	357,244	267,649
Acquisitions (*)	323,285	209,197
Disposals	(3,487)	(3,688)
Impact of changes in Group structure	1,449	(11)
Depreciation	(145,287)	(115,755)
Translation adjustments	0	0
Reclassifications	0	(148)
Net amount at Dec. 31	**533,204**	**357,244**
(*) excluding assets acquired under finance leases	315,540	206,200

Comments on 2006 data

In 2006, the Iliad Group continued to invest heavily in building up its network in order to enable its customers to benefit from the latest technological developments. As part of this strategy, Iliad pursued its capital outlay program for optical fiber, which is either installed directly by the Group or used in accordance with Indefeasable Rights of Use (IRU) contracts. It also rolled out and renewed network equipment and in April 2006 launched the new Freebox HD modem designed by the Group's research teams, which is equipped with numerous state-of-the-art features.

Also during the year, the Group began work on rolling out its FTTH optical fiber network with a view to providing each home in the areas concerned with optical fiber dedicated to multi-media use.

Comments on 2005 data

In 2005, the Iliad Group invested heavily in optical fibers to build up a network covering most of France and the country's main towns and cities. For this purpose, it entered into long-term IRU contracts for dark optical fibers and made the necessary investments to light the optical fibers.

In addition to capital expenditures on optical fiber during the network roll-out phase, the ongoing development of the broadband offering required major outlay, corresponding to measures implemented to make available Freebox modems and install Freebox DSLAMs, as well as to payment of service access fees to France Telecom in relation to Options 1 and 5 provided under Free's ADSL offer.

At December 31, 2005, the Iliad Group had replaced all of the older-version Freebox DSLAMs.

Impairment of property, plant and equipment

There was no indication at the balance sheet date that any item of property, plant and equipment was impaired, either at the level of the Iliad Group, or at the level of each cash-generating-unit. Consequently, no impairment tests were performed.

Assets under construction

The carrying amount of assets under construction is included in the carrying amounts of each item of property, plant and equipment, as follows:

(in € thousands)	At December 31, 2006	At December 31, 2005
▪ Network usage rights	3,682	6,183
▪ Network equipment	36,563	8,434
Total	**40,245**	**14,617**

NOTE 21: OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

(in € thousands)	At December 31, 2006 Net	At December 31, 2005 Net
Other long-term financial assets		
▪ Loans	2,318	2,643
▪ Other investment securities	322	598
▪ Guarantee deposits	1,496	1,398
Total other long-term financial assets	**4,136**	**4,639**
Other short-term financial assets		
▪ Loans	325	310
▪ Other	0	19
Total other short-term financial assets	**325**	**329**
Total other financial assets	**4,461**	**4,968**

Other short-term and long-term financial assets correspond to the portion of receivables due within one year and beyond one year respectively.

Other financial assets break down as follows by function:

(in € thousands)	At December 31, 2006 Net	At December 31, 2005 Net
▪ Financial assets at fair value through profit or loss	322	598
▪ Held-for-trading investments	0	0
▪ Held-to-maturity investments	0	0
▪ Loans and receivables issued by the Group	4,139	4,351
▪ Available-for-sale financial assets	0	19
Total other financial assets	**4,461**	**4,968**

Changes in net other financial assets can be analyzed as follows:

(in € thousands)	2006	2005
Net amount at Jan. 1	4,968	5,366
Acquisitions	609	61
Redemptions	(470)	(362)
Impact of changes in Group structure	79	(9)
Additions to provisions	(725)	(88)
Net amount at Dec. 31	**4,461**	**4,968**

NOTE 22: INVENTORIES

Inventories break down as follows:

(in € thousands)	At December 31, 2006	At December 31, 2005
Raw materials	207	3,783
Work-in-progress	0	1,344
Finished products	3,145	974
Inventories – gross	**3,352**	**6,101**
Provisions:		
. raw materials	(207)	(136)
. finished products	(209)	0
Total provisions	**(416)**	**(136)**
Inventories – net	**2,936**	**5,965**

Comments on 2006 data

Finished products inventories correspond primarily to Wi-Fi cards, as well as cell phones and accessories marketed by the Iliad Group since the launch of the new Freebox HD modem.

Since 2006, electronic components and other specific equipment intended for the production of Freebox modems have been classified as property, plant and equipment under construction.

Comments on 2005 data

Raw materials and work-in-progress primarily comprise electronic components intended for the production of Freebox modems and other specific equipment.

Finished products correspond primarily to inventories of Kertel prepaid telephone cards.

In 2005, reversals of impairment losses on inventories, recorded as a deduction under changes in inventories, totaled €360,000.

NOTE 23: TRADE AND OTHER RECEIVABLES

Trade and other receivables break down as follows:

(in € thousands)	At December 31, 2006	At December 31, 2005
Trade and other receivables		
Trade receivables	76,706	70,477
Advances and prepayments	593	347
Tax receivables (VAT)	37,642	27,121
Other receivables	9,593	4,603
Prepaid expenses	8,811	8,536
Total – gross	**133,345**	**111,084**
Provisions for trade receivables	(9,351)	(8,624)
Provisions for other receivables	(1,219)	(2,005)
Net trade and other receivables	**122,775**	**100,455**
Net trade receivables	67,355	61,853
Net other receivables	55,420	38,602

NOTE 24: CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be analyzed as follows:

(in € thousands)	At December 31, 2006		At December 31, 2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Marketable securities **Net value**	**0**	**0**	**0**	**0**
Money-market mutual funds **Net value**	**4,270**	**4,270**	**15,505**	**15,505**
Cash	**275,270**	**275,270**	**35,584**	**35,584**
TOTAL, net	**279,540**	**279,540**	**51,089**	**51,089**

The Group's portfolio of money-market mutual funds consists of units that can be sold at immediate notice and which fall within the ''euro monetary'' and ''international monetary'' classifications of the French securities regulator (AMF).

NOTE 25: EQUITY

Share capital

Changes in Iliad's share capital were as follows in 2005 and 2006:

On March 15, 2005, all of the founders' share subscription warrants (BSPCE) issued by Iliad in 2001 and 2002 were exercised by their beneficiaries. A total of 699,320 new Iliad shares were issued to cover the exercise of these warrants, leading to a €131,000 increase in the Company's share capital.

On July 11, 2005, Iliad's share capital was raised by a further €1,869,000 by capitalizing reserves without issuing securities.

At December 31, 2005, Iliad's share capital amounted to €12,000,000, made up of 54,151,550 shares all fully paid up. At the same date, the Group held 4,150 treasury shares.

There were no changes in Iliad's share capital during 2006 and at December 31, 2006 the Group held 19,000 treasury shares.

At December 31, 2006, Iliad's ownership structure was as follows:

Shareholder	Number of shares	%
Executive Management	40,038,263	73.94
Public	14,113,287	26.06
Total	**54,151,550**	**100.00**

Dividends paid and dividends recommended to shareholders at the Annual General Meeting

Dividends paid in 2006 for 2005 totaled €10,830,000. At the next Annual General Meeting, shareholders will be invited to approve a total dividend payment of €14,621,000, representing €0.27 per share.

Profit and loss recognized in equity

No profit or loss was recognized in equity in 2006 or 2005.

Reserves

(in € thousands)	At December 31, 2006	At December 31, 2005
▪ Legal reserve	1,200	1,000
▪ Long-term capital gains reserve	0	0
▪ Other reserves	110,793	46,724
▪ Retained earnings	50,150	33,231
▪ Reserves relating to:		
. Revaluation of property, plant and equipment	0	0
. Revaluation of intangible assets	0	0
. Revaluation of available-for-sale financial assets	0	0
. Cash flow hedges	0	0
. Translation adjustments	0	0
. Current and deferred tax on items recorded directly in, or transferred from, equity	0	0
. Equity-settled share-based payments	0	0
▪ Profit for the period	123,871	68,898
Total	**286,014**	**149,853**

Apart from the legal reserve, there were no restrictions on the distribution of reserves included in equity at December 31, 2006.

NOTE 26: STOCK OPTION PLANS

The following tables summarize the main features of the various stock option plans approved in 2006 and prior years and outstanding at the year-end.

At December 31, 2006

Date of Shareholders' Meeting	Date of plan launch	Number of options exercisable	Number of beneficiaries	Exercise price (in €)	Number of options exercised in 2006	Options outstanding at Dec. 31, 2006
December 12, 2003	January 20, 2004	409,434	19	16.30	0	409,434
December 12, 2003	December 20, 2005	536,931	81	48.44	0	536,931
Total						**946,365**

The exercise date for options granted under the January 20, 2004 plan is January 20, 2008. Half of the options granted under the December 20, 2005 plan have an exercise date of December 20, 2009, and the exercise date for the remainder is December 20, 2010.

At December 31, 2005

Date of Shareholders' Meeting	Date of plan launch	Number of options exercisable	Number of beneficiaries	Exercise price (in €)	Number of options exercised in 2005	Options outstanding at Dec. 31, 2005
June 28, 2001	June 28, 2001	104,010	1	2.97	104,010	0
August 12, 2002	August 12, 2002	595,310	1	4.67	595,310	0
December 12, 2003	January 20, 2004	444,132	21	16.30	0	444,132
December 12, 2003	December 20, 2005	541,515	84	48.44	0	541,515
Total						**985,647**

The exercise price of options granted on December 20, 2005 was set based on the average price of the Iliad share over the twenty trading days preceding the grant date.

The Iliad Group has applied the requirements set out in IFRS 2, *Share-based Payment* to its stock option plans where such application is compulsory. Consequently, stock options granted prior to November 7, 2002 have not been restated.

Fair value of options granted

The fair value of the options granted was calculated using the Black-Scholes option pricing model.

The main assumptions applied under this model were as follows:

	At Dec. 19, 2006	At Dec. 19, 2005	At Jan 20, 2004
Quantity	270,758	270,757	487,769
Exercise price	€48.44	€48.44	€16.30
Underlying volatility	30.4%	30.4%	15%
Life of the options	4 years	5 years	4 years
Annual cost (in € thousands)	865	675	275

The expense recorded in relation to these plans totaled €1,815,000 in 2006 and €318,000 in 2005.

NOTE 27: PROVISIONS

Provisions break down as follows:

(in € thousands)	At December 31, 2006	At December 31, 2005
Long-term provisions		
Provisions for charges	1,015	595
Total long-term provisions	**1,015**	**595**
Short-term provisions		
Provisions for contingencies	1,205	737
Provisions for charges	262	1
Total short-term provisions	**1,467**	**738**
Total provisions	**2,482**	**1,333**

Provisions are considered to be ''long-term'' when the Iliad Group does not expect to use them within twelve months after the balance sheet date. In all other cases they are deemed to be ''short-term''.

Provisions for contingencies and charges break down as follows:

(in € thousands)	At December 31, 2006	At December 31, 2005
Provisions for charges	1,277	596
Provisions for contingencies	1,205	737
Total provisions for contingencies and charges	**2,482**	**1,333**

Movements in provisions for contingencies and charges were as follows in 2006:

(in € thousands)	At Dec. 31, 2005	Increases in 2006	Decreases in 2006 (utilizations)	Decreases in 2006 (surplus provisions)	Changes in Group structure	Changes in foreign exchange rates	At Dec. 31, 2006
Provisions for claims and litigation and general contingencies	707	950	235	217	0	0	1,205
Provisions for restructuring costs	30	0	30	0	0	0	0
Other	596	679	1	12	15	0	1,277
Total	**1,333**	**1,629**	**266**	**229**	**15**	**0**	**2,482**

Movements in provisions for contingencies and charges were as follows in 2005:

(in € thousands)	At Dec. 31, 2004	Increase in 2005	Decreases in 2005 (utilizations)	Decreases in 2005 (surplus provisions)	Changes in Group structure	Changes in foreign exchange rates	At Dec. 31, 2006
Provisions for claims and litigation and general contingencies	788	202	92	191	0	0	707
Provisions for restructuring costs	194	0	164	0	0	0	30
Other	510	92	5	0	(1)	0	596
Total	**1,492**	**294**	**261**	**191**	**(1)**	**0**	**1,333**

The impact (net of charges incurred) of movements in provisions on operating profit and net financial expense was as follows:

(in € thousands)	2006	2005
Operating profit	(1,140)	(103)
Net financial expense	(260)	0
Total	**(1,400)**	**(103)**

NOTE 28: FINANCIAL LIABILITIES

Financial liabilities can be analyzed as follows:

(in € thousands)	At December 31, 2006	At December 31, 2005
Bank borrowings	1,766	63,707
Bonds	295,416	0
Borrowings related to finance leases	5,650	2,290
Other	42	26
Total long-term financial liabilities	**302,874**	**66,023**
Bank borrowings	941	19,512
Bonds	3,707	0
Borrowings related to finance leases	3,066	2,170
Other bank borrowing facilities	3,216	1,673
Other	16	222
Total short-term financial liabilities	**10,946**	**23,577**
Total	**313,820**	**89,600**

Short-term and long-term financial liabilities correspond to the portion of payables due within one year and beyond one year respectively.

All Group borrowings are in euros.

The table below summarizes movements in borrowings in 2006 and 2005:

(in € thousands)	2006	2005
Borrowings at Jan. 1	89,600	29,356
New borrowings (*)	333,998	74,284
Bonds (reallocation of equity component)	(34,026)	0
Repayments of borrowings	(84,139)	(8,325)
Change in other bank borrowing facilities	1,386	(5,719)
Impact of changes in Group structure	183	0
Interest on OCEANE bonds and bond premium	6,893	0
Other	(75)	4
Total borrowings at Dec. 31	**313,820**	**89,600**
(*) excluding borrowings related to finance leases	326,262	71,287

Bonds

On June 21, 2006, Iliad issued 3,265,190 OCEANE bonds convertible into new shares and/or exchangeable for existing shares, with a total face value of €287.5 million and bearing interest at a rate of 2.20%. After the full exercise of the greenshoe option to the financial institutions which underwrote the issue, the number of OCEANE bonds outstanding at June 29, 2006 totaled 3,754,968, representing a total value of €330.6 million.

The bonds mature on January 1, 2012 and are redeemable at face value, i.e. €88.05 per bond.

The liability component of the OCEANE bond issue can be analyzed as follows at December 31, 2006:

(in € thousands)	**At December 31, 2006**
Face value of the bonds issued on June 29, 2006	330,625
Issuance costs	(4,371)
Net impact on 2006 cash flow	**326,254**
Equity component (gross value)	(34,026)
Liability component at December 31, 2006	**292,228**

The impact of the bond issue on the Group's equity was as follows:

(in € thousands)	**At December 31, 2006**
Equity component (gross value)	34,026
Deferred tax impact	(11,716)
Net impact on equity	**22,310**

Guarantees given

The Iliad Group has not given any specific guarantees in return for its existing borrowing facilities with banks.

Description of the Group's main bank borrowing facilities outstanding at December 31, 2006

At December 31, 2006 the Group no longer had any significant outstanding bank borrowings.

Breakdown of borrowings by type of rate

Gross borrowings at the year-end can be analyzed as follows by type of rate:

(in € thousands)	At December 31, 2006	At December 31, 2005
Fixed rate borrowings	307,880	4,486
Variable rate borrowings	5,940	85,114
Total borrowings	**313,820**	**89,600**

Breakdown by maturity

The following table presents borrowings by nature and by maturity at December 31, 2006:

(in € thousands)	Due within 1 year	Due in 1 to 2 years	Due in 2 to 3 years	Due in 3 to 4 years	Due in 4 to 5 years	Due beyond 5 years	Total
BONDS	3,707	0	0	0	0	295,416	**299,123**
BANK BORROWINGS	941	940	191	191	190	254	**2,707**
BORROWINGS RELATED TO FINANCE LEASES	3,066	2,823	1,570	464	318	475	**8,716**
OTHER BANK BORROWING FACILITIES	3,216	0	0	0	0	0	**3,216**
OTHER	16	0	0	0	0	42	**58**
TOTAL	**10,946**	**3,763**	**1,761**	**655**	**508**	**296,187**	**313,820**

Description of the Group's main finance leases outstanding at December 31, 2006

As part of its operations, the Group holds several items of equipment (mainly switching equipment) under finance leases with terms of between three and five years.

None of the leasing arrangements contain contingent rent or renewal options, nor do they impose specific restrictions, such as those concerning dividends, additional debt and further leasing.

All of the contracts include bargain purchase options at the end of the lease term.

Present value of future minimum lease payments due under finance leases

The following table presents a reconciliation between total future minimum lease payments due under finance leases at December 31, 2006 and their present value.

(in € thousands)	Due within 1 year	Due between 1 and 5 years	Due beyond 5 years	Total
FUTURE MINIMUM LEASE PAYMENTS	3,066	5,175	475	**8,716**
PRESENT VALUE	3,066	4,813	381	**8,260**

Present value is determined by applying a 4.50% discount rate.

NOTE 29: TRADE AND OTHER PAYABLES

These items break down as follows:

(in € thousands)	At December 31, 2006	At December 31, 2005
Trade and other payables recorded under non-current liabilities		
Trade payables	2,373	2,837
Other payables	9,128	6,961
Sub-total	**11,501**	**9,798**
Trade and other payables recorded under current liabilities		
Trade payables	232,110	171,891
Advances and prepayments	0	15
Accrued taxes and payroll costs	30,843	28,824
Other liabilities	5,251	910
Deferred income	7,219	9,739
Sub-total	**275,423**	**211,379**
Total	**286,924**	**221,177**

Total trade payables can be analyzed as follows

(in € thousands)	At December 31, 2006	At December 31, 2005
Suppliers of goods and services	136,713	108,833
Suppliers of non-current assets	96,734	65,895
Total	**233,447**	**174,728**

NOTE 30: NON-CANCELABLE LEASE COMMITMENTS

Lease expenses recognized in the income statement break down as follows:

(in € thousands)	2006	2005
▪ Minimum future lease payments	4,393	3,597
▪ Contingent rents	92	131
▪ Sub-leases	3,711	3,615
Total	**8,196**	**7,343**

The table below analyzes the Group's commitments under non-cancelable leases at December 31, 2006 by type of asset and by maturity.

(in € thousands) **Type of leased asset**	**Due within 1 year**	**Due in 1 to 2 years**	**Due in 2 to 3 years**	**Due in 3 to 4 years**	**Due in 4 to 5 years**	**Due beyond 5 years**	**Total**
REAL ESTATE	5,160	5,038	2,837	665	665	665	**15,030**
VEHICLES	349	217	39	9	0	0	**614**
EQUIPMENT AND NETWORK INFRASTRUCTURE	2,048	1,371	844	457	276	1,668	**6,664**
TOTAL	**7,557**	**6,626**	**3,720**	**1,131**	**941**	**2,333**	**22,308**

None of the Group's cancelable lease arrangements contain material contingent rents or renewal options, nor do they impose specific restrictions, such as those concerning dividends, additional debt and further leasing.

NOTE 31: RELATED-PARTY TRANSACTIONS

Transactions with key management personnel

- Persons concerned:

Group Management includes members of the Board of Directors of Iliad SA and members of the Management Committee.

- Compensation paid to key management personnel in 2006 and 2005 breaks down as follows:

(in € thousands)	2006	2005
▪ Total compensation	1,074	770
▪ Short-term benefits	0	0
▪ Post-employment benefits	0	0
▪ Other long-term benefits	0	0
▪ Termination benefits	0	0
▪ Share-based payments	1,040	19
Total	**2,114**	**789**

During the year, the Iliad Group purchased the following shares held by certain of the Group's executive managers:

- 18 Freebox shares from Rani Assaf for €120,000.
- 15 Kedra, Kertel and IH shares for an aggregate amount of €85.
- 4,000 PN shares from Xavier Niel for €40,000 (the Group also paid €10,000 to Xavier Niel in interest on a current account).

NOTE 32: EXPOSURE TO EXCHANGE-RATE AND INTEREST-RATE RISKS

Foreign-exchange risk

(in € thousands)	At December 31, 2006		
	US $	Other currencies	Total 2006
Monetary assets	59	0	59
Monetary liabilities	(20,812)	0	(20,812)
Risk exposure – gross	**(20,753)**	**0**	**(20,753)**

Monetary liabilities correspond to routine operating liabilities.

Interest-rate risk

The Group is not subject to any liquidity risk as a result of prepayment clauses undertaken by Group companies nor as a result of non-compliance with financial covenants (ratios, targets, etc.).

Currency hedges

The Iliad Group purchases certain goods and services outside France, and is therefore exposed to foreign-exchange risks arising from various currency exposures, especially with respect to the US dollar. Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Group's functional currency.

The Iliad Group does not systematically hedge these risks.

At December 31, 2006, the Group had entered into contracts maturing in 2007 relating to the following:

- US$ 37.7 million under dollar purchase options
- US$ 37.7 million under dollar sale options.

At December 31, 2006, the Group had recorded a €260,000 provision relating to these contracts.

The Group does not hedge exchange-rate risk on transactions carried out in currencies other than the euro and US$, as the amounts involved are not material.

Financial risk management

The Iliad Group does not use any other derivative instruments and has not set up any cash flow hedges or fair value hedges.

NOTE 33: OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES

Commitments given

The following table itemizes the commitments given by Iliad to third parties:

Beneficiary	**Amount of the commitment (in € thousands)**	**Purpose**
SITA (Suez Environnement)	1,700	Guarantee relating to premises at Rue de la Ville l'Evêque
Neuf Telecom	(1)	Investments relating to network extensions
ARCEP	(2)	Investments to be made by IFW
France Telecom	(3)	Investments relating to dark optical fiber
Société Générale	3,000	Financial guarantee for commitments given by PN

(1) In 2004, the Iliad Group entered into new agreements in order to increase the capillarity of its optical fiber network and to ensure long-term access to the infrastructure. The agreements related to:

- *adding to the Group's network in order to obtain access to France Telecom's new dispatchers, thus significantly extending the accessible area for Freebox products via the unbundling of the local loop;*
- *obtaining an option to extend the term of the majority of the IRU agreements entered into with the Neuf Cégétel Group (formerly Neuf Telecom) up to December 31, 2030.*

These agreements represented a total investment of €60 million, including fiber, equipment and the extension option, for 2004 and 2005.

(2) In a ruling handed down on December 9, 2003, the French Telecommunications Regulatory Authority (ARCEP) granted IFW the right to use across France a batch of frequencies included in the 3.5 GHz bandwidth of the wireless local loop.

In connection with this ruling, IFW committed to guarantee a minimum population coverage rate and to undertake the requisite capital expenditure to do so. The minimum rate was set at 33.4% of the population in Normandy and the Greater Paris area for December 31, 2005. At the same date it was set at 5% of the population for other regions in mainland France, to be raised to 7% at December 31, 2008 and 9% at December 31, 2011.

(3) In April 2006, the Iliad Group signed an agreement subscribing to France Telecom's subscriber connection node service which involves leasing dark optical fibers specially dedicated to unbundling operators.

Under this open-ended agreement, the Group can request France Telecom to provide it with one or more dark optical fiber links between (i) one of France Telecom's subscriber connection nodes where the Group is present and one of Free's POPs[20]; or (ii) between two France Telecom subscriber connection nodes where the Group is present. These services are provided subject to availability and in return for an annual fee.

The Group may decide whether to lease these optical fiber links either for a period of three or fifteen years. In May 2006, the Group issued its first batch of requests for dark optical fiber links for a period of fifteen years.

Commitments received

At December 31, 2006, the Group had several confirmed credit lines totaling a maximum of €245 million, all expiring in more than one year. None of these credit lines had been drawn down at the year-end.

One of the Group's financial partners has granted a €3,000,000 financial guarantee to the Paris City Authorities in connection with the right to use public land granted by the said authorities to the Iliad Group in 2006.

Collateralized debt

None of the property belonging to the Iliad Group has been used as collateral for any debt.

Accrued discounted trade notes

The Iliad Group does not make use of this type of financing.

Statutory training entitlement

In accordance with French Act no. 2004-391 of May 4, 2004 relating to professional training, the Group's French companies grant their employees an entitlement to at least 20 hours' training per calendar year, which may be carried forward for up to six years. If all or part of the cumulative entitlement is not used within six years, it is capped at 120 hours.

In order for the Group to approve any training, an employee making a request must show that the training program concerned will assist with his or her career development within the Group. Consequently no related provisions have been recorded. At December 31, 2006 the Group's employees had accumulated a total of 32,200 unused training hours.

[20] A POP (Point of Presence) is an operator's physical site from which the operator can use an interconnection link to connect to the interconnect point of another operator.

Dependence of the Iliad Group on patents and licenses

The Iliad Group holds a license to use the One.Tel brand in France, granted in 2001 by Centrica Telecommunications Ltd for a 10-year period in return for an annual fee based on revenues but capped at €250,000.

Claims and litigation

Group companies are involved in a certain number of disputes arising in the normal course of business. When the Group and its counsels estimate that charges are likely to result, provisions for contingencies and charges are recorded, in accordance with IAS 37.

The Group considers that the provisions set up to cover such contingencies, litigation or disputes known of or in progress at December 31, 2006 are sufficient to ensure that there would be no material impact on the Group's consolidated financial position in the event of unfavorable outcomes.

NOTE 34: EVENTS AFTER THE BALANCE SHEET DATE

On January 11, 2007, Iliad signed an agreement with Proximania concerning the sale of Kertel SA. The sale was completed on February 7, 2007. The sale price amounted to €12 million plus Kertel's cash net of debt at the date of sale. The price includes a €6 million seller's loan repayable between June 29 and December 31, 2007.

Kertel – which specializes in selling and recharging prepaid telephone cards – was wholly-owned and fully consolidated by the Iliad Group. It formed part of the Group's Traditional Telephony segment.

Kertel's key income statement figures were as follows in 2005 and 2006:

(in € thousands)	2006	2005
	Data reported by Kertel (fully attributable to the Iliad Group)	Data reported by Kertel (fully attributable to the Iliad Group)
Revenues	40,038	53,325
Earnings before interest, tax, depreciation and amortization (EBITDA)	4,902	2,764
Profit from ordinary activities	4,656	2,281
Operating profit	4,656	2,281

Consolidation adjustments relating to these figures were not material.

The completion of the sale of Kertel was still uncertain at the balance sheet date. As this subsidiary does not represent a material portion of the Group's operations, Management did not consider it appropriate to include the impact of the transaction in profit for the period from discontinued operations.

In February 2007, Wal Services and two former Iliad employees – Messrs Chami and Gohon - issued a petition to the Paris High Court (*Tribunal de Grande Instance*) against Iliad and Messrs Poidatz, Niel, Boukobza and Rosenfeld, claiming that they were subject to fraud and duress in March 2002 when Iliad and Mr Niel acquired the plaintiffs' shares.

Under this petition - which was issued 5 years after the facts in question and 3 years after Iliad's stock market flotation - the plaintiffs are claiming the restitution of their shares, and if such restitution proves impossible, compensation from Iliad and its senior managers amounting to €102 million for Messrs Chami and Gohon and €802 million for Wal Services.

Although the outcome of this litigation cannot be determined at this stage, Iliad considers that the claims issued by Wal Services and Messrs Chami and Gohon are unfounded and that the plaintiffs were subject neither to fraud nor to any form of duress.

NOTE 35: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2006

	Registration number	Head office	Percentage control Dec. 31, 2006	Percentage control Dec. 31, 2005	Percentage ownership Dec. 31, 2006	Percentage ownership Dec. 31, 2005	Consolidation method in 2006
ILIAD 8 rue de la Ville l'Evêque 75008 PARIS	342 376 332	Paris	100.00%	100.00%	100.00%	100.00%	Full
ASSUNET 8 rue de la Ville l'Evêque 75008 PARIS	421 259 797	Paris	89.92%	89.88%	89.92%	89.88%	Full
CENTRAPEL 8 rue de la Ville l'Evêque 75008 PARIS	434 130 860	Paris	99.98%	99.98%	99.98%	99.98%	Full
CITEFIBRE 8 rue de la Ville l'Evêque 75008 PARIS	479 015 240	Paris	99.78%	0	99.78%	0	Full
DEDIBOX 8 rue de la Ville l'Evêque 75008 PARIS	484 961 206	Paris	90.00%	90.00%	90.00%	90.00%	Full
FREE 8 rue de la Ville l'Evêque 75008 PARIS	421 938 861	Paris	100.00%	100.00%	100.00%	100.00%	Full
FREEBOX 8 rue de la Ville l'Evêque 75008 PARIS	433 910 616	Paris	95.79%	95.43%	95.79%	95.43%	Full
IFW 8 rue de la Ville l'Evêque 75008 PARIS	400 089 942	Paris	100.00%	100.00%	100.00%	100.00%	Full
IH 8 rue de la Ville l'Evêque 75008 PARIS	441 532 173	Paris	100.00%	99.98%	100.00%	99.98%	Full
IRE 8 rue de la Ville l'Evêque 75008 PARIS	489 741 645	Paris	100.00%	0	100.00%	0	Full
KEDRA 8 rue de la Ville l'Evêque 75008 PARIS	439 597 857	Paris	100.00%	99.98%	100.00%	99.98%	Full
KERTEL 8 rue de la Ville l'Evêque 75008 PARIS	422 135 459	Paris	100.00%	100.00%	100.00%	100.00%	Full
ON LINE 8 rue de la Ville l'Evêque 75008 PARIS	433 115 904	Paris	100.00%	100.00%	100.00%	100.00%	Full
ONE TEL 8 rue de la Ville l'Evêque 75008 PARIS	419 392 931	Paris	100.00%	100.00%	100.00%	100.00%	Full
PN 8 rue de la Ville l'Evêque 75008 PARIS	488 095 803	Paris	100.00%	0	100.00%	0	Full
TOTAL CALL Technoparc – Route de Nouceur Sidi Maar Casablanca - Morocco	/	Morocco	100.00%	100.00%	100.00%	100.00%	Full
TOUTCOM 8 rue de la Ville l'Evêque 75008 PARIS	387 601 636	Paris	98.00%	98.00%	98.00%	98.00%	Full

NOTE 36: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2005

	Registration number	Head office	Percentage control Dec. 31, 2005	Percentage control Dec. 31, 2004	Percentage ownership Dec. 31, 2005	Percentage ownership Dec. 31, 2004	Consolidation method in 2005
ILIAD 8 rue de la Ville l'Evêque 75008 PARIS	342 376 332	Paris	100.00%	100.00%	100.00%	100.00%	Full
ASSUNET 8 rue de la Ville l'Evêque 75008 PARIS	421 259 797	Paris	89.88%	89.88%	89.88%	89.88%	Full
CENTRAPEL 8 rue de la Ville l'Evêque 75008 PARIS	434 130 860	Paris	99.98%	99.98%	99.98%	99.98%	Full
DEDIBOX 8 rue de la Ville l'Evêque 75008 PARIS	484 961 206	Paris	90.00%	0	90.00%	0	Full
FREE 8 rue de la Ville l'Evêque 75008 PARIS	421 938 861	Paris	100.00%	100.00%	100.00%	100.00%	Full
FREEBOX 8 rue de la Ville l'Evêque 75008 PARIS	433 910 616	Paris	95.43%	95.00%	95.43%	95.00%	Full
IFW 8 rue de la Ville l'Evêque 75008 PARIS	400 089 942	Paris	100.00%	0	100.00%	0	Full
IH 8 rue de la Ville l'Evêque 75008 PARIS	441 532 173	Paris	99.98%	99.98%	99.98%	99.98%	Full
KEDRA 8 rue de la Ville l'Evêque 75008 PARIS	439 597 857	Paris	99.98%	99.98%	99.98%	99.98%	Full
KERTEL 8 rue de la Ville l'Evêque 75008 PARIS	422 135 459	Paris	100.00%	100.00%	100.00%	100.00%	Full
ON LINE 8 rue de la Ville l'Evêque 75008 PARIS	433 115 904	Paris	100.00%	100.00%	100.00%	100.00%	Full
ONE TEL 8 rue de la Ville l'Evêque 75008 PARIS	419 392 931	Paris	100.00%	100.00%	100.00%	100.00%	Full
SOCIETE 8 rue de la Ville l'Evêque 75008 PARIS	428 116 065	Paris	99.99%	99.99%	99.99%	99.99%	Full
TOTAL CALL Technoparc – Route de Nouceur Sidi Maar Casablanca – Morocco	/	Morocco	100.00%	0	100.00%	0	Full
TOUTCOM 24 rue Emile Menier 75016 PARIS	387 601 636	Paris	98.00%	98.00%	98.00%	98.00%	Full

NOTE 37: CHANGES IN SCOPE OF CONSOLIDATION AND PERCENTAGE CONTROL IN 2006

Consolidated companies

	Percentage control at Dec. 31, 2005	Consolidation method at Dec. 31, 2005	Acquisition date	Percentage control at Dec. 31, 2006	Consolidation method at Dec. 31, 2006
FREEBOX	95.43%	Full	June 7, 2006 Dec. 28, 2006	95.79%	Full
IH	99.98%	Full	Dec. 6, 2006	100.00%	Full
KEDRA	99.98%	Full	Dec. 6, 2006	100.00%	Full
ASSUNET	89.88%	Full	Sept. 19, 2006	89.92%	Full
CITEFIBRE	/	/	Oct. 19, 2006 Oct. 25, 2006	99.78%	Full
IRE	/	/	April 10, 2006	100.00%	Full
PN	/	/	July 1, 2006	100.00%	Full

Deconsolidated companies

	Percentage control at Dec. 31, 2005	Consolidation method at Dec. 31, 2005	Deconsolidation date	Percentage control at Dec. 31, 2006	Consolidation method at Dec. 31, 2006
SOCIETE.COM	99.99%	Full	Aug. 2, 2006	/	/

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(Year ended December 31, 2006)

This is a free translation into English of the Statutory Auditors' report and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the consolidated financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual accounting captions or on information taken outside of the consolidated financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

ILIAD SA

8, rue de La Ville L'Evêque
75008 Paris

To the shareholders,

Following our appointment as Statutory Auditors by your Shareholders' Meeting, we have audited the accompanying consolidated financial statements of Iliad SA for the year ended December 31, 2006.

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

I - 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 management, as well as evaluating the overall presentation of the financial statements. 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 and of the financial position of the Group at December 31, 2006, and of the results of its operations for the year then ended, in accordance with IFRS as adopted for use in the European Union.

II - 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:

Note 3 to the consolidated financial statements describes the critical accounting estimates and judgments made by Management. Our work consisted of assessing the data and assumptions on which these accounting estimates were based; reviewing, on a test basis, the calculations performed by the Company; comparing the accounting estimates made in prior periods with actual results; examining management's procedures for approving these estimates; and verifying that the notes to the financial statements contain the appropriate disclosures as regards the assumptions and options applied by the Company. As part of our assessments, we assessed whether these estimates were reasonable.

Note 17 dealing with goodwill states that at the balance sheet date, management had finalized its analysis of the fair value of the identifiable assets, liabilities and contingent liabilities relating to the acquired company IFW, and in particular the 3.5 GHz Wimax license for mainland France. The final allocation of goodwill is as presented in Note 17. Our work consisted in reviewing the approach adopted by management for valuing the assets acquired and liabilities assumed, and verifying that it was applied correctly.

The 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.

III – Specific verifications

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.

Neuilly-sur-Seine and Paris, May 11, 2007

The Statutory Auditors

PricewaterhouseCoopers Audit **Boissière Expertise Audit**

Xavier Cauchois Tita A. Zeïtoun

20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2006

See table on next page

CONTENTS

BALANCE SHEET – ASSETS

(in € thousands)	Gross	Depr, amort. and provisions	Net at Dec. 31, 2006	Net at Dec. 31, 2005
INTANGIBLE ASSETS				
Concessions, patents and trademarks	154	115	39	54
Other	46	43	3	14
PROPERTY, PLANT AND EQUIPMENT				
Land	119	0	119	119
Buildings	356	237	119	136
Fixtures and fittings	833	646	187	278
Technical equipment	7	7	0	1
Computer equipment	474	396	78	115
Furniture	137	68	69	80
LONG-TERM INVESTMENTS				
Investments in subsidiaries and affiliates	99,720	606	99,114	91,946
Loans and advances to subsidiaries and affiliates	254,503	0	254,503	206,006
Other investment securities	1,753	1,444	309	598
Other	1,014	0	1,014	1,011
TOTAL FIXED ASSETS	**359,116**	**3,562**	**355,554**	**300,358**
Trade receivables	4,238	14	4,224	3,678
Employee-related receivables	0	0	0	1
Recoverable sales taxes	608	0	608	477
Other receivables	12,040	1,220	10,820	603
Marketable securities	5,469	680	4,789	14,729
Cash and cash equivalents	255,981		255,981	6,206
Prepaid expenses	1,087		1,087	168
TOTAL CURRENT ASSETS	**279,423**	**1,914**	**277,509**	**25,862**
ACCRUALS				
Debt issuance costs	3,966	0	3,966	0
Conversion losses	0	0	0	10
TOTAL ASSETS	**642,505**	**5,476**	**637,029**	**326,230**

BALANCE SHEET – EQUITY AND LIABILITIES

(in € thousands)	At Dec. 31, 2006	At Dec. 31, 2005
Capital stock	12,000	12,000
Additional paid-in capital	84,623	86,721
Legal reserve	1,200	1,000
Other reserves	731	731
Retained earnings	50,150	33,231
Interim dividends	0	0
Profit for the year	77,587	27,948
TOTAL EQUITY	**226,291**	**161,631**
Provisions for contingencies	67	10
TOTAL PROVISIONS	**67**	**10**
Bonds	334,334	0
Bank borrowings	16	77,222
Bank overdrafts	15	44
Other	14,825	393
Current accounts with subsidiaries	29,142	59,187
Trade payables	3,964	2,681
Employee-related payables	147	142
Accrued payroll and other employee-related taxes	237	221
Accrued corporate income tax	22,196	22,522
Accrued sales taxes	791	642
Other accrued taxes	113	217
Other liabilities	4,891	1,318
TOTAL LIABILITIES	**410,671**	**164,589**
TOTAL EQUITY AND LIABILITIES	**637,029**	**326,230**

INCOME STATEMENT

(in € thousands)	2006	2005
Sales in France	25,319	20,086
TOTAL REVENUES	**25,319**	**20,086**
Reversals of depreciation, amortization and provisions, expense transfers	354	104
Other revenue	876	58
TOTAL OPERATING REVENUES	**26,549**	**20,248**
Rebilled purchases	12,878	6,205
Other purchases and external charges	10,250	11,916
Taxes other than on income	148	70
Wages and salaries	2,073	1,887
Payroll taxes	857	809
Depreciation and amortization of fixed assets	649	254
Additions to provisions for current assets	13	61
Additions to provisions for contingencies and charges	67	0
Other expenses	282	303
TOTAL OPERATING EXPENSES	**27,217**	**21,505**
OPERATING INCOME/(EXPENSE)	**(668)**	**(1,257)**
Interest and other financial income	76,302	33,253
Reversals of provisions	1,736	54
Net gains on disposals of marketable securities	5,798	170
TOTAL FINANCIAL INCOME	**83,836**	**33,477**
Interest and other financial expense	8,267	3,325
Additions to provisions	276	98
Net losses on disposals of marketable securities	205	1
TOTAL FINANCIAL EXPENSE	**8,748**	**3,424**
NET FINANCIAL INCOME	**75,088**	**30,053**
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS AND TAX	**74,420**	**28,796**

INCOME STATEMENT (CONT'D)

(in € thousands)	2006	2005
Exceptional income from capital transactions	7,840	250
TOTAL EXCEPTIONAL INCOME	**7,840**	**250**
Exceptional expense on capital transactions	3,856	19
TOTAL EXCEPTIONAL EXPENSE	**3,856**	**19**
NET EXCEPTIONAL INCOME	**3,984**	**231**
Corporate income tax	817	1,079
TOTAL INCOME	**118,225**	**53,975**
TOTAL EXPENSE	**40,638**	**26,027**
PROFIT FOR THE YEAR	**77,587**	**27,948**

STATEMENT OF CHANGES IN EQUITY

(In € thousands)	Capital stock	Additional paid-in capital	Retained earnings and other reserves	Profit for the year	Total equity
Equity at December 31, 2004	**10,000**	**83,763**	**26,092**	**12,959**	**132,814**
<u>Movements in 2005</u>					
- Issuance of shares	2,000	2,958	(1,869)		3,089
- Appropriation of 2004 profit			12,959	(12,959)	0
- Dividends paid			(2,166)		(2,166)
- Profit for the year				27,948	27,948
- Other			(54)		(54)
Equity at December 31, 2005	**12,000**	**86,721**	**34,962**	**27,948**	**161,631**
<u>Movements in 2006</u>					
- Appropriation of 2005 profit			27,948	(27,948)	0
- Dividends paid			(10,829)		(10,829)
- Profit for the year				77,587	77,587
- Other		(2,098)			(2,098)
Equity at December 31, 2006	**12,000**	**84,623**	**52,081**	**77,587**	**226,291**

NOTES TO THE FINANCIAL STATEMENTS

The Company financial statements and notes thereto have been prepared based on the following data, within the meaning of Article 17 of the French decree dated November 29, 1983:

- ☞ Year-end : ***December 31, 2006***
- ☞ Accounting period: ***12 months***
- ☞ Previous accounting period: ***12 months***
- ☞ Total assets at December 31, 2006: ***€637,029,000***
- ☞ 2006 revenues: ***€25,319,000***
- ☞ Number of employees at December 31, 2006: **31**

In application of Article 10 of the French Commercial Code (*Code de Commerce*), the attached notes are presented in the standard format. Certain additional material data have also been provided.

Note: Unless otherwise specified, all amounts in the following notes are stated in thousands of euros.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 - Significant events of the year

Iliad created IRE in April 2006 and acquired Citéfibre in October. Also during the year the Company took over PN (a newly-formed company in 2006) with a view to developing the Group's fiber-to-the-home (FTTH) business.

These investments in companies specialized in optical fiber activities have enabled the Group to open up a new avenue of business growth.

In August 2006 Iliad sold its entire interest in Société.com.

In order to finance the Group's growth, in June 2006 the Company carried out a €330.6 million convertible bond issue.

1.2 - General accounting principles

The financial statements have been prepared on a going concern basis, in accordance with French generally accepted accounting principles, including the principles of prudence and segregation of accounting periods, applied consistently from one accounting period to the next.

1.3 - Exceptions

No exceptions to French generally accepted accounting principles were applied in the preparation of these financial statements.

1.4 -Main accounting policies

The main accounting policies applied by the Company are as follows:

1.4.1 - Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are stated at the acquisition cost, including transaction expenses, or at production cost.

Depreciation and amortization are calculated by the straight-line method, as follows:

• Software applications	1 year
• Trademarks	10 years
• Buildings	20 or 30 years
• Fixtures and fittings	10 years
• Plant and equipment	5 years
• Furniture	5 years
• Computer equipment	4 years

1.4.2 - Investments in subsidiaries and affiliates, loans and advances to subsidiaries and affiliates, and other investment securities

Investments in subsidiaries and affiliates, loans and advances to subsidiaries and affiliates, and other investment securities are stated at the lower of cost and fair value, excluding incidental expenses. Fair value is determined based on the net assets of the company concerned and its projected future earnings.

1.4.3 - Receivables

Receivables are stated at nominal value.

A provision is recorded for doubtful accounts based on the estimated risk of non-recovery.

1.4.4 - Foreign currency transactions

Income and expenses in foreign currencies are converted at the exchange rate prevailing on the date of the transaction.

Balance sheet items are converted at the year-end rate.

1.4.5 - Provisions for contingencies and charges

When Iliad's obligations to third parties known at the balance sheet date are certain or likely to cause an outflow of resources, without at least equivalent consideration, a provision is recorded when the amount can be estimated with sufficient reliability.

1.4.6 - Bonds

The issue price of the Company's OCEANE bonds is recognized in full on the liabilities side of the balance sheet, under "Bonds". The related debt issuance costs are being amortized over the life of the bonds.

1.4.7 - Difference between operating and exceptional items

Exceptional income and expense include both exceptional items relating to ordinary activities and extraordinary items.

Exceptional items relating to ordinary activities correspond to items that are unusual in terms of their size or impact or which arise from events that occur rarely.

1.4.8 - Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in France involves the use of estimates and assumptions which may have an impact on the reported amounts in the financial statements and accompanying notes. Actual amounts may differ from these estimates.

2 – NOTES TO THE BALANCE SHEET AT DECEMBER 31, 2006

2.1 – Intangible assets

2.1.1 - Movements in 2006

Movements in intangible assets in 2006 can be analyzed as follows:

	At Jan. 1, 2006	Acquisitions	Disposals	At Dec. 31, 2006
Software	46	0	0	**46**
Trademarks	154	0	0	**154**
TOTAL	**200**	**0**	**0**	**200**

2.1.2 - Trademarks

The Company has registered several trademarks related to its corporate name and businesses.

2.2 – Property, plant and equipment

2.2.1 – Movements in 2006

Movements in property, plant and equipment in 2006 can be analyzed as follows:

	At Jan. 1, 2006	Acquisitions	Disposals	At Dec. 31, 2006
Land	119	0	0	**119**
Buildings	356	0	0	**356**
Fixtures and fittings	824	9	0	**833**
Technical equipment	7	0	0	**7**
Computer equipment	432	42	0	**474**
Furniture	128	9	0	**137**
TOTAL	**1,866**	**60**	**0**	**1,926**

2.2.2 - Analysis of property, plant and equipment

- ***Land and buildings***

The Company owns a building at Rue de Crimée in Paris.

- ***Computer equipment***

  This item corresponds to purchases of computer equipment.

2.3 - Long-term investments

2.3.1 - Movements in 2006

	At Jan. 1, 2006	Acquisitions	Disposals	At Dec. 31, 2006
Investments in subsidiaries and affiliates	94,231	9,352	3,863	**99,720**
LOANS AND ADVANCES TO SUBSIDIARIES AND AFFILIATES	206,053	48,450	0	**254,503**
Other investment securities	1,765	0	12	**1,753**
Guarantee deposits	1,011	4	1	**1,014**
TOTAL	**303,060**	**57,806**	**3,876**	**356,990**

2.3.2 - Investments in subsidiaries and affiliates

The main movements during the year were as follows:

➢ **PN**

Iliad took over the entire capital of PN during the year.

PN is specialized in telecommunications – particularly developing and building optical fiber networks – and holds a license to lay an optical fiber network within Paris. This investment has enabled the Iliad Group to open up a new avenue of business growth.

➢ **Citéfibre**

Iliad purchased Citéfibre on October 19, 2006 and now holds a 99.78 % stake in the company.

Citéfibre is an independent multimedia service provider and is listed on Euronext's "Free Market". It has created the first fiber-to-the-home (FTTH) infrastructure for individuals and SMEs in Paris (mainly in the 15^{th} *arrondissement*). FTTH is ideal for accessing ultra high speed internet services. It is distance-independent and has identical transmission and receiver capacity, thereby facilitating the implementation of interactive services.

This acquisition will enable the Iliad Group to gain a firmer foothold in the optical fiber sector.

Iliad purchased Citéfibre shares for €2,935,000 as well as the current account of one of the company's shareholders for €1,991,000. The net outlay for the investment, taking into account the €325,000 in cash held by Citéfibre at the acquisition date, was €4,601,000. No additional purchase price clauses are included in the acquisition agreement. A number of founder-share warrants are currently outstanding, which expire on January 26, 2010. The exercise of these warrants would result in the issuance of 130,500 new shares.

- **IRE**

On April 20, 2006, Iliad set up a wholly-owned subsidiary, IRE. The main corporate purpose of IRE is to acquire assets and rights to be used by the Broadband segment, particularly premises for housing the infrastructure and equipment required for developing the Group's optical fiber business.

- **Free**

In 2006, Free, a wholly-owned Iliad subsidiary, issued shares further to the exercise of stock options granted in prior years to certain employees. As Iliad wished to retain full ownership of Free, the Company purchased these newly issued shares from the beneficiaries of the exercised options, for €5,476,000.

- **Freebox**

During 2006 Iliad purchased several minority interests in Freebox, raising its interest in the company from 95.43% to 95.79%.

- **Société.com**

In August 2006 Iliad sold its entire 100% stake in Société.com. Out of the total €7,840,000 purchase price, €6,840,000 was paid on completion of the sale, and the balance of €1,000,000 was payable in two equal installments on December 15, 2006 and June 15, 2007.

- **IFW**

In 2005, Iliad acquired IFW. The related purchase agreement contained two clauses which may impact the acquisition price in subsequent periods:

- ✓ €1,003,000 of the acquisition price was deposited in an escrow account. This amount is intended to cover any net debt carried by IFW in excess of that determined on the acquisition date which may be identified between that date and December 31, 2006. If any such additional debt is determined, the acquisition price will be reduced by a corresponding amount, capped at €1,003,000. The analyses relating to this clause will be carried out during 2007.
- ✓ An additional amount up to a maximum of €1 million may be payable if certain clauses of the agreement are exercised by the seller between January 1, 2007 and December 31, 2010. At the date of these financial statements, the conditions for exercising these clauses are being examined. Management does not consider that any additional payment will be required.

2.3.3 - Loans and advances to subsidiaries and affiliates

As specified at the time of Iliad's IPO, a substantial portion of the proceeds from the flotation was used to finance investments in unbundling operations carried out by Free and Freebox.

These investments were still in process during the year ended December 31, 2006.

2.3.4 - List of subsidiaries and affiliates

See table on next page.

(in € thousands)	Capital stock	Retained earnings and other reserves	% ownership	2006 profit/ (loss)	Gross value of shares held	Net value of shares held	Loans and advances granted by the Company	Commitments given	2006 revenues	Dividends received during the year
ASSUNET SA	38	(474)	89.88	213	34	0	39	/	565	0
CENTRAPEL SA	38	(161)	99.98	(1,325)	38	38	3,859	/	29,708	0
CITEFIBRE SA	826	(1,038)	99.78	(1,016)	2,935	2,935	2,765	/	67	0
DEDIBOX SAS	37	0	90.00	48	33	33	2,739	/	922	0
FREE BOX SAS	50	5	95.43	1,358	1,596	1,596	39,238	€1,000 $3,500	166,833	1,676
FREE SAS	3,037	66,028	100.00	103,151	36,332	36,332	189,815	50,723	876,124	24,997
IFW SASU	2,584	1,765	100.00	(2,008)	57,130	57,130	0	/	196	0
IH SA	39	4	99.98	30	39	39	1,360	/	1,017	0
IRE SASU	37	0	100.00	(30)	37	37	2,836	50,000	0	0
KEDRA SA	39	4	99.98	790	39	39	7,943	/	50,662	1,573
KERTEL SA	45	5	100.00	3,260	800	800	0	/	40,038	1,599
ON LINE SASU	85	64	100.00	1,125	85	85	0	/	2,812	1,100
ONE TEL SAS	2,511	11,644	100.00	11,899	0	0	0	/	34,812	37,165
PN SASU	40	0	100.00	(1,011)	40	40	6,713	6,500	5	0
SNDM SARL	2	(436)	100.00	12	297	0	0	/	2	0
TOTAL CALL	9	(211)	100.00	218	9	9	1,104	/	3,389	0
TOUTCOM SARL	8	(1)	98.00	(24)	275	0	23	/	0	0

2.3.5 - Related-party transactions

	Debit balances	Credit balances
Loans and advances to subsidiaries and affiliates	254,503	
Trade receivables	2,609	
Other receivables	10,242	
Business premise guarantees received		398
Miscellaneous borrowings		43,556
Trade payables		391
Other liabilities		1,230
Financial expense	2,360	
Financial income		76,301

2.4 – Depreciation and amortization

Movements in depreciation and amortization are broken down in the following table:

	Depreciation and amortization at Jan. 1, 2006	Increases	Decreases	Depreciation and amortization at Dec. 31, 2006
Intangible assets **SUB-TOTAL I**	**132**	**26**	**0**	**158**
Buildings	220	17	0	237
Plant and equipment	6	1	0	7
Fixtures and fittings	546	100	0	646
Furniture, office and computer equipment	365	99	0	464
SUB-TOTAL II	**1,137**	**217**	**0**	**1,354**
TOTAL (I+II)	**1,269**	**243**	**0**	**1,512**

2.5 – Other assets

2.5.1 – Analysis of receivables by maturity

	Gross amount	Due within 1 year	Due beyond 1 year
Fixed assets			
• Loans and advances to subsidiaries and affiliates	254,503	254,503	0
• Other long-term investments	1,014	0	1,014

Current assets			
• Trade receivables	4,238	4,238	
• Value-added tax	608	608	
• Other receivables (including inter-company current accounts)	12,040	12,040	
• Prepaid expenses	1,087	1,087	
TOTAL	**273,490**	**272,476**	**1,014**

2.5.2 – Debt issuance costs

A total of €4,370,000 was recognized under assets in 2006 corresponding to the costs incurred during the year for Iliad's bond issue (see Note 2.8). These costs are being amortized on a straight-line basis over the life of the bonds.

Changes in debt issuance costs were as follows in 2006:

	Amount (in € thousands)
▪ Debt issuance costs	4,370
▪ Amortization charge for the year	(404)
Net at December 31, 2006	**3,966**

2.6 – Capital stock and changes in capital

2.6.1 – Capital stock

The Company's capital stock at December 31, 2006 amounted to €12,000,000, divided into 54,151,550 fully-paid up shares. No changes in capital stock occurred during 2006.

2.6.2 – Form of the shares

Iliad's shares may be held in either registered or bearer form.

The Company does not have any preferred shares.

2.6.3 – Changes in Iliad's capital

Summary table

Date	Operation	Amount of operation (in € thousands)	Shares issued or cancelled	Total capital (in € thousands)
Jan. 1, 2005	Balance at January 1, 2005		53,452,230	10,000
April 8, 2005	Capital increase by capitalizing issue premiums	131	699,320	10,131
July 11, 2005	Capital increase by capitalizing reserves	1,869	/	12,000
		TOTAL	**54,151,550**	**12,000**

On December 12, 2003, the Shareholders' Meeting:

- Authorized the increase of Iliad's capital by issuing shares and/or share equivalents either with or without pre-emptive subscription rights for existing shareholders. This authorization was granted for a period of twenty-six months, with a ceiling of €400,000 for each issue.

- Authorized the increase of Iliad's capital by issuing shares to certain categories of persons, without pre-emptive subscription rights for existing shareholders. This authorization was granted for a twenty-four month period, with a ceiling of €200,000.

- Gave a sixty-month authorization to increase Iliad's capital by capitalizing reserves, earnings or additional paid-in capital.

- Gave a twenty-six month authorization to increase Iliad's capital by a maximum of €50,000 by issuing shares, without pre-emptive subscription rights for existing shareholders, to members of a savings plan set up by the Company or Group.

- Authorized for a five-year period the issuance of bonds representing an aggregate total of €100 million.

- Gave full powers to the Board of Directors to determine the timing and terms and conditions of the aforementioned capital increases.

Changes in capital stock

The Board of Directors used the authorizations granted at the Shareholders' Meeting held on December 12, 2003 to carry out the following operations in 2005:

- **April 8, 2005**

Issuance of 699,320 Iliad shares following the exercise by beneficiaries of the founders' share warrants granted in 2001 and 2002, leading to a capital increase of €130,830.84.

▪ **July 11, 2005**

Capital increase of €1,869,169.16 through capitalizing reserves without issuing securities.

2.6.4 – Ownership structure

At December 31, 2006, one shareholder (Xavier Niel) owned over two-thirds of the Company's capital.

2.6.5 – Stock option plans

The following table summarizes the main features of the various stock option plans approved in prior years and outstanding at the year-end.

At December 31, 2006

Date of Shareholders' Meeting	Date of plan launch	Number of options exercisable	Number of beneficiaries	Exercise price (in €)	Number of options exercised in 2006	Options outstanding at Dec. 31, 2006
December 12, 2003	January 20, 2004	409,434	19	16.30	0	409,434
December 12, 2003	December 20, 2005	536,931	81	48.44	0	536,931
					Total	**946,365**

2.7 – Provisions for contingencies and charges

Movements in provisions for contingencies and charges in 2006 can be analyzed as follows:

	At Jan. 1, 2006	Additions	Reversals	At Dec. 31, 2006
Provisions for foreign exchange losses	10	0	10	**0**
Other	0	67	0	**67**
TOTAL	**10**	**67**	**10**	**67**
o/w utilizations			**10**	

2.8 – Other liabilities

None of the Company's debts are significantly aged or unusual.

The table below analyzes the Company's liabilities by maturity.

	Gross	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years
• Bonds:				
. due within one year at issue date	3,706	3,706		
. due beyond one year at issue date	330,628	0		330,628
• Bank borrowings:				
. due within one year at inception of loan	16	16		
. due beyond one year at inception of loan	0	0		
• Bank overdrafts	15	15		
• Other borrowings	43,556	43,556		
• Guarantees and deposits received	411	0	411	
• Trade payables	3,964	3,964		
• Employee-related payables	147	147		
• Accrued payroll and other employee-related taxes	237	237		
• Other accrued taxes:				
. Corporate income tax	22,196	22,196		
. VAT	791	791		
. Other	113	113		
• Other liabilities	4,891	4,891		
TOTAL	**410,671**	**79,632**	**411**	**330,628**

Issuance of OCEANE convertible/exchangeable bonds

On June 21, 2006, Iliad issued 3,265,190 OCEANE bonds convertible into new shares and/or exchangeable for existing shares, with a total face value of €287.5 million and bearing interest at a rate of 2.20%. After the full exercise of the greenshoe option granted to the financial institutions which underwrote the issue, the number of OCEANE bonds outstanding at June 29, 2006 totaled 3,754,968, representing a total value of €330.6 million.

The bonds mature on January 1, 2012 and are redeemable at face value, i.e. €88.05 per bond.

3 – 2006 REVIEW OF OPERATIONS

3.1 - Revenues

2006 revenues can be analyzed as follows by segment:

■ Minitel services	€5,211,000
■ Iliad Telecom services	€2,718,000
■ Inter-company re-invoicing	€16,973,000
■ Other	€417,000
TOTAL	**€25,319,000**

All of the Company's revenues are generated in France

3.2 – Number of employees

At December 31, 2006, Iliad had 31 employees, broken down as follows by category:

	Men	Women	Total
• Management	18	9	27
• Other	0	4	4
TOTAL	**18**	**13**	**31**

3.3 – Exceptional items

Net exceptional income came to €3,984,000 in 2006, primarily corresponding to the capital gain realized on the sale of shares in Société.com.

3.4 – Net financial income

Net financial income came to €75,088,000 in 2006, breaking down as follows:

	(in € thousands)
✓ Net interest on subsidiaries' current accounts	5,156
✓ Income from securities	68,769
✓ Overdraft charges, interest on borrowings and other financial expenses	(5,890)
✓ Net gains on disposals of marketable securities	5,456
✓ Additions to provisions	(276)
✓ Reversals of surplus provisions	1,736
✓ Net gains on disposals of treasury shares	137
	75,088

Additions to provisions correspond to:

- ✓ Other investment securities 276

276

3.5 – Remuneration and benefits paid to members of the Company's administrative and management bodies

The tables below set out aggregate information concerning the remuneration and benefits paid to members of Iliad's administrative and management bodies.

Administrative bodies **(in €)**	**2006**	**2005**
▪ Salaries, commission and other remuneration (including lump-sum expense allowances), and paid leave	125,070	118,980
▪ Attendance fees: . Exempt from payroll taxes	60,000	90,000

Management bodies **(in €)**	**2006**	**2005**
▪ Salaries, commission and other remuneration (including lump-sum expense allowances), and paid leave	626,664	604,206
▪ Benefits-in-kind	98,906	46,878

4 – FINANCIAL INFORMATION

4.1 – Finance leases

The Company has entered into finance leases in relation to various equipment required for its business development.

The main characteristics of these leases are as follows:

Value at inception of lease	**299**
Depreciation	
Cumulative depreciation	215
Charge for the year	82
TOTAL	**297**
Lease payments made	
Cumulative payments made	253
Payments for the year	91
TOTAL	**344**
Future minimum lease payments	
Within 1 year	3
1 to 5 years	0
Beyond 5 years	0
TOTAL	**3**
Residual value	
Within 1 year	3
1 to 5 years	0
Amount charged to the income statement for the year	**104**

4.2 – Financial commitments

Guarantees given to third parties

Iliad has given a guarantee to SITA (Suez Environnement) in the amount of 1,700,000 relating to premises at Rue de la Ville l'Evêque.

Guarantees given by Iliad on behalf of Group companies

See table on next page

Company concerned	Beneficiary of the guarantee	Amount of guarantee (in thousands of currency units)	Purpose of guarantee
FREE	DELL NEWCOURT	€930	Lease relating to IT equipment
FREE	Cisco Systems Capital	€9,793	Financing for the purchase of equipment under twenty-five finance and equipment leases
FREE	Banks	€40,000	Joint and several guarantee in relation to loan agreements signed with two banks
FREEBOX	MEMEC France SAS	/	Guarantee for financial commitments made by Freebox
FREEBOX	MICRON EUROPE LTD	€1,000	Guarantee for financial commitments made by Freebox in relation to the provision of electronic components
FREEBOX	SEAGATE	$2,500	Guarantee for financial commitments made by Freebox in relation to the provision of electronic components
FREEBOX	SPANSION	$1,000	Guarantee for financial commitments made by Freebox in relation to the provision of electronic components
IH	Rugelec	/	Guarantee for financial commitments made by IH in relation to a memorandum of understanding signed on December 11, 2003
IRE	GENEFIM	€50,000	12-year guarantee agreement effective from January 11, 2007
ONE TEL	Télé 7 jours	/	Guarantee for financial commitments made by One Tel
PN	DRAKA COMTEQ	€6,500	Joint and several guarantee for the acquisition of cables
PN	Société Générale	€3,000	Financial guarantee for commitments made by PN

4.2.1 – Collateralized debt

None of the property belonging to the Company has been used as collateral for any debt.

4.3 – Post-employment benefit obligations

Actuarial valuations of post-employment benefit obligations are made using the projected unit credit method, with employee rights recorded on an accruals basis.

For each active participant, the benefit likely to be paid is estimated based on the rules defined in the applicable collective-bargaining agreement and/or company-level agreement, using personal data projected to the standard age for payment of the benefit. The Company's total obligations toward each participant (total actuarial value of future benefits) are then calculated by multiplying the estimated benefit by an actuarial factor, which takes into account the following:

- Assumptions concerning the employee’s probability of departure or death before the age of payment of the benefit.
- The discounted value of the benefit at the measurement date.

These obligations are then allocated over each of the past and future years for which rights accrue for beneficiaries under the plan. This allocation can be analyzed as follows:
- The portion of the Company’s obligations allocated to years prior to the measurement date (projected benefit obligation) corresponds to the Company's obligations relating to services rendered. The projected benefit obligation represents the Company’s obligations existing at the balance sheet date.
- The portion of the Company’s obligations allocated to the year following the measurement date (service cost) corresponds to the probable increase in obligations due to the additional year's service that the participant will have provided to the Company at the end of the year.

The individual results of the measurement process are subsequently aggregated to obtain Company-level results.

The Company’s obligation in relation to post-employment benefits amounted to €32,000 at December 31, 2006. This obligation was not recognized in the 2006 financial statements.

5 – OTHER INFORMATION

5.1 – Consolidation

Iliad SA prepares the consolidated financial statements in its capacity as parent company of the Iliad Group.

5.2 – Tax-related information

5.2.1 – Tax group

Iliad has set up a tax group which included the following companies in 2006:
(*See table on next page)*

☞ SA ILIAD
☞ SARL SNDN
☞ SARL TOUTCOM
☞ SA KEDRA
☞ SAS ONE TEL
☞ SA IH
☞ SA CENTRAPEL
☞ SAS FREE BOX
☞ SAS FREE
☞ SASU ONLINE
☞ SA KERTEL
☞ SAS IFW

The following rules apply within the tax group:

- Each company in the tax group, including the parent company, records in its accounts the amount of tax that it would have paid on a stand-alone basis.

- Any tax savings relating to tax losses made by members of the tax group are held at the level of the parent company and therefore do not have any impact on profit. For as long as they remain members of the tax group, subsidiaries may offset their tax losses generated during their membership of the tax group against future taxable income. Iliad records these tax savings on the liabilities side of its balance sheet under "Other liabilities". They totaled €1,230,000 at December 31, 2006.

- Any tax charges or savings relating to adjustments to total earnings, as well as any tax credits for loss-making companies, are recorded at the level of Iliad SA.

- No payments in relation to these matters may be due by Iliad when a company leaves the tax group.

5.2.2 – Deferred taxes

Items subject to adjustments for the purposes of calculating taxable income will have the following expected impact on taxes in future years:

Type of temporary difference	Amount (in € thousands)	
Deferred tax liabilities	/	
TOTAL	**/**	
Total deferred tax liabilities		**/**
Deferred tax assets		
Deferred share acquisition costs	15	
Government housing levy	3	
"Contribution sociale" surtax	13	
TOTAL	**31**	
Total deferred tax assets		**31**
Tax loss carryforwards of the Company	None	

TAX GROUP	
Long-term capital losses	None

5.2.3 – Corporate income tax relating to exceptional items

Corporate income tax payable for 2006 amounted to €817,000 (including surtaxes), breaking down as follows:

- Corporate income tax relating to ordinary activities: €471,000
- Corporate income tax relating to exceptional items: €346,000

5.3 – Information on the segregation of accounting periods

5.3.1 – Accrued income

Accrued income included in balance sheet items can be broken down as follows:

Balance sheet item	Amount
Trade receivables	1,144
Other receivables	78
TOTAL	**1,222**

5.3.2 – Accrued expenses

Accrued expenses included in balance sheet items can be broken down as follows:

Balance sheet item	Amount
Convertible bonds	3,709
Bank borrowings	31
Trade payables	320
Accrued taxes and payroll costs	312
TOTAL	**4,372**

5.3.3 – Prepaid expenses

Prepaid expenses totaled €1,087,000 at December 31, 2006, all of which corresponded to operating items.

5.4 – Events after the balance sheet date

On January 11, 2007, Iliad signed an agreement with Proximania concerning the sale of Kertel SA. The sale was completed on February 7, 2007. The sale price amounted to €12 million plus Kertel's cash net of debt at the date of sale. The price includes a €6 million seller's loan repayable between June 29 and December 31, 2007.

In February 2007, Wal Services and two former Iliad employees – Messrs Chami and Gohon - issued a petition to the Paris High Court (*Tribunal de Grande Instance*) against Iliad and Messrs Poidatz, Niel, Boukobza and Rosenfeld, claiming that they were subject to fraud and duress in March 2002 when Iliad and Mr Neil acquired the plaintiffs' shares.

Under this petition – which was issued 5 years after the facts in question and 3 years after Iliad's stock market flotation – the plaintiffs are claiming the restitution of their shares, and if such restitution proves impossible, compensation from Iliad and its senior managers amounting to €102 million each for Messrs Chami and Gohon and €802 million for Wal Services.

Although the outcome of this litigation cannot be determined at this stage, Iliad considers that the claims issued by Wal Services and Messrs Chami and Gohon are unfounded and that the plaintiffs were subject neither to fraud nor to any form of duress.

ILIAD SA

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

(Year ended December 31, 2006)

PricewaterhouseCoopers Audit

63, rue de Villiers
92208 Neuilly-sur-Seine Cedex
France

Boissière Expertise Audit

57, rue Boissière
75016 Paris
France

ILIAD SA

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

(Year ended December 31, 2006)

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

ILIAD SA

8, rue de La Ville L'Evêque
75008 Paris

To the shareholders,

In compliance with the assignment entrusted to us by your Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2006, on:

- the audit of the accompanying financial statements of Iliad SA;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. our role is to express an opinion on these financial statements based on our audit.

I - Opinion on the 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 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 Management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities as of December 31, 2006, and of the results of its operations for the year then ended, in accordance with the accounting rules and principles applicable in France.

II – 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:

Note 1.4.2 to the financial statements sets out the accounting rules and methods applied in valuing equity interests and associated receivables. As part of our assessment of the accounting rules and principles applied by your Company, we verified that the accounting methods used in respect of the above were appropriate, and that the provisions for impairment were calculated correctly.

The assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the formation of the opinion expressed in the first part of this report.

III – Specific verifications and information

We have also performed the specific verifications required by law in accordance with professional standards applicable in France.

We have no matters to report regarding:

- the fair presentation and the conformity with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements;
- the fair presentation of the information provided in the management report of the Board of Directors in respect of remuneration granted to certain company officers and any other commitments made in their favor in connection with, or subsequent to, their appointment, termination or change in function.

In application of the law, we ensured that the management report contained the appropriate disclosures as regards acquisitions of equity interests and controlling interests and the identity of holders of the Company's shares and voting rights.

Neuilly-sur-Seine and Paris, May 11, 2007

The Statutory Auditors

PricewaterhouseCoopers Audit	**Boissière Expertise Audit**
Xavier Cauchois	Tita A. Zeïtoun

STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS WITH THIRD PARTIES

Year ended December 31, 2006

Boissière Expertise Audit
57, rue Boissière
75116 Paris

Iliad
8, rue de la Ville l'Évêque
75008 Paris

PricewaterhouseCoopers Audit
63, rue de Villiers
92208 Neuilly-sur-Seine cedex

STATUTORY AUDITOR' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS WITH THIRD PARTIES

Year ended December 31, 2006

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments issued in French and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Iliad SA

8, rue de la Ville l'Évêque

75008 Paris

To the shareholders,

In our capacity as Statutory Auditors of Iliad SA, we hereby report to shareholders on regulated agreements and commitments with third parties.

I - AGREEMENTS AND COMMITMENTS ENTERED INTO DURING THE YEAR

In application of Article L. 225-40 of the French Commercial Code (*Code de commerce*), we were informed of the agreements and commitments approved by your Board of Directors.

Our responsibility does not include identifying any undisclosed agreements or commitments. We are required to report to shareholders, based on the information provided, about the main terms and conditions of agreements and commitments that have been disclosed to us, without commenting on their relevance or substance. Under the provisions of Article R. 225-31 of the French Commercial Code, it is the responsibility of shareholders to determine whether the agreements and commitments are appropriate and should be approved.

We conducted our work in accordance with the professional standards applicable in France. Those standards require that we carry out the necessary procedures to verify the consistency of the information disclosed to us with the source documents from which it was taken.

1 – With IRE

Director concerned: Cyril Poidatz

On July 27, 2006, your Board of Directors approved the signature of a cash facility agreement with IRE.

The debit balance of the current account with IRE amounted to €2,057,990 at December 31, 2006 and the interest billed during the year by your Company totaled €13,047.
In connection with the signature of a property leasing agreement between Iliad's subsidiary IRE and Genefim, the Board of Directors' meeting of December 18, 2006 authorized the Company to enter into an agreement guaranteeing the commitments undertaken by IRE for a principal amount of €50,000,000 plus interest and incidental expenses.

2 – With Dedibox
Director concerned: Cyril Poidatz

On July 27, 2006, your Board of Directors approved the signature of a cash facility agreement with Dedibox.
The debit balance of the current account with Dedibox amounted to €2,558,693 at December 31, 2006 and the interest billed during the year by your Company totaled €60,012.

3 – With IFW
Director concerned: Cyril Poidatz

On July 27, 2006, your Board of Directors approved the signature of a cash facility agreement with Ifw.
The credit balance of the current account with Ifw amounted to €4,170 at December 31, 2006 and the interest billed to your Company during the year totaled €82,690.

4 – With Freebox
Directors concerned: Xavier Niel, Michaël Boukobza and Olivier Rosenfeld

On February 8, 2006, your Board of Directors authorized the Company to guarantee the financial commitments undertaken by its subsidiary Freebox with regard to Seagate in an amount of USD 2,500,000.
On July 27, 2006, your Board of Directors authorized the Company to guarantee the financial commitments undertaken by its subsidiary Freebox with regard to Spansion Emea in an amount of USD 1,000,000.
On October 25, 2006, your Board of Directors authorized the Company to guarantee the financial commitments undertaken by its subsidiary Freebox with regard to Hitachi (and some of its subsidiaries) in an amount of USD 4,000,000.

5 – With PN
Director concerned: Xavier Niel

On July 27, 2006, your Board of Directors approved the signature of a cash facility agreement with PN.
The debit balance of the current account with PN amounted to €10,168,294 at December 31, 2006 and the interest billed by your Company during the year totaled €111,806.
On July 27, 2006, your Board of Directors authorized the Company to guarantee the commitments undertaken by its subsidiary PN with regard to Draka Comteq France in an amount of €6,500,000.

6 – With Citefibre
Directors concerned: Cyril Poidatz

On December 11, 2006, your Board of Directors approved the signature of a cash facility agreement with Citefibre.

The debit balance of the current account with Citefibre amounted to €2,765,369 at December 31, 2006 and the interest billed by your Company during the year totaled €19,703.

7 - With directors and executives of Iliad SA

In its meeting of December 11, 2006, your Board of Directors approved the following repurchase of shares from:

- Cyril Poidatz: one Kertel share for €15, one Kedra share for €1 and one IH share for €1;
- Xavier Boukobza: one Kertel for €15, one Kedra share for €1 and one IH share for €1;
- Xavier Niel: one Kertel share for €15, one Kedra share for €1, one IH share for €1, one Sasam share for €15.24 and all four thousand €10 par value shares making up the capital stock of PN, for an amount of €40,000;
- Olivier Rosenfeld: one Kertel share for €1, one Kedra share for €1 and one IH share for €1;
- Rani Assaf: one Kertel share for €15, one IH share for €1 and eighteen Freebox shares for €120,000;
- Franck Brunel: one IH share for €1.

8 – With Jean-Louis Missika SAS

Director concerned: Jean-Louis Missika

In its meeting of December 11, 2006, your Board of Directors approved the signature of a services agreement with Jean-Louis Missika SAS.
This agreement had no impact on the 2006 financial year.

II - AGREEMENTS AND COMMITMENTS ENTERED INTO IN PRIOR YEARS WHICH REMAINED IN FORCE DURING THE YEAR

In application of the French Commercial Code (*Code de commerce*), we were informed of the following agreements and commitments entered into in prior years, which remained in force during the year.

1 – With Kedra

On December 12, 2001, your Supervisory Board approved the signature of a cash facility agreement with Kedra.
The debit balance of Kedra's current account amounted to €8,540,797 at December 31, 2006 and the interest billed by your Company during the year totaled €238,973.

2 – With Freebox

On December 12, 2001, your Supervisory Board approved the signature of a cash facility agreement with Freebox.
The debit balance of the current account with Freebox amounted to €30,191,891 at December 31, 2006 and the interest billed by your Company during the year totaled €1,381,566.

3 – With Centrapel

On December 12, 2001, your Supervisory Board approved the signature of a cash facility agreement with Centrapel.
The debit balance of the current account with Centrapel amounted to €3,810,620 at December 31, 2006 and the interest billed by your Company during the year totaled €82,709.

4 – With Société

On July 12, 2000, your Board of Directors approved the signature of a cash facility agreement with Société.

This company was sold in August 2006 and the balance of the current account was closed out. The interest billed to your Company during the year totaled €16,148.

5 – With Assunet

On July 12, 2000, your Board of Directors approved the signature of a cash facility agreement with Assunet.
The debit balance of the current account with Assunet amounted to €82,994 at December 31, 2006 and the interest billed to your Company during the year totaled €7,288.

6 – With Kertel

On December 17, 2003, your Board of Directors approved the signature of a cash facility agreement with Kertel.
The credit balance of the current account with Kertel amounted to €2,917,091 at December 31, 2006 and the interest billed to your Company during the year totaled €281,960.

7 – With Toutcom

The cash facility agreement entered into with Toutcom remained in force during 2006. The debit balance of the current account with Toutcom amounted to €23,426 at December 31, 2006 and the interest billed by your Company during the year totaled €385.

8 – With Free

The cash facility agreement entered into with Free remained in force during 2006.
The debit balance of the current account with Free amounted to €191,761,536 at December 31, 2006 and the interest billed by your Company during the year totaled €5,361,430.
The agreement between Iliad and Free relative to the Company's promotion of the French directory services website "www.annu.com" remained in force during the year. In consideration for the right conferred to the Company by Free to manage the multiple-criteria telephone directory search services on "www.free.fr" and "www.home.free.fr", Free billed your Company an amount of €150,000 in fees in respect of 2006. On December 11, 2006, your Board of Directors approved a reduction in the cost of the fees from €700,000 to €150,000, in view of the decline in the telephone directory business.

9 – With One.Tel

On December 12, 2002, your Supervisory Board approved the signature of a cash facility agreement with One.Tel.
The credit balance of the current account with One.Tel amounted to €25,600,347 at December 31, 2006 and the interest billed to your Company during the year totaled €1,740,349.

10 – With Online

On December 12, 2002, your Supervisory Board approved the signature of a cash facility agreement with Online.
The credit balance of the current account with Online amounted to €140,175 at December 31, 2006 and the interest billed to your Company during the year totaled €46,594.

11 – With IH

On December 12, 2002, your Supervisory Board approved the signature of a cash facility agreement with IH.
The debit balance of the current account with IH amounted to €1,437,682 at December 31, 2006 and the interest billed by your Company during the year totaled €43,069.

12 – With Total Call

On February 9, 2005, your Board of Directors approved the signature of a cash facility agreement with Total Call.
The debit balance of the current account with Total Call amounted to €1,104,148 at December 31, 2006 and the interest billed by your Company during the year totaled €36,922.

13 – With Xavier Niel

On February 9, 2005 your Board of Directors approved the signature of a cash facility agreement with Xavier Niel.
This agreement did not apply during the 2006 financial year.

14 – With Toutcom

The agreement to provide Toutcom with premises free of charge for domiciliation purposes, as approved by your Board of Directors on October 26, 2005, remained in effect during the year.

15 – With Sndm

The agreement to provide Sndm with premises free of charge for domiciliation purposes, as approved by your Board of Directors on October 26, 2005, remained in effect during the year.

Paris, Neuilly-sur-Seine, May 11, 2007

The Statutory Auditors

Tita A. Zeïtoun	**Xavier Cauchois**
Boissière Expertise Audit	PricewaterhouseCoopers Audit

20.3 DESCRIPTION OF OFF-BALANCE SHEET COMMITMENTS RELATED TO ORDINARY ACTIVITIES (SEE NOTE 30 TO THE CONSOLIDATED FINANCIAL STATEMENTS)

(in € millions)		At Dec. 31, 2006	At Dec. 31, 2005
Non-cancelable lease commitments	*(See Note 30 to the consolidated financial statements)*	22.3	26.3
Currency contracts:	*(See Note 32 to the consolidated financial statements)*		
- US dollar purchase options		37.7	6.0
- US dollar sale options		37.7	10.0
Other commitments given:	*(See Note 33 to the consolidated financial statements)*		
- To SITA (Suez Environnement): Guarantee relating to premises at Rue de la Ville l'Evêque		1.7	1.7
- To Neuf Telecom: Minimum purchase volume commitment (minutes and call terminations)		-	4.6
- To Neuf Telecom: Investments relating to network extensions		*[1]*	*[1]*
To ARCEP: Investments to be made by IFW		*[2]*	*[2]*
- To France Telecom: Investments relating to dark optical fiber		*[3]*	-
- To Société Générale: Financial guarantee for commitments given by PN		3.0	-
Other commitments received:	*(See Note 33 to the consolidated financial statements)*		
- Credit lines		245.0 *[4]*	120.0 *[4]*
- From Société Générale (in favor of the Paris City authorities): financial guarantee for commitments given by PN		3.0	-

[1] In 2004, the Iliad Group entered into new agreements in order to increase the capillarity of its optical fiber network and to ensure long-term access to the infrastructure. The agreements related to:

- adding to the Group's network in order to obtain access to France Telecom's new dispatchers, thus significantly extending the accessible area for Freebox products via the unbundling of the local loop;
- obtaining an option to extend the term of the majority of the IRU agreements entered into with the Neuf Cégétel Group (formerly Neuf Telecom) up to December 31, 2030.

[2] In a ruling handed down on December 9, 2003, the French Telecommunications Regulatory Authority (ARCEP) granted IFW the right to use across France a batch of frequencies included in the 3.5 GHz bandwidth of the wireless local loop.

In connection with this ruling, IFW committed to guarantee a minimum population coverage rate and to undertake the requisite capital expenditure to do so. The minimum rate was set at 33.4% of the population in Normandy and the Greater Paris area for December 31, 2005. At the same date it was set at 5% of the population for other regions in mainland France, to be raised to 7% at December 31, 2008 and 9% at December 31, 2011.

[3] In April 2006, the Iliad Group signed an agreement subscribing to France Telecom's subscriber connection node service which involves leasing dark optical fibers specially dedicated to unbundling operators.

Under this open-ended agreement, the Group can request France Telecom to provide it with one or more dark optical fiber links between (i) one of France Telecom's subscriber connection nodes where the Group is present and one of Free's POPs[21]; or (ii) between two France Telecom subscriber connection nodes where the Group is present. These services are provided subject to availability and in return for an annual fee.

The Group may decide whether to lease these optical fiber links either for a period of three or fifteen years. In May 2006, the Group issued its first batch of requests for dark optical fiber links for a period of fifteen years.

[4] At December 31, 2006, the Group had several confirmed credit lines totaling a maximum of €245 million (compared with €120 million at December 31, 2005), all expiring in more than one year. None of these credit lines had been drawn down at the year-end. At December 31, 2005, the Group had drawn down €77 million out of the €120 million that were then available.

20.4 LEGAL AND ARBITRATION PROCEEDINGS

During the past twelve months, there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the issuer is aware) which may have, or have had in the recent past, a significant impact on the Group's financial position or profitability.

The legal disputes in which the Company is a defendant are described in Section 4 of this registration document. A provision for the expenses that may arise from these disputes has only been recorded when it is probable that an ouflow of resources will be required to settle the related obligation and a reliable estimate can be made thereof. The amount of the provision is based on an assessment of the level of risk on a case-by-case basis, although this risk may be reassessed at any time in the event of changes in circumstances during the proceedings concerned.

20.5 SIGNIFICANT CHANGES IN THE GROUP'S FINANCIAL OR TRADING POSITION

No significant changes in the Group's financial or trading position have occurred since December 31, 2006.

[21] A POP (Point of Presence) is an operator's physical site from which the operator can use an interconnection link to connect to the interconnect point of another operator.

21. ADDITIONAL INFORMATION

21.1 SHARE CAPITAL

21.1.1 Amount of share capital

At the date this registration document was filed, the Company's share capital amounted to €12,000,000, divided into 54,151,550 shares, all issued, fully paid up and of the same class. The par value of the shares is not set in the Company's bylaws.

21.1.2 Shares not representing capital

At the date this registration document was filed, the Company has not issued any shares not representing capital.

21.1.3 Share buyback programs

The ninth resolution of the May 29, 2006 Shareholders' Meeting authorized the Board of Directors, with authority to delegate under the terms provided by law, to acquire shares representing up to 4% of the Company's capital. This authorization was granted for a period of eighteen months and remains in effect until November 27, 2007. The maximum purchase price under this program is €200 per share.

The objectives of the share buyback program, in decreasing order of priority, were as follows:

- To maintain a liquid secondary market for the Company's shares through an investment firm under a liquidity contract that complies with the code of ethics of the French Association of Investment Firms (AFEI), which is recognized by the AMF.

- To allocate shares to employees and corporate officers of the Company and Group subsidiaries, in accordance with the applicable legislation, including by awarding shares without consideration, as permitted by Articles L.225-197-1 *et seq.* of the French Commercial Code, or by granting stock options in accordance with Articles L. 225-179 *et seq.* of the French Commercial Code, or in relation to profit-sharing schemes.

- To purchase shares for allocation to employees and corporate officers of the Company on exercise of stock options, in accordance with the applicable legislation.

- To purchase shares to be held and subsequently remitted in exchange or payment for external growth transactions.

- To attribute shares on redemption, conversion, exercise or exchange of share equivalents.

On April 16, 2007, the Company carried out the following transactions in connection with the share buyback program:

	Purchases	**Sales**
Number of shares	1,708,822	1,696,184
Average transaction price *(in €)*	66.3770	66.4127
Total *(in €)*	113,426,536.83	112,648,276.73

Following the above transactions, the Company held the following Iliad shares at December 31, 2006:

Percentage of capital directly or indirectly held by the Company	0.035%
Number of shares cancelled in the past 24 months	0
Number of shares held in the portfolio	19,000
Carrying amount of the portfolio *(in €)*	1,250,200
Market value of the portfolio *(in €)*[22]	1,250,200

At the Annual Shareholders' Meeting to be held on May 29, 2007, the Board of Directors will recommend to the Company's shareholders that they renew the authorization to implement a share buyback program in accordance with the General Regulations of the AMF, which particularly reflect European Commission Regulation No. 2273/2003 of December 22, 2003 implementing European Directive 2003/6/EC of January 28, 2003.

21.1.4 Potential share capital

21.1.4.1 Stock options

In accordance with Articles L.225-177 *et seq.* of the French Commercial Code, the Extraordinary Shareholders' Meeting held on May 29, 2006 authorized the Board of Directors to grant on one or more occasions senior managers or other employees of the Company, or related companies within the meaning of Article L.225-180 of the French Commercial Code, options to purchase new or existing shares in the Company.

The total number of stock options granted, taking into account options granted under previous authorizations, may not be exercisable for shares representing over 4% of the Company's capital at the grant date. This authorization was given for a period of thirty-eight months from the date of the Shareholders' Meeting, i.e. until July 29, 2009.

The exercise price of the options granted under this authorization may not represent less than 80% of the average of the prices quoted for the Company's shares over the 20 trading sessions preceding the grant date. No stock option may be granted less than 20 trading sessions following the ex-dividend date or the issue of a preferential right to subscribe for new shares issued by the Company. In addition, the exercise price for options to purchase existing shares may not represent less than 80% of the average price paid for shares held by the Company pursuant to Article L.225-208 of the French Commercial Code or any share buyback program in effect.

The Company did not use the above authorization to grant stock options during 2006. However, at its meetings on January 20 and 29, 2004 the Board of Directors decided to use the authorization granted at the Shareholders' Meeting of December 12, 2003 in order to set up a stock option plan and grant 485,769 stock options to 22 employees of the Group, with each option entitling its holder to purchase one new share at a unit price of €16.30.

The Board of Directors used the same authorization at its December 20, 2005 meeting to set up a new stock option plan and grant 541,515 stock options to 84 employees and corporate officers of the Group, with each option entitling its holder to purchase one new share at a unit price of €48.44.

[22] Based on the closing Iliad share price on December 29, 2006, i.e. €65.80.

The table below sets out the main characteristics of the stock options granted by the Company which were outstanding at March 31, 2007.

Date of Shareholders' Meeting	December 12, 2003
First stock option plan	
Date of Board meeting	January 20, 2004
Total number of options granted by the Board of Directors	485,769
o/w to members of the Board of Directors	*0*
Total number of beneficiaries	22
Exercise price per share (in €)	16.30
Exercise date of the options	January 20, 2008
Expiry date of the options	January 19, 2014
Number of options exercised	0
Number of options forfeited	76,335
Total number of exercisable options	0
New number of beneficiaries	19
Total number of new shares to be issued on exercise of the options	409,434
Maximum dilutive impact of the options	0.76%
Second stock option plan	
Date of Board meeting	December 20, 2005
Total number of options granted by the Board of Directors	541,515*
o/w to members of the Board of Directors	*243,684*
Total number of beneficiaries	84
Exercise price per share (in €)	48.44
Exercise dates of the options	December 20, 2009 December 20, 2010
Expiry date of the options	December 19, 2015
Number of options exercised	0
Number of options forfeited	9,252
Total number of exercisable options	0
New number of beneficiaries	79
Total number of new shares to be issued on exercise of the options	532,263
Maximum dilutive impact of outstanding options	0.98%

* o/w 270,758 exercisable at December 20, 2009 and 270,757 at December 20, 2010.

At March 31, 2007:

- 19 Group employees held 409,434 options entitling them to purchase 409,434 new Iliad shares at a unit price of €16.30.

- 79 Group employees held 532,263 options entitling them to purchase 532,263 new Iliad shares at a unit price of €48.44.

21.1.4.2 OCEANE bonds convertible into new shares and/or exchangeable for existing shares of the Company

On June 29, 2006, the Company issued 3,265,190 OCEANE convertible/exchangeable bonds governed by articles L. 228-91 *et seq* of the French Commercial Code. Following the exercise of the related greenshoe option, the number of bonds issued was increased to 3,754,968, representing a total nominal value of €330,624,932.40, or €88.05 per bond. A prospectus relating to the issue was approved by the AMF on June 21, 2006 under number 06-219 and a legal notice was published in the *Bulletin des Annonces Légales Obligatoires* on June 26, 2006.

The OCEANE bonds bear interest at an annual rate of 2.20% and will be redeemed at par on January 1, 2012, unless they are redeemed in advance at the option of the Company under certain conditions, or at the option of the bondholders in the event of a change of control of the Company within the meaning of article L. 233-3 of the French Commercial Code. Early redemption of the bonds may also be required in certain other circumstances, notably if (i) the Company does not comply with its obligations relating to the bonds, (ii) the Company or one of its major subsidiaries defaults on the payment of a loan or a loan guarantee representing a total amount of at least €5 million, (iii) the Company or one of its major subsidiaries is required to repay another form of borrowing in advance of term, or (iv) the Company reduces its interest in Free S.A.S to below 95%.

Each bond is convertible into/exchangeable for one Iliad share at any time up to the seventh working day preceding the redemption or early redemption date, subject to any subsequent adjustments. Where OCEANE bondholders exercise their rights to receive Iliad shares, the Company may elect to allocate newly issued or existing shares, or a combination of new and existing shares.

The OCEANE bonds (including interest thereon) constitute direct, general, unconditional, unsubordinated, unsecured debts of the Company. They rank equally at all times among themselves, and with all other present and future unsecured obligations of the Company (other than those that are deemed to be preferred, in accordance with the law). For as long as any of the bonds remain outstanding, the Company has undertaken not to grant any mortgage on its present and/or future real property interests, nor any pledge or other security interest over its business base or its trade receivables, for the benefit of other bonds without granting the same guarantees and the same ranking to the OCEANE bonds.

The OCEANE bonds are listed on the Eurolist market of Euronext Paris (ISIN code FR0010350280).

21.1.4.3 Information about the potential dilutive impact on the Company's capital following operations relating to the Company's potential dilutive instruments during the past three fiscal years

Except for the stock options and OCEANE bonds described respectively in Section 21.1.4.1 and Section 21.1.4.2 above, there are no securities that are convertible, redeemable, exchangeable or otherwise exercisable for the Company's shares or voting rights.

Type of dilutive instrument	Date of grant or issue	Exercise price *(in €)*	Expiry date of exercise, exchange or conversion period	Number of new shares to be issued	Dilutive impact *(%)*
Stock options	January 20, 2004	16.30	January 19, 2014*	409,434	0.76%
Stock options	December 20, 2005	48.44	December 19, 2015*	532,263	0.98%
OCEANE bonds	June 29, 2006	/	December 21, 2011**	3,754,968	6.93%
Total				**4,696,665**	**8.67%**

** Except if the beneficiary leaves the Company.*
*** Seventh working day preceding the redemption date, i.e. January 12, 2012, unless the bonds are redeemed in advance.*

21.1.5 Information about the terms of any acquisition rights or any obligations over authorized but unissued capital or an undertaking to increase the share capital

Not applicable.

21.1.6 Information about the share capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option and details of such options (including those persons to whom such options relate)

There are no options or conditional or unconditional agreements providing for the share capital of any member of the Group to be placed under option.

21.1.7 Changes in the Company's share capital over the past five years

Date of Shareholders' Meeting	Transaction	Number of shares issued	Nominal amount of capital increase or reduction (in €)	Share premium (in €)	Total share premiums (in €)	Total par value of share capital (in €)	Total shares outstanding	Par value of shares (in €)
06/28/2001	Capital increase through capitalization of reserves	0	518,638.72	0	25,350.32	10,989,588.80	6,868,493	1.60
	Stock split and decrease in par value	103,027,395	0	0	25,350.32	10,989,588.80	109,895,888	0.10
03/13/2002	Capital reduction	(103,027,395)	(9,989,588.80)	9,989,588.80	10,962,034.12	1,000,000	6,868,493	0.15
	Capital increase through capitalization of premiums	0	306,627.67	(306,627.67)	1,126,687.10	1,000,000	4,762,423	0.21
12/12/2003	Stock split and decrease in par value	42,861,807	0	0	1,126,687.10	1,000,000	47,624,230	0.02
01/29/2004	Capital increase through cash contributions	5,000,000	104,988.57	78,034,413.23	79,161,200.33	1,104,988.57	52,624,230	0.02
02/03/2004	Capital increase through exercise of equity warrants	828,000	17,386.11	13,479,841.89	92,641,042.22	1,122,374.68	53,452,230	0.02
02/19/2004	Capital increase through capitalization of premiums	0	8,877,625.32	(8,877,625.32)	83,763,416.90	10,000,000	53,452,230	0.19
04/08/2005	Capital increase through exercise of founders' warrants	699,320	130,830.84	2,958,176.56	86,721,953.46	10,130,830.84	54,151,550	0.19
07/11/2005	Capital increase through capitalization of reserves	0	1,869,169.16			12,000,000	54,151,550	0.22

21.1.8 Authorized unissued share capital

At the Extraordinary Meeting of May 29, 2006 the shareholders authorized the Board of Directors to increase the Company's capital as follows:

Authorizations given to the Board of Directors' by the Extraordinary Shareholders' Meeting	**Nominal amount (in €)**		**Expiry date**	**Change in ceilings and/or expiry dates of authorizations submitted for approval at the Shareholders' Meeting of May 29, 2007**	
	Authorized amount (ceiling)	**Used**		**Validity period**	**Ceiling (in €)**
To issue shares and/or share equivalents with pre-emptive subscription rights for existing shareholders	4,000,000	0	07/28/2008	26 months from the date of the Shareholders' Meeting	4,000,000
To issue shares to employees who are members of a corporate savings plan	100,000	0	07/28/2008	26 months from the date of the Shareholders' Meeting	100,000
To award stock options	240,000	0	09/28/2009	N/A	N/A
To issue shares and/or share equivalents without pre-emptive subscription rights for existing shareholders	4,000,000	832,102.05	07/26/2008	26 months from the date of the Shareholders' Meeting	4,000,000
To issue shares and/or share equivalents to certain categories of persons without pre-emptive subscription rights for existing shareholders	N/A	N/A	N/A	N/A	N/A
To increase the Company's capital through capitalization of reserves, profit or additional paid-in capital	75,000,000	10,746,794.5	12/12/2008	26 months from the date of the Shareholders' Meeting	75,000,000

21.2 BYLAWS

21.2.1 Corporate purpose (Article 2 of the bylaws)

The Company's purpose is to directly or indirectly conduct the following activities in France or any other country:

- to study, implement, maintain, operate, manage and/or market all systems, equipment, networks or services in the fields of telecommunications, the Internet, data processing, telematics and communications, including the installation and operation of electronic communications networks;

- to publish and broadcast all services, programs and information, in particular, to publish and provide telephone and telematics services to the public and broadcast audiovisual communications services by any technical means, including through the press, radio, audio-visual media, video or remote transmission, on magnetic or other media;

- to acquire by any means and manage investments in the capital of any French or foreign company, regardless of its form and purpose, by purchase, subscription of shares or otherwise;

- to acquire, by any means, bonds, founders' shares or other securities issued by such companies;

- to provide any services relating to commercial, financial, accounting and administrative activities;

- to directly or indirectly invest, through contributions from partnerships or otherwise, in any companies having one or more activities directly or indirectly related to the Company's corporate purpose;

- to invest in any business or company with one or more activities which may be directly or indirectly related to the Company's corporate purpose or to any similar or associated purpose, in particular by creating new companies, or through contributions, mergers, joint ventures, partnerships or consortia;

- and more generally, to conduct any industrial, commercial or financial transactions, or any transactions involving either real estate or securities directly or indirectly related to the Company's corporate purpose or any similar or associated purpose.

21.2.2 Management of the Company

21.2.2.1 Board of Directors

The Company is governed by a Board of Directors.

The Board of Directors is responsible for defining and implementing the Company's strategies. Except for the powers directly vested in shareholders and within the scope of the corporate purpose, the Board is responsible for dealing with all matters related to the efficient management of the Company and for making all related decisions.

21.2.2.2 Senior Management

As required by law, the Company is managed either by the Chairman of the Board of Directors, who then has the title of Chairman and Chief Executive Officer, or by another person appointed by the Board of Directors with the title of Chief Executive Officer.

The Board of Directors selects one of these two options for managing the Company. The selected management structure must subsequently remain in place for a period of no less than one year.

21.2.3 Rights and obligations attached to shares

21.2.3.1 Appropriation of net income (Article 31 of the bylaws)

The Company's income statement shows its net income or loss for the fiscal year after deducting depreciation, amortization and provisions.

At least 5% of net income for the year, less any losses carried forward from prior years, is allocated to the legal reserve until such time as that reserve represents one-tenth of the Company's share capital. Further transfers are made on the same basis if the legal reserve falls to below one-tenth of the Company's share capital for any reason.

Distributable income represents net income for the year, less losses carried forward from prior years, and any amount to be appropriated to reserves pursuant to applicable law or the Company's bylaws, plus any retained earnings. The Shareholders' Meeting may appropriate all or part of this amount to any optional reserves or to retained earnings.

The Shareholders' Meeting may also decide to distribute funds drawn from available reserves, expressly indicating the reserve account from which the distributed amounts are to be taken. However, dividends are deducted in priority from distributable income.

Except in the case of a capital reduction, no distribution may be made to shareholders if the Company's shareholders' equity represents or would represent after the planned distribution less than the sum of its share capital plus any reserves which, under applicable laws or the Company's bylaws, are not available for distribution.

The revaluation reserve may not be distributed, but all or part of it may be incorporated into the Company's share capital.

Any losses are carried forward to be offset against net income in future years.

21.2.3.2 Legal form of securities issued by the Company

The securities issued by the Company may be held in the form of registered or bearer securities at the holder's choice. Their existence is evidenced by their registration in securities accounts held in the name of the holder for that purpose under the terms and conditions set out by law either by the Company or its appointed custodian in the case of registered securities or by an intermediary authorized for that purpose in the case of bearer securities.

21.2.4 Changes in the rights of shareholders

As there are no specific provisions in the Company's bylaws relating to this issue, any changes in the voting rights attached to shares are subject to the provisions of the applicable laws governing French joint-stock corporations.

21.2.5 Shareholders' Meetings

The collective decisions of the Company's shareholders are made in Shareholders' Meetings, which are classified as ordinary or extraordinary according to the types of decisions they are called to make.

Shareholders' Meetings duly convened and constituted represent all of the Company's shareholders. Their decisions are binding on all shareholders, including those absent, dissenting or disqualified.

21.2.5.1 Notice of meetings (Article 24 of the bylaws)

Shareholders' Meetings are called by the Board of Directors or, if necessary, by the Statutory Auditors or any person authorized by law.

The meetings take place at the Company's registered office or any other location indicated in the notice of meeting. They may be held by videoconference or any other means of telecommunications technology, including the Internet, which permits identification of the shareholders under the terms and conditions prescribed by the applicable laws and regulations.

21.2.5.2 Agenda (Article 25 of the bylaws)

The agenda for Shareholders' Meetings is determined by the party calling the meeting.

However, one or more shareholders or the works council may request that proposed resolutions be included in the agenda under the terms and conditions prescribed by the applicable laws and regulations.

The Shareholders' Meeting may not consider matters that do not form part of the agenda. Nevertheless, in any circumstances it may remove from office, or replace, one or more directors.

The agenda for a Shareholders' Meeting may not be amended on second call.

21.2.5.3 Access to and representation at Shareholders' Meetings (Article 26 of the bylaws)

Any shareholder may participate in Shareholders' Meetings in person or by proxy, regardless of the number of shares owned, subject to proof of the shareholder's identification and ownership of the shares in the form of:

- shares registered in the shareholder's name; or
- for holders of bearer shares, a certificate issued by the bank or broker that manages their securities account stating that the shares will not be sold in the period up to the date of the Meeting.

The documentation must be provided at least five days prior to the meeting. However, the Board of Directors may shorten or eliminate this timeframe provided that such change applies to all shareholders.

Shareholders of the Company residing outside France may be registered and represented at Shareholders' Meetings by any intermediary that has opened a registered share account on their behalf and has full discretionary authority to manage their shares, provided that the intermediary discloses, when its account is opened with the Company or with the bank or broker that keeps the Company's securities account, that it is acting as an intermediary holding shares on behalf of a third party, in accordance with the applicable laws and regulations.

Any shareholder who cannot attend a meeting in person may choose one of the following three options:

- to be represented by another shareholder or his or her spouse;
- to vote by mail using a form which may be obtained by following instructions provided in the notice of meeting; or
- to send a proxy to the Company without indicating a representative. In this case, the Chairman of the meeting will vote in favor of resolutions presented or approved by the Board of Directors and against all other proposed resolutions. In order to vote otherwise, the shareholder must appoint a representative who agrees to vote as instructed by the shareholder.

*21.2.5.4 Meeting officers (***Bureau***) (Article 27 of the bylaws)*

Shareholders' Meetings are chaired by the Chairman of the Board of Directors or, in his absence, by a director appointed by the Board for that purpose. Where the meeting is called by the Statutory Auditors or a court-appointed representative, the meeting is chaired by the party calling the meeting. Where necessary, the meeting elects the chair.

The role of election inspector (*scrutateur*) is filled by the two shareholders present who hold the largest number of votes, either in their own right or as proxies, and agree to serve in this capacity. Those two meeting officers appoint a secretary, who need not be a shareholder.

The meeting officers are responsible for verifying, certifying and signing the attendance register, overseeing deliberations, resolving matters that arise during the meeting, monitoring and ensuring the propriety of the voting process, and overseeing preparation of the minutes.

21.2.5.5 Quorum and voting in Shareholders' Meetings (Article 28 of the bylaws)

Subject to the double voting rights described in Section 18.2 of this registration document, in Ordinary and Extraordinary Shareholders' Meetings, each shareholder has a number of votes equal to the number of shares owned or represented.

The quorum is calculated based on the total number of shares making up the Company's share capital, less any shares stripped of voting rights, in accordance with the applicable laws and the Company's bylaws.

An Ordinary Shareholders' Meeting cannot validly deliberate on first call unless the shareholders present, represented or voting by mail hold at least one-quarter of the voting rights. No quorum is required on second call. The Shareholders' Meeting adopts decisions by a majority of the votes cast by shareholders present, represented or voting by mail.

An Extraordinary Shareholders' Meeting cannot validly deliberate unless the shareholders present, represented or voting by mail hold at least one-third of the voting rights on first call and one quarter on second call. If a quorum is not reached on second call, the second Shareholders' Meeting may be postponed to a date later than the initial scheduled date, not to exceed two months. The Extraordinary Shareholders' Meeting adopts decisions by a two-thirds majority of the votes cast by the shareholders present, represented or voting by mail. In the event of a capital increase through capitalization of reserves, earnings or premiums, the quorum and majority voting rules for Ordinary Shareholders' Meetings apply.

Shareholders who participate in a meeting by videoconference or other means of telecommunications technology that allows shareholders to be identified and complies with the terms and conditions prescribed by the applicable regulations are deemed present for the purpose of calculating the quorum and voting majority.

21.2.6 Articles of the bylaws likely to have an impact on a change in control

Not applicable.

21.2.7 Disclosure thresholds (Article 12 of the bylaws)

Any individual or legal entity, acting alone or in concert, that comes to hold or control, directly or indirectly, a number of shares representing 1% or more of the Company's capital or voting rights must disclose to the Company, within five trading days of the date the threshold was crossed, the total number of shares and voting rights held, as well as the number of securities convertible, redeemable, exchangeable or otherwise exercisable for shares. The disclosure must be made by registered mail with return receipt requested, or by any equivalent method outside France in the case of non-resident shareholders. The same disclosure formalities must be carried out whenever the portion of capital or voting rights held increases or decreases by any multiple of 1%.

In the event of failure to comply with these disclosure requirements, the shares in excess of the relevant threshold will be stripped of voting rights for all Shareholders' Meetings held within the two-year period from the date when the omission is remedied, at the request of one or more shareholders holding at least 1% of the Company's capital or voting rights, as evidenced in the minutes of the Shareholders' Meeting.

21.2.8 Specific provisions governing changes in the Company's share capital

As there are no specific provisions in the Company's bylaws relating to this issue, any changes in the Company's share capital are subject to the applicable laws and regulations.

21.2.9 Form of shares and identification of shareholders (Article 9 of the bylaws)

Except as provided by law, fully paid shares can take the form of registered or bearer shares, at the option of the shareholder. However, they must be held in registered form until they are fully paid.

The Company is entitled to request at any time, under the terms and conditions provided for by the applicable laws and regulations, that the securities clearing house provide it with the name, address, nationality, date of birth (or, in the case of corporate shareholders, the year of incorporation), of holders of bearer shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, as well as the number of shares held by each party and any restrictions applicable to the securities.

After reviewing the information provided by the clearing house, if the Company believes that individuals or legal entities featured on the list may be holding securities on behalf of third parties, it is entitled to request the clearing house, or the listed parties themselves, under the same terms and conditions, whether they are holding the securities on their own account or on behalf of a third party, and if so, to provide the Company with information identifying those third parties. If the identity of the owner(s) of the relevant shares is not disclosed, any vote or proxy issued by the registered intermediary will not be recognized.

21.2.10 Fiscal year

The Company's fiscal year begins on January 1 and ends on December 31 of each calendar year.

21.2.11 Payment of dividends (Article 32 of the bylaws)

The method of paying dividends is determined by vote at Shareholders' Meetings or, when necessary, by the Board of Directors.

However, cash dividends must be paid no later than nine months following the close of the fiscal year unless an extension is authorized by court of law.

The Shareholders' Meeting may, under the conditions determined by law, offer each shareholder the option of receiving all or part of the final dividend or any interim dividend in the form of new shares of the Company.

21.3 DIVIDENDS

21.3.1 Dividends paid in the past five fiscal years

During the past five fiscal years, the Company paid dividends for fiscal years 2001, 2002, 2003, 2004 and 2005.

The Shareholders' Meeting of June 25, 2002 resolved to pay a total dividend of €4,000,435 (€0.84 per share), representing approximately 45.34% of profit for 2001.

The Shareholders' Meeting of May 6, 2003 resolved to pay a total dividend of €4,286,181 (€0.90 per share), representing approximately 16.45% of profit for 2002.

The Shareholders' Meeting of May 28, 2004 resolved to pay a total dividend of €5,345,223 (€0.10 per share), representing approximately 92.35% of profit for 2003.

The Board of Directors' meeting of December 6, 2004 approved the payment of an interim dividend corresponding to €4,008,917 (€0.075 per share), representing approximately 41.45% of profit for the first three quarters of fiscal 2004.

The Shareholders' Meeting of May 27, 2005 resolved to pay a total dividend of €6,174,979.25 (€0.115 per share) for each of the shares making up the Company's share capital at that date, and carrying rights to the 2005 dividend. This dividend was settled by way of a €4,008,917.25 interim dividend paid on December 6, 2004, with the balance of €2,166,062 paid on June 8, 2005.

The Shareholders' Meeting of May 29, 2006 resolved to pay a total dividend of €10,830,310 (€0.20 per share).

21.3.2 Dividend payment policy

The Board of Directors determines the dividend payment policy based on a review of the Company's earnings and financial position and other factors. At the Shareholders' Meeting to be held on May 29, 2007, the Board will recommend the payment of a €0.27 dividend per share. The Company expects its dividend payment policy to be consistent with its expansion strategy in 2007. This does not, however, represent any commitment on the Company's part, which may decide to reduce its dividend payment, or not make any dividend payment, depending on its financial results, capital expenditure requirements, and level of debt.

21.3.3 Statute of limitations for dividends

Dividends that have not been claimed within five years are time-barred and are remitted to the French State.

21.4 THE MARKET FOR ILIAD SHARES

Iliad's shares have been traded on Eurolist by Euronext™ (segment A) since January 30, 2004.

21.4.1 General information

Number of shares listed at December 31, 2006	54,151,550
Closing price at December 31, 2006 *(in €)*	65.80
52-week high, 2006 *(in €)*	89.00
52-week low, 2006 *(in €)*	48.78
Market capitalization at December 31, 2006 *(in € millions)*	3,563
2006 average daily trading volume	204,299
ISIN code	FR0004035913
Stock exchange indices	SBF 120, Next 150 and SBF 250

21.4.2 Changes in the Iliad share price since January 1, 2006

	Price per share (in €)	
	Low	**High**
2006		
March	54.10	71.30
April	68.00	89.00
May	61.10	86.60
June	53.00	69.65
July	53.35	69.00
August	55.50	65.10
September	48.78	65.40
October	54.00	70.45
November	62.90	73.20
December	64.05	67.75
2007		
January	66.40	75.50
February	75.40	85.00
March	75.50	80.15

(*) Price per share corresponding to the highest and lowest price on a trading day

21.4.3 Transfer Agent

Securities services (management of the Company's share register) and financial services (dividend payments) are provided for Iliad by Société Générale (SBAN/BCT/CLE, 32 Rue du Champ de Tir, BP 81236, 44312, Nantes Cedex 3).

21.5 LIQUIDITY CONTRACT

On June 30, 2006 the Company entered into a liquidity contract with Oddo & Cie and Oddo Corporate Finance, in accordance with the applicable law and regulations, notably European Commission Regulation no. 2273/2003 dated December 22, 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilization of financial instruments, as well as articles L.225-209 *et seq*. of the French Commercial Code, the General Regulations of the AMF and the decision issued by the AMF on March 22, 2005. This contract also complies with the French Association of Investment Firms' code of ethics approved by the AMF in a decision issued on March 22, 2005 and published in the French legal announcements journal (*Bulletin des Annonces Légales Obligatoires*) on April 1, 2005.

The following transactions were carried out in connection with the liquidity contract in 2006:

	Purchases			**Sales**		
	Number of shares	Unweighted average price *(in €)*	Amount *(in €)*	Number of shares	Unweighted average price *(in €)*	Amount *(in €)*
2006						
January	-	-	-	2,150	55.05	1,118,362.05
February	-	-	-	200	60	12,000
March	-	-	-	400	67	26,800
April	-	-	-	130	80	10,400
May	-	-	-	-	-	-
June	-	-	-	-	-	-
July	129,883	60.99	7,968,090.95	103,947	61.07	6,348,325.10
August	179,582	60.04	10,781,832.55	190,269	60.25	11,464,025.10
September	303,109	57.66	14,478,117.80	290,067	57.35	16,635,104
October	234,343	61.97	14,522,765.40	237,012	61.537	14,048,457.65
November	206,220	67.663	13,953,498.70	206,538	68.0187	14,048,457.65
December	123,760	65.41	8,094,652.80	131,334	65.56	8,610,476.15
Total	1,176,897	61.8566	72,798,958.20	1,162,047	61.8382	71,858,994.20

22. MATERIAL CONTRACTS

On June 29, 2006 the Company issued 3,265,190 OCEANE convertible/exchangeable bonds. Following the exercise of the related greenshoe option the number of bonds issued was increased to 3,754,968 representing a total nominal value of €330,624,932.40, or €88.05 per bond. For further details see Section 21.1.4.2 of this registration document, entitled "OCEANE bonds convertible into new shares and/or exchangeable for existing shares of the Company".

In 2006, the Group entered into agreements with a number of banks concerning setting up credit lines for a maximum amount of €245 million to replace the credit line agreements set up in 2005 for a maximum amount of €120 million.

In 2005, the Group entered into a material contract concerning the acquisition of shares in Altitude Telecom (renamed IFW). See Section 2.2 of the notes to the consolidated financial statements for further details.

Save as contracts listed below, Iliad did not enter into significant contracts other than those executed in normal course of business.

23. THIRD PARTY INFORMATION, STATEMENTS BY EXPERTS AND DECLARATIONS OF ANY INTERESTS

Not applicable.

24. CONSULTATION OF LEGAL DOCUMENTS

The Company’s bylaws, this registration document and other corporate documents made available to shareholders as required by law can be consulted at the Company’s head office.

Copies of this registration document can be obtained free of charge from the Company’s head office (8 rue de la Ville l’Evêque - 75008 Paris (France) – Tel: +33 1 73 50 20 00) and may also be viewed on the Company’s website (www.iliad.fr) as well as on the website of the AMF (www.amf-france.org).

25. INFORMATION ON SHAREHOLDINGS

The Company only has shareholdings in Group companies. These shareholdings are described in Section 7 ("Organizational Structure") and their financial impact is described in the notes to the consolidated financial statements included in Section 20 of this registration document ("Financial information concerning the Company's assets and liabilities, financial position and profits and losses").

GLOSSARY OF TECHNICAL TERMS

The glossary below is provided as a supplement and as an aid to understanding this registration document. Some of the definitions below therefore give only a summary of the technical processes described, without providing details as to the functioning of such processes.

Add/Drop Multiplexer (ADM): equipment on a telecommunications network used for inserting or extracting packets of data.

ADM (Add/Drop Multiplexer): see Add/Drop Multiplexer.

ADSL (Asymmetrical Digital Subscriber Line): ADSL is an xDSL technology used for high-speed transmission of data, particularly when using a subscriber's conventional telephone line consisting of a pair of copper wires. By using two modems, one installed on the subscriber's premises and the other in a DSLAM located in the main distribution frame, ADSL technology is able to increase network bandwidth considerably and obtain transmission speeds up to 160 times faster than with a conventional analog modem. The principle behind ADSL is that part of the bandwidth is reserved for transporting voice traffic (low frequencies) while another part is used for transporting data (high frequencies) either in the direction of the network backbone (upload) or in the direction of the subscriber (download). The technology is asymmetrical in the sense that the upload bit rate (data sent by the user) is lower than the download rate (data received by the user). For the correct restoration of voice traffic (using the low frequency spectrum), splitters located at each end of the line eliminate those parts of the signal which are not needed.

The bandwidth of the line is divided as follows:

0 – 5 kHz	analog telephone line,
30 kHz – 130 kHz	narrowband channel in the direction of the network (upload)
30 kHz – 1.1 MHz	broadband channel in the direction of the subscriber (download)

FDM (Frequency Division Multiplexing) is used to separate the various data traffic flows. An echo cancellation system is used for spectrum recovery on the upload and download channels.

AFNIC (*Association française pour le nommage Internet en coopération* – www.afnic.fr): the AFNIC is a non-profit organization whose principal function is to establish and implement a naming system for the .fr (France) and .re (the island of Reunion) domains. It has drawn up naming charters which sets out its rules for registering domain names in these areas. Members of the AFNIC include service providers who have been accredited as registrars of domain names in the French domain name areas.

ARCEP (*Autorité de Régulation des Communications Electroniques et des Postes*): the ARCEP is an independent administrative authority. It was established on January 5, 1997 and, together with the Minister for Telecommunications, has overall responsibility for regulating the telecommunications sector in France.

ATM (Asynchronous Transfer Mode): this network technology is used for the simultaneous transmission of data, voice and video. It is based on the transmission of signals in short, fixed-length packets. The transmission of these packets is said to be asynchronous because they are transported over different routes and do not necessarily arrive at their destination in the same chronological order as they were sent.

Backbone: network consisting of a number of very high bandwidth links to which other, smaller networks are connected (including metropolitan networks).

Bandwidth: the transmission capacity of a transmission line. It determines the quantity of information (in bits per second) which can be transmitted simultaneously.

Bit: contraction of "binary digit". It is the smallest unit of information processed by a computer. In a binary system, one bit takes the value 0 or 1. Information recorded in digital form is coded in the form of bits. One character (letter or figure) is generally coded as 8 bits (1 byte).

Bit rate: amount of information passing through a communication channel over a given period of time. The bit rate is measured in bits per second or in multiples thereof (kbits per second = kilobits per second, Mbits per second = megabits per second, Gbits per second = gigabits per second, Tbits per second = terabits per second). The upload bit rate corresponds to the transmission of data from the subscriber to the network and the download bit rate corresponds to information transmitted from the network to the subscriber.

Broadband: The concept of broadband is a relative concept, depending on the status of transmission technology at any given time. At present broadband is generally accepted as corresponding to a bit rate of at least 512 kbits per second. See also "bit rate".

Broadband ARPU (Average Revenue per User): includes revenues from the flat-rate package and value-added services but excludes one-time revenues (e.g. migration from one offer to another or unsubscription fee) divided by the total number of ADSL subscribers invoiced for the period.

Byte: a set of eight bits. Bytes and their multiples (kilobyte (kB), megabyte (MB), gigabyte (GB), Terabyte (TB), etc.) are used to measure the size of electronic files. When such measurements are given in multiples of bytes, it is generally accepted that a kilobyte is equal to 2^{10}, or 1,024, bytes (and not 1,000 bytes), and that a megabyte is equal to 2^{20} bytes (and not 1,000,000 bytes).

Call termination: This operation consists of the routing of calls to subscribers on a particular network. In principle, call termination requires either that the call be made from the network on which the called party is a subscriber or from a network interconnected with such network.

CNIL (*Commission nationale de l'informatique et des libertés* – www.cnil.fr): The CNIL (National Commission for Information Technology and Freedom) is an independent administrative authority established by Law No. 78-17 of January 6, 1978, known as the "information technology and freedom" (*informatique et libertés*) law. Its principal role is the protection of privacy and of personal or public freedom, and it is responsible for ensuring compliance with the information technology and freedom law.

Co-location facilities or space: a room located in France Telecom sites containing equipment belonging to third party operators used for local loop unbundling. The room is built by France Telecom which then reinvoices the cost of construction to the operators located in the room. The third party operators then rent whatever space they need (one or more racks each occupying a floor area of 600 mm x 600 mm) for their unbundling activities.

Cookie: information recorded by a server in a text file located on the client's computer and which can be read by this same server (and by this server alone) at a later time.

Copper pair: type of cable used for the transmission of electrical signals, consisting of one or more pairs of metal conductors. The two wires forming the pair are braided in order to minimize potential interference between two conductors. By extension, the copper pair also refers to the local loop link between a subscriber and the local concentrator. See also "local loop".

CSA (*Conseil supérieur de l'audiovisuel* – www.csa.fr): The CSA is an independent administrative authority established by the Law of January 17, 1989. Its principal role is to guarantee the freedom of audiovisual communications in France in accordance with the provisions of the Law of September 30, 1986, as amended.

Dark optical fiber: raw optical fiber without the equipment which allows it to be used.

Dedicated facilities or space: a room in a France Telecom site containing equipment belonging to a third party operator used for unbundling. Third party operators rent the space (one or more racks each occupying a floor area of 600 mm x 600 mm) necessary for their unbundling activities. See also "co-location facilities".

Dial-up (also called narrowband): historically this corresponds to the bit rate of a conventional telephone line using the voice frequency spectrum. By way of example, an Internet connection using a conventional telephone line is established at a maximum download rate of 56 kbits per second. See also "bit rate".

Digital: coding in binary form (0 or 1) of information to be processed by a computer.

Digital local exchange (LX): switch on the France Telecom telephone network to which subscribers are connected by means of local concentrators. The France Telecom network is organized in a hierarchical fashion, with the digital local exchange being the lowest level in the hierarchy of exchanges installed on the network.

Digital main switching unit (MSU): France Telecom's interconnect point, occupying the highest level in the hierarchy of switches in a trunk exchange area. See also "trunk exchange area".

DNS (Domain Name System): the DNS is a database which registers Internet resources (computer, router, etc.) in the form of a domain name and allocates them a unique IP address. The Internet protocol converts the domain name to the corresponding IP address. Without the DNS, users would have to remember websites or email addresses in the form of the domain's IP address. See also "domain name".

Domain name: a domain name is the unique identifier of an IP address. The DNS (see "DNS – Domain Name System") matches the domain name to the IP address. A domain name consists of a string of characters (from "a" to "z" or "0" to "9", plus "-") corresponding to the name of a trademark, association, company, individual, etc., plus a suffix known as the TLD (see "TLD – Top Level Domain"), such as .fr, .de, .net, or .com.

Domain name registration: domain name registration consists of hosting domain names on a computer with an IP address on behalf of the domain name owners, who are in turn entered in the register relating to their TLD. See also "TLD".

DSL (Digital Subscriber Line): See xDSL.

DSLAM (Digital Subscriber Line Access Multiplexer): equipment installed in the telephone exchange closest to the subscriber which is part of the equipment used to transform a conventional telephone line into an xDSL line. DSLAMs connect several xDSL lines and are connected to the modem on the subscriber's premises via the local loop.

DWDM (Dense Wavelength Division Multiplexing): technology permitting the transmission of a large number of frequencies on the same fiber strand, thereby significantly increasing the bandwidth capacity of the optical fiber.

Eligibility: A telephone line is said to be "eligible" for ADSL when the technical characteristics of the line in terms of signal loss are such that xDSL type technologies can be used. The length and diameter of the copper pairs (local loop) are the main parameters determining eligibility.

Firewall: hardware or software device which controls access to all the computers on a network from a single point of entry. The main function of the firewall is to filter the information packets transmitted between the protected network and outside networks. In addition, a firewall can be used to perform advanced security functions such as virus detection, IP address masking on the protected network or the establishment of encryption tunnels associated with an authentication process.

FTTH (fiber-to-the-home): technology used to directly connect subscribers' homes to an optical fiber network. FTTH technology offers significantly faster transmission rates than ADSL, as well as new services, and enables the Group to operate totally independently from France Telecom's local loop.

Full unbundling: Full unbundling consists of allowing a third party operator to control the entire local loop (both low and high frequencies).

IEEE 802.11a and 802.11b standards: radio-telecommunications standards established by the IEEE (Institute of Electrical and Electronic Engineers) describing the characteristics of wireless networks using the 5 GHz and 2.4 GHz frequency bands, respectively. (See also "RLAN – Radio Local Area Network" and "WLAN – Wireless Local Area Network").

Interconnection: the term interconnection refers to the reciprocal services provided by two operators of networks open to the public, permitting all of their users to communicate freely with one another, no matter the type of network or services they use. The term also refers to the provision to a public telephone service provider of access to a public network operator's network. The objective of interconnection is to allow a given operator's subscribers to make telephone calls to the subscribers of all other interconnected operators. Interconnection between the incumbent operator (France Telecom) and third party operators is governed by the provisions of the French Post and Telecommunications Code and is regulated by the ARCEP.

Internet Service Provider (ISP): organization or company providing its customers with access to the Internet.

IP address: the IP address allows a router using TCP/IP protocol to identify the unique network interface of a machine connected to the Internet. In order to be accessible or to send information over the Internet, a machine must have a public IP address, *i.e.* an address that is known on the Internet. ICANN has overall responsibility for managing IP addressing on a worldwide basis, but delegates responsibility for certain areas to regional and local organizations. An IP address is a sequence of 32 binary digits (see also "bit") grouped into four bytes in the form A.B.C.D where A, B, C and D are numbers between 0 and 255 (this structure corresponds to version 4 of the IP protocol, or IPv4). The problem of limited addressing resources highlighted by the growth of the Internet has led to the development of a new version of the IP protocol (IPv6), based on 128 binary elements, which will gradually be brought into use.

IP (Internet Protocol): telecommunications protocol used on the networks supporting the Internet which divides the information to be transmitted into packets, addresses the various packets, transports them independently of one another and, finally, recreates the initial message once the packets reach their destination. This protocol uses a technique known as packet switching. On the Internet, it is associated with a data transmission control protocol (TCP), hence the term TCP/IP protocol.

IRU (Indefeasible Right of Use): special type of agreement, specific to the telecommunications sector, for the provision of optical fibers (or transmission capacity) over a long period.

L.33-1 license: this license, referring to former Article L.33-1 of the French Post and Telecommunications Code, is the authorization held by an operator of a telecommunications network open to the public.

L.34-1 license: this license, referring to former Article L.34-1 of the French Post and Telecommunications Code, is the authorization held by an undertaking providing a public telephone service.

Linux: Linux is a multi-task and multi-user UNIX (Uniplexed Information and Computer Service) operating system. It is a so-called "open" software system, *i.e.*, it is freely available in source code form and modifiable under the terms of a GNU General Public License.

Local concentrator: active telecommunications equipment connected to both the digital local exchange and the copper pairs constituting the local loop. This is the primary active equipment in the France Telecom network. The function of the local concentrator is to group several subscriber lines into one cable.

Local loop: physical circuit of the telephone network which connects the termination point of the network on the subscriber's premises (*i.e.*, the subscriber's telephone socket) and the local loop operator's main distribution frame (*i.e.* generally France Telecom's local telephone exchange) which contains a digital switch. The local loop is composed of a pair of braided copper wires.

Main distribution frame (MDF): device which establishes a temporary connection between a copper pair (local loop) and any active equipment on the operator's network. It is a vital point of flexibility in the operation of a telecommunications network.

Modem (modulator-demodulator): device transforming analog signals into digital signals and vice versa. This equipment is necessary for connecting to the Internet (where the data exchanged are digital data).

MPEG-2: video signal compression standard, used mainly for DVDs.

Multicast: routing system minimizing the number of data flows from a server to various customers by multiplying the data flows only when they are as close as possible to the destination terminals (the subscribers' copper pairs).

Multiplexing: technique permitting several communication flows to pass through the same channel/transmission bearer. Multiplexing can work in different ways: frequency multiplexing uses different frequencies for the various communications, while time division multiplexing allocates a period of time (known as a slot) to each communication.

Narrowband: see "dial-up"

Net adds: represents the difference between total ADSL subscribers at the end of two different periods.

Optical fiber: transmission medium which routes digital data in the form of modulated pulses of light. It consists of an extremely thin glass cylinder (the core strand) surrounded by a concentric layer of glass (the sheath). The potential bandwidth that can be passed through an optical fiber in conjunction with the corresponding active equipment is enormous.

Partial unbundling: partial unbundling involves providing an operator with access to the France Telecom local loop and allowing the operator to use the high (non-voice) frequencies of the frequency spectrum on the copper pair. France Telecom continues to use the local loop in order to provide conventional telephone service to the public (using the low frequencies of the local loop). Customers continue to pay the telephone line rental to France Telecom.

Peering: type of interconnection agreement between two IP backbone networks (called peer networks) for the exchange of Internet traffic destined for their respective networks free of charge. These reciprocal exchanges take place at exchange nodes called peering points.

Ping: Ping is an acronym for Packet Internet Groper, and is a component of the Internet connection protocol which verifies the connections established on the Internet between one or more remote hosts and measures the time the data packets require to be transmitted to one computer connected to the Internet and back again. The lower the ping value (*i.e.*, the nearer to zero) the better the network connection.

POP (Point of Presence): operator's physical site from which the operator can use an interconnection link to connect to the interconnect point of another operator (whether another POP or, in the case of France Telecom, a digital main switching unit or a digital local exchange). The POP is located on the operator's network backbone. See also "digital main switching point".

Portability: possibility for a subscriber to keep his or her telephone number when changing operators and/or geographical location.

Preselection: carrier selection mechanism allowing a subscriber automatically to route all eligible calls (local, national, international, and calls to mobile phones) so that they are carried by the operator of the subscriber's choice, without having to dial a special prefix.

Primary digital block (E1): basic unit of measurement of the capacity of interconnection links to the France Telecom network (telephone traffic and dial-up Internet traffic). It corresponds to a grouping of several communications on the same physical support structure (31 simultaneous communications, *i.e.* a capacity of 2 Mbits per second).

PSTN (Public switched telephone network): conventional telephone network which uses switching (a non-permanent link established by line seizure and then dialing). Each call established on the PSTN ties up network resources.

Reference Interconnect Offer: document describing the technical and pricing terms of France Telecom's interconnect offer (or the interconnect offer of any other operator designated as having significant market power pursuant to Article L.36-7 of the French Post and Telecommunications Code). It allows third party operators to know what interconnection services are available and sets out the prices and the technical terms of these services.

Reverse look-up directory: service allowing users to retrieve the name and address of the owner of a telephone line on the basis of a search of the telephone number.

RLAN (Radio Local Area Network): wireless network. RLANs generally conform to IEEE 802.11 standards.

SDH (Synchronous Digital Hierarchy): multiplexing technique providing for the secure transmission of different types of information. This technique is used for the transmission of data on conventional telephone networks.

SMS (*Short Message Services*): short alphanumerical text messages.

Source code: list of instructions in a computer program in a language capable of being understood by human beings.

Spamming: the bulk mailing of unsolicited electronic messages. These types of messages are generally sent to email lists obtained illegally (for example, through the use of a search engine on public websites or through the sale of email address files without the permission of the owners of such addresses).

Switch: equipment which routes calls to their destinations by establishing a temporary link between two circuits on a telecommunications network (or occasionally by routing information organized into packets). Switches are organized in a hierarchical fashion, *i.e.*, the higher the position they occupy in the hierarchy, the more subscribers they serve.

TLD (Top Level Domain): the top level domain name classification, corresponding to a geographical area or a sector of activity, such as .com, .org or .fr.

Total ADSL subscribers: represents at the end of a period the total number of customers identified by their individual "phone lines" who have signed up for Free's ADSL service excluding those for whom an unsubscription notice has been registered.

Triple Play: a technical service capable of managing bandwidth-intensive voice, data and audiovisual content simultaneously and over long distances.

Trunk exchange (TX): telephone network switch linking together the digital local exchanges. The France Telecom network is organized in a hierarchical fashion, with the trunk exchange being the highest level in the hierarchy of national exchanges. Through the digital local exchanges, the trunk exchange serves all subscribers in a given geographical area called a trunk exchange area. See also "trunk exchange area".

Trunk exchange area: the geographical area covered by a trunk exchange. France Telecom's switched network in mainland France is divided into 18 trunk exchange areas, defined by France Telecom in its Reference Interconnect Offer and generally corresponding to the administrative regional divisions of France. See also "Trunk exchange (TX)".

Unbundled subscribers: ADSL subscribers who have signed up for Free's ADSL service on a Central Office unbundled by Free.

Unbundling: operation involving the separation of a range of telecommunications services into several distinct units. Unbundling of the local loop (or unbundled access to France Telecom's local network) consists of separating the access services provided over the local loop, mainly by separating the high frequencies from the low frequencies of the access network which constitutes the local loop, allowing new operators to use the local network of the incumbent operator in order to provide services directly to their subscribers.

Universal service: the main element of the public telecommunications service as defined by law, with the purpose of providing high quality telephone services to the general public at an affordable price.

Urban area: in the architecture of the France Telecom network, Ile-de-France is divided into two trunk exchange areas. The urban area corresponds to the former *département* of Seine (Paris, Hauts-de-Seine, Seine-Saint-Denis, Val de Marne) and the peripheral area covers the Seine-et-Marne, Essonne, Yvelines and Val d'Oise *départements.*

VoDSL (Voice over DSL): transmission of voice traffic (in packets) using ADSL technology, *i.e.*, using the high frequencies of the local loop, as compared to conventional telephony which uses the low frequencies of the local loop.

WLAN (Wireless Local Area Network): a network using radio telecommunications (wireless network). RLANs (see "RLAN – Radio Local Area Network") are a specific type of WLAN.

xDSL (x Digital Subscriber Line): the family of technologies used to transmit digital data over the copper pair (local loop) at high speeds (such as ADSL, SDSL, VDSL, etc.) See also ASDL.

APPENDIX

RESOLUTIONS PRESENTED TO THE ANNUAL SHAREHOLDERS' MEETING OF MAY 29, 2007

In accordance with article L 225-98 of the French Commercial Code (Code de Commerce), in order to be validly adopted, the following eight resolutions to be put to the vote of the Ordinary Shareholders' Meeting must be approved by the majority of shareholders present or represented.

FIRST RESOLUTION

APPROVAL OF THE COMPANY FINANCIAL STATEMENTS

The Shareholders' Meeting, having read the Board of Directors' report, the management report and the Statutory Auditors' report on the Company financial statements for the year ended December 31, 2006, approves the 2006 Company financial statements, as presented, as well as the transactions reflected in these financial statements and referred to in these reports.

Consequently, the Shareholders' Meeting places on record that the Company's profit for the year ended December 31, 2006 amounted to €77,586,950.

SECOND RESOLUTION

APPROPRIATION OF PROFIT AND APPROVAL OF THE RECOMMENDED DIVIDEND

The Shareholders' Meeting, having read the management report, resolves to appropriate profit for the year as follows:

Profit for the year	€	77,586,950.00
Losses carried forward from previous years	€	0.00
Amount transferred to the legal reserve	€	0.00
Balance	**€**	**77,586,950.00**
Plus retained earnings carried forward from previous years	€	50,149,855.00
Total distributable profit	**€**	**127,736,805.00**
Dividend payment representing €0.27 per share	€	14,620,918.50
Balance to be transferred to retained earnings	**€**	**113,115,886.50**
Retained earnings after appropriation of 2006 profit	€	113,115,886.50

The 2006 dividend will be payable as from July 12, 2007.

The dividend payable on each of the shares making up the Company's capital and carrying rights to the 2006 dividend will amount to €0.27.

Dividends paid during the past three years were as follows:

	2003	2004		2005
		Interim dividend	Balance	
Number of shares making up the Company's share capital[23]	53,452,230	53,452,230	54,151,550	54,151,550
Total amount of net dividends paid (in euros)	5,345,223	4,008,917.25	2,166,062	10,830,310
Net dividend paid per share (in euros)	0.1	0.075	0.04	0.20
Avoir fiscal tax credit (in euros)	0.05	0.0375	N/A	
Total revenue	0.15	0.1125	N/A	
Portion eligible for tax allowance	N/A	N/A	24	

THIRD RESOLUTION
APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Shareholders' Meeting, having read the Board of Directors' report, the management report and the Statutory Auditors report on the consolidated financial statements for the year ended December 31, 2006, approves the 2006 consolidated financial statements, as presented, which show profit for the year of €123.9 million.

FOURTH RESOLUTION
APPROVAL OF THE REPORT ON AGREEMENTS GOVERNED BY ARTICLE L 225-38 OF THE FRENCH COMMERCIAL CODE

The Shareholders' Meeting, having read the Board of Directors' report and the Statutory Auditors' special report on agreements governed by article L. 225-38 of the French Commercial Code, notes that several agreements falling within the scope of application of said article were entered into during the year ended December 31, 2006, and that several agreements authorized and entered into in previous years remained in force in 2006.

FIFTH RESOLUTION
DIRECTORS' ATTENDANCE FEES

The Shareholders' Meeting, having read the Board of Directors' report, resolves to set at €60,000 the amount of attendance fees for the current year, to be allocated among the Company's independent directors.

[23] Number of shares in issue at the dividend payment date

24 In accordance with paragraph 2 of section 3 of article 158 of the French General Tax Code, the total amount of the 2004 dividend was eligible for the 50% tax allowance available to individuals domiciled in France for tax purposes.

SIXTH RESOLUTION

RATIFICATION OF THE APPOINTMENT OF ANTOINETTE WILLARD AS AN INDEPENDENT DIRECTOR

The Shareholders' Meeting, having read the Board of Directors' report, ratifies the Board of Directors' February 6, 2007 appointment of Antoinette Willard as a director to replace Shahriar Tadjbakhsh, whose resignation took effect on December 22, 2006.

Antoinette Willard's term of office will run for the remainder of Shahriar Tadjbakhsh's term, expiring at the close of the 2009 Annual Shareholders' Meeting to be called to approve the financial statements for the year ending December 31, 2008.

SEVENTH RESOLUTION

ELECTION OF A NEW DIRECTOR

The Shareholders' Meeting, having read the Board of Directors' report, elects Maxime Lombardini as a director. Maxime Lombardini was born on October 25, 1965 in Neuilly-sur-Seine, France. He is a French national and his business address is 8, rue de la Ville l'Evêque, 75008 Paris, France.

Maxime Lombardini's term of office will run for a period of six years, expiring at the close of the 2014 Annual Shareholders' Meeting to be called to approve the financial statements for the year ending December 31, 2013.

EIGHTH RESOLUTION

AUTHORIZATION GRANTED TO THE BOARD OF DIRECTORS TO BUY BACK THE COMPANY'S SHARES

The Shareholders' Meeting, having read the Board of Directors' report and the Statutory Auditors' special report, authorizes the Board of Directors and, by delegation, any other duly authorized person, to purchase the Company's shares, subject to a ceiling of 4% of the Company's capital (corresponding, for information purposes, to 2,149,274 shares at April 16, 2007, taking into account the number of treasury shares already held), and subject to the terms and conditions set down in articles L. 225-209 and L. 225-217 of the Commercial Code.

This authorization may be used for the following purposes, by declining order of priority:

- Market making for the Company's shares under a liquidity contract that complies with the code of ethics of the French Association of Investment Firms (AFEI) which is recognized by the French securities regulator (AMF) as an approved market practice.

- To allocate shares to employees and corporate officers of the Company and the Group's subsidiaries in accordance with the law, including under share grant plans and stock option plans pursuant to articles L. 225-197-1 *et seq.* and articles L. 225-179 *et seq.* of the Commercial Code respectively, or in relation to employee profit-sharing plans.

- To allocate shares on the exercise of stock options granted to the Company's employees and corporate officers in accordance with the law.

- To purchase shares to be held and subsequently used in connection with external growth transactions (as consideration, in exchange for shares in another company, or any other such use).

- To cancel all or some of the shares purchased, provided that the Extraordinary Shareholders' Meeting adopts the fourteenth resolution set out below.

- To allocate shares on the redemption, conversion, exercise or exchange of share equivalents.

The Company may also use this share buyback program for any other purpose authorized by the laws and regulations currently in force or applicable in the future. In such a case, the Company will inform its shareholders by way of a press release.

The maximum purchase price per share under this program is set at €200 and the maximum aggregate amount invested in the program consequently represents €433.2 million. This maximum purchase price may, however, be adjusted to take into account the impact on the share price of any corporate actions, including a change in the par value of the share, a capital increase paid up by capitalizing reserves, a bonus share issue, a reverse stock-split, a distribution of reserves or any other assets, or a redemption of share capital.

The shares may be purchased, sold or transferred on one or several occasions, at any time, (including during a public tender offer) subject to the applicable laws and regulations. Said transactions may be carried out by any appropriate method, either on the market or over-the-counter, including through block purchases or sales, or through the use of derivatives (excluding the purchase of call options) or warrants.

This authorization is granted for a period of eighteen months from the date of this Meeting.

The Shareholders' Meeting gives full powers to the Board of Directors and, by delegation, to any duly authorized person in accordance with the law, to use this authorization and to set the terms and conditions applicable to the share buybacks, to place any buy and sell orders, enter into any and all agreements, carry out any and all filing and other formalities with the relevant regulatory bodies, and generally do whatever is necessary.

The Board of Directors shall report to the Annual Shareholders' Meeting on all transactions carried out under this authorization. It shall also disclose to the AMF all share purchases, sales and transfers carried out.

The Board of Directors notes that this authorization cancels and replaces, with immediate effect, any unused portion of all previous authorizations given to the Board of Directors to implement a share buyback program.

In accordance with paragraph 3 of article L 225-96 of the French Commercial Code, in order to be validly adopted, the following resolutions to be put to the vote of the Extraordinary Shareholders' Meeting must be approved by a two-thirds majority of shareholders present or represented.

NINTH RESOLUTION

AUTHORIZATION GRANTED TO THE BOARD OF DIRECTORS TO ISSUE – WITH PRE-EMPTIVE SUBSCRIPTION RIGHTS FOR EXISTING SHAREHOLDERS – SHARES AND/OR SECURITIES CONVERTIBLE, EXCHANGEABLE, REDEEMABLE OR OTHERWISE EXERCISABLE FOR SHARES IN ILIAD OR ANY COMPANY CONTROLLED BY ILIAD, OR FOR DEBT SECURITIES

Having read the Board of Directors' report and the Statutory Auditors' special report, in accordance with the legal and regulatory provisions governing commercial companies, including articles L.225-129-2, L.225-132, L.228-91, L.228-92 and L.228-93 of the Commercial Code, and after noting that the Company's capital is fully paid up, the Shareholders' Meeting:

1. Authorizes the Board of Directors to increase the Company's capital by issuing the securities set out below – with pre-emptive subscription rights for existing shareholders – in France or abroad, on one or more occasions, and to set the amount and timing of said issue(s):

(a) Shares (excluding preferred shares).

(b) Securities convertible, exchangeable, redeemable or otherwise exercisable for shares in the Company or for debt securities.

(c) Securities convertible, exchangeable, redeemable or otherwise exercisable for shares in (i) a company that directly or indirectly holds over half of the Company's share capital or (ii) a company in which the Company directly or indirectly holds over half of the share capital, subject to authorization by an Extraordinary Shareholders' Meeting of the companies concerned.

(d) Securities convertible, exchangeable, redeemable or otherwise exercisable for shares in the Company following the issuance of such securities by (i) a company in which the Company directly or indirectly holds over half of the share capital or (ii) by a company that directly or indirectly holds over half of the Company's share capital, subject to authorization by an Extraordinary Shareholders' Meeting of the companies concerned.

2. Authorizes the Board of Directors to issue the securities – other than the shares set out in paragraph 1 above – in euros or in any other legal currency or in any other currency unit established by reference to a basket of currencies.

3. Sets the maximum term of this authorization at twenty-six months as from the date of this Meeting.

4. Notes that this authorization shall automatically entail the waiver of shareholders' pre-emptive rights to subscribe for the shares to be issued on conversion, exchange, redemption or exercise of any share equivalents issued in accordance with this resolution.

5. Sets the following ceilings for the issues to be carried out by the Board of Directors under this authorization:

(a) The maximum nominal value of any capital increase(s) carried out directly or indirectly under this authorization, either immediately or on conversion, exchange redemption or exercise of share equivalents is set at €4,000,000. This ceiling shall include the value of any capital increase(s) carried out in accordance with the authorization granted under the tenth resolution of this Meeting set out below.

(b) This ceiling shall not, however, include the par value of any additional shares to be issued to protect the rights of existing holders of share equivalents as required by the law and regulations in force or in accordance with any applicable contractual provisions.

6. In relation to this authorization:

(a) Notes that the Board or Directors may also give shareholders a pre-emptive right to subscribe for any securities not taken up by other shareholders.

(b) Notes that if an issue is not taken up in full by shareholders exercising their pre-emptive subscription rights as described above, the Board of Directors may take one or other of the following courses of action, in accordance with the law and in the order of its choice:

- Limit the amount of the capital increase to the subscriptions received, provided that at least three-quarters of the issue is taken up.
- Freely allocate all or some of the unsubscribed securities.
- Offer all or some of the unsubscribed securities for subscription by the public, either in France or abroad.

7. Resolves that the securities issued in accordance with this authorization may be granted to existing shareholders free of consideration. In such a case, the Board of Directors may decide that rights to fractions of securities shall be non-transferable and the corresponding securities shall be sold.

8. Resolves that the Board of Directors may suspend the rights attached to the share equivalents issued under this authorization for a period not to exceed three months, and shall take any requisite measures and make any necessary adjustments to ensure that the rights of existing holders of share equivalents are protected, in accordance with the law and any applicable contractual provisions.

9. Authorizes the Board of Directors to delegate to the Chief Executive Officer – or, with his agreement, to one or more Senior Vice-Presidents – the power to carry out or suspend any issues referred to in this resolution.

10. Notes that this authorization cancels and replaces, with immediate effect, any unused portion of all previous authorizations given to the Board of Directors to issue – with pre-emptive subscription rights for existing shareholders – shares and/or securities convertible, exchangeable, redeemable or otherwise exercisable for shares, or for debt securities.

11. Notes that if the Board of Directors uses this authorization, it shall report thereon to the following Annual Shareholders' Meeting in accordance with the applicable law and regulations.

TENTH RESOLUTION

AUTHORIZATION GRANTED TO THE BOARD OF DIRECTORS TO ISSUE – WITHOUT PRE-EMPTIVE SUBSCRIPTION RIGHTS FOR EXISTING SHAREHOLDERS AND THROUGH A PUBLIC OFFER – SHARES AND/OR SECURITIES CONVERTIBLE, EXCHANGEABLE, REDEEMABLE OR OTHERWISE EXERCISABLE FOR SHARES IN ILIAD OR ANY COMPANY CONTROLLED BY ILIAD, OR FOR DEBT SECURITIES

Having read the Board of Directors' report and the Statutory Auditors' special report, in accordance with the legal and regulatory provisions governing commercial companies, including articles L.225-129-2, L.225-135, L.225-135-1, L.225-136, L.225-147, L.225-148, L.228-91, L.228-92 and L.228-93 of the Commercial Code, and after noting that the Company's capital is fully paid up, the Shareholders' Meeting:

1. Authorizes the Board of Directors to increase the Company's capital by issuing the securities set out below – without pre-emptive subscription rights for existing shareholders and through a public offer – in France or abroad, on one or more occasions, and to set the amount and timing of said issue(s):
   (a) Shares (excluding preferred shares).
   (b) Securities convertible, exchangeable, redeemable or otherwise exercisable for shares in the Company, or for debt securities.
   (c) Securities convertible, exchangeable, redeemable or otherwise exercisable for shares in (i) a company that directly or indirectly holds over half of the Company's share capital or (ii) a company in which the Company directly or indirectly holds over half of the share capital, subject to authorization by an Extraordinary Shareholders' Meeting of the companies concerned.

(d) Securities convertible, exchangeable, redeemable or otherwise exercisable for shares in the Company following the issuance of such securities by (i) a company in which the Company directly or indirectly holds over half of the share capital or (ii) by a company that directly or indirectly holds over half of the Company's share capital, subject to authorization by an Extraordinary Shareholders' Meeting of the companies concerned.

2. Resolves to waive existing shareholders' pre-emptive rights to subscribe for the securities to be issued under this authorization.

3. Resolves that under this authorization, the Board of Directors may:

(a) Issue securities as part of a capital increase, which, in accordance with paragraph 6 of article L.225-147 of the Commercial Code, may represent no more than 10% of the Company's share capital, to be used as consideration for shares and/or share equivalents transferred to the Company, where article L.225-148 of the Commercial Code does not apply.

In such a case, (i) draw up a list of the shares and/or share equivalents to be transferred to the Company, (ii) set the terms and conditions of the issue to be carried out by the Company, (iii) approve the valuation of the securities transferred and, where appropriate, the granting of specific benefits, (iv) reduce – if the transferor(s) so agree(s) – the valuation of the securities transferred and/or the payment for specific benefits, and (v) place on record the related capital increase.

(b) Issue securities to be used as consideration for securities transferred to the Company as part of a public exchange offer in accordance with article L.225-148 of the Commercial Code.

4. Authorizes the Board of Directors to issue the securities – other than the shares set out in paragraph 1 above – in euros or in any other legal currency or in any other currency unit established by reference to a basket of currencies.

5. Sets the maximum term of this authorization at twenty-six months as from the date of this Meeting.

6. Notes that this authorization shall automatically entail the waiver of existing shareholders' pre-emptive rights to subscribe for the shares to be issued on the conversion, exchange, redemption or exercise of any share equivalents issued in accordance with this resolution.

7. Resolves that the Board of Directors may grant existing shareholders a priority subscription period in relation to any issue carried out under this authorization, in accordance with paragraph 2 of article L.225-135 of the Commercial Code.

8. Sets the following ceilings for the issues to be carried out by the Board of Directors under this authorization:

(a) The maximum nominal value of any capital increase(s) carried out directly or indirectly under this authorization, either immediately or on conversion, exchange redemption or exercise of share equivalents is set at €4,000,000. This ceiling shall include the value of any capital increase(s) carried out in accordance with the authorization granted under the ninth resolution of this Meeting set out above.

(b) This ceiling shall not, however, include the par value of any additional shares to be issued to protect the rights of existing holders of share equivalents as required by the law and regulations in force or in accordance with any applicable contractual provisions.

9. Resolves that, in accordance with article L.225-136 of the Commercial Code, the issue price of securities issued under this authorization shall be determined as follows:

(a) The issue price for securities representing up to 10% of the Company's capital in any given year shall be set by the Board of Directors. The price per share must be at least equal to the Company's net asset value per share, by reference to the most recent balance sheet approved by the Company's Board of Directors.

(b) For issues exceeding this 10% threshold, the issue price of the securities concerned shall be set by the Board of Directors in accordance with the applicable legal and regulatory provisions.

10. Authorizes the Board of Directors to delegate to the Chief Executive Officer – or, with his agreement, to one or more Senior Vice-Presidents – the power to carry out or suspend any issues referred to in this resolution.

11. Notes that this authorization cancels and replaces, with immediate effect, the unused portion of all earlier authorizations given to the Board of Directors to issue – without pre-emptive subscription rights for existing shareholders and through a public offer – shares and/or securities convertible, exchangeable, redeemable or otherwise exercisable for shares, or for debt securities

12. Notes that if the Board of Directors uses this authorization, it shall report thereon to the following Annual Shareholders' Meeting in accordance with the applicable law and regulations.

ELEVENTH RESOLUTION

AUTHORIZATION GRANTED TO THE BOARD OF DIRECTORS TO INCREASE THE NUMBER OF SECURITIES ISSUED IN THE EVENT OF A CAPITAL INCREASE

In accordance with article L.225-135-1 of the Commercial Code, the Shareholders' Meeting:

1. Grants the Board of Directors full powers, including the right to delegate such powers, in accordance with the law, to increase the number of securities issued either with or without pre-emptive subscription rights for existing shareholders if the authorizations in the ninth and tenth resolutions are used. Any issue of such additional securities shall be based on the same price as for the initial issue and shall be subject to the timing and amounts specified by the regulations in force at the date of the issue (under the currently applicable regulations, such securities must be issued within thirty days of the close of the offer period and may not represent more than 15% of the initial issue). This authorization may notably be used to grant a greenshoe option in accordance with market practices.

2. Resolves that the nominal amount of any capital increases carried out pursuant to the authorizations given in this resolution will be included in the €4,000,000 blanket ceiling set out in paragraph 5 a) of the ninth resolution above.

This authorization is granted for a period of twenty-six months from the date of this Meeting.

If the Board of Directors uses this authorization, it shall report thereon to the following Annual Shareholders' Meeting in accordance with the applicable law and regulations, including article L.225-129-5 of the Commercial Code.

TWELFTH RESOLUTION

AUTHORIZATION GRANTED TO THE BOARD OF DIRECTORS TO INCREASE THE COMPANY'S CAPITAL BY ISSUING SHARES TO EMPLOYEES WHO ARE MEMBERS OF AN EMPLOYEE STOCK OWNERSHIP PLAN

Having read the Board of Directors' report and the Statutory Auditors' special report, the Shareholders' Meeting:

- Authorizes the Board of Directors, at the Board's discretion and if it deems it appropriate, to increase the Company's share capital on one or more occasions by issuing shares and/or share equivalents to employees of the Company and of French and foreign related companies within the meaning of article L. 444-3 of the French Labor Code and article L. 233-16 of the Commercial Code, who are members of an employee stock ownership plan ("*Plan d'Epargne d'Entreprise*" or "*Plan Partenarial d'Epargne Salariale Volontaire*"), or by capitalizing reserves, profit or additional paid-in capital, or by granting shares free of consideration to said members of such a plan.

- Waives the pre-emptive subscription rights of existing shareholders concerning any shares and/or share equivalents that may be issued under this authorization.

- Sets the term of this authorization at twenty-six months, as from the date of this Meeting.

- Sets at €100,000 the maximum nominal amount of the capital increase(s) that may be carried out under this authorization.

- Resolves to set the applicable discount under this authorization at 20%, based on the average of the prices quoted for the Company's shares on the Eurolist market of Euronext Paris S.A. over the twenty trading days preceding the decision setting the opening date for the offer period.

The Shareholders' Meeting expressly authorizes the Board of Directors to reduce this discount if it deems appropriate.

The Board may also replace all or part of the discount by granting shares or other securities free of consideration, in accordance with the provisions set out below.

The Shareholders' Meeting grants full powers to the Board of Directors or, by delegation, to the Chief Executive Officer, in accordance with the law, to:

- determine – in compliance with the applicable legal provisions – the companies whose current and former employees are entitled to subscribe to the shares issued;

- determine whether the issues may be subscribed directly by beneficiaries or through collective investment vehicles;

- fix the dates and the amounts of the issues, determine the terms and conditions of issue and the form of the securities, and generally, to take any and all appropriate measures and enter into any and all agreements to ensure the success of the proposed issues, all in accordance with the applicable laws and regulations;

- place on record the share issues and amend the bylaws to reflect the new share capital; and

- generally, to enter into any and all agreements, take all appropriate steps and carry out all necessary formalities.

In addition, the Shareholders' Meeting gives full powers to the Board of Directors, at its discretion, to charge the share issuance costs against the related premiums and deduct from the premium the amount necessary to increase the legal reserve to one-tenth of the new capital after each issue.

THIRTEENTH RESOLUTION

AUTHORIZATION GRANTED TO THE BOARD OF DIRECTORS TO INCREASE THE COMPANY'S CAPITAL BY CAPITALIZING ADDITIONAL PAID-IN CAPITAL, RESERVES, PROFIT OR OTHER ELIGIBLE ITEMS

Having read the Board of Directors' report, in accordance with articles L. 225-129-2 and L.225-130 of the Commercial Code, the Shareholders' Meeting:

1. Grants the Board of Directors full powers, including the right to delegate such powers, in accordance with the law, to increase the Company's capital on one or several occasions, in the amounts and on the dates it deems fit, by a maximum nominal amount of €75,000,000 to be paid up by capitalizing all or part of the Company's additional paid-in capital, reserves, profit or other items that may be capitalized in accordance with the applicable laws and the Company's bylaws, and to issue bonus shares and/or raise the par value of existing shares.

2. Resolves that the Board of Directors shall have full powers to use this authorization and to delegate said powers subject to compliance with the law, including to:

- Determine the amount and types of items to be capitalized, the number of new shares to be issued and/or the amount by which the par value of existing shares is to be increased, and also set the retrospective or future date from which the new shares will carry dividend and voting rights or the date on which the increase in par value will be effective.

- Decide in the event of a bonus share issue:

  - that rights to fractions of shares will be non-transferable and that the corresponding shares will be sold, with the proceeds of such a sale allocated to holders of rights in accordance with the applicable law and regulations;

  - to make any necessary adjustments to take into account the impact of corporate actions, including in the case of a change in the par value of the share, a capital increase paid up by capitalizing reserves, a bonus share issue, a stock-split or reverse stock-split, a distribution of reserves or any other assets, or a redemption of share capital. In such a case, the Board shall take any requisite measures to ensure that the rights of existing holders of share equivalents are protected.

  - place on record the capital increase or increases and amend the bylaws to reflect the new capital.

  - generally, to enter into any and all agreements, take all appropriate steps and carry out all formalities necessary for the issue, listing and service of the securities issued in accordance with this authorization and for the exercise of any related rights.

3. Notes that this authorization cancels and replaces, with immediate effect, any unused portion of all previous authorizations given to the Board of Directors to increase the Company's capital by capitalizing additional paid-in capital, reserves, profit or other eligible items. It is granted for a period of twenty-six months from the date of this Meeting.

If the Board of Directors uses this authorization, it shall report thereon to the following Annual Shareholders' Meeting in accordance with the applicable law and regulations, including article L.225-129-5 of the Commercial Code.

FOURTEENTH RESOLUTION

AUTHORIZATION GRANTED TO THE BOARD OF DIRECTORS TO REDUCE THE COMPANY'S CAPITAL BY CANCELING SHARES HELD IN TREASURY STOCK

Having read the Board of Directors' report and the Statutory Auditors' special report, the Shareholders' Meeting authorizes the Board of Directors to reduce the Company's capital on one or more occasions, in the amounts and on the dates it deems fit, by canceling Iliad shares held in treasury, subject to the limits prescribed by law, in accordance with articles L.225-209 *et seq.* of the Commercial Code.

The number of shares cancelled in accordance with this resolution during any period of twenty-four months may not exceed ten percent (10%) of the Company's issued capital, as adjusted to take into account any corporate actions implemented subsequent to this Meeting.

This authorization cancels and replaces, with immediate effect, any unused portion of all previous authorizations given to the Board of Directors to reduce the Company's capital by canceling shares held in treasury stock. It is granted for a period of twenty-six months from the date of this Meeting.

The Shareholders' Meeting grants full powers to the Board of Directors, and, by delegation, any other duly authorized person, to cancel shares and reduce the Company's capital in accordance with this authorization, to amend the bylaws to reflect the new share capital, and to carry out all formalities.

FIFTEENTH RESOLUTION

AMENDMENT OF ARTICLE 26 OF THE COMPANY'S BYLAWS, "ACCESS TO AND REPRESENTATION AT SHAREHOLDERS' MEETINGS"

Having read the Board of Directors' report, in accordance with Decree no. 2005-1566 of December 11, 2006 – which amended Decree no. 67-236 of March 23, 1967 which is now codified – the Shareholders' Meeting resolves to amend paragraphs 1 and 2 of article 26 of the Company's bylaws entitled "Access to and representation at Shareholders' Meetings", to read as follows:

"*1. Any shareholder may participate in Shareholders' Meetings in person or by proxy, regardless of the number of shares owned, subject to providing proof of share ownership.*

Where it deems fit, the Board of Directors may provide shareholders with individual named admission cards and require them to produce such cards in order to gain entry to a meeting. Shareholders who wish to attend a meeting in person and have not received their admission card by 12.00 a.m. (Paris time) on the third working day preceding the meeting in question, will be provided with a participation certificate.

2. The right to attend Shareholders' Meetings either in person or by proxy is subject to the following conditions:

- *holders of registered shares must ensure that their shares are recorded in the share register held by the Company or its authorized intermediary.*

- *holders of bearer shares must ensure that their shares are recorded in the bearer share account held by their authorized intermediary, as evidenced by a participation certificate provided by said intermediary (in physical or electronic form).*

These formalities must be completed by 12.00 a.m. (Paris time) on the third working day preceding the meeting concerned.

The rest of the article remains unchanged.

SIXTEENTH RESOLUTION

POWERS TO CARRY OUT FORMALITIES

The Shareholders' Meeting gives full powers to the bearer of an original, copy or extract of the minutes of this Meeting to carry out all necessary publication, filing and other formalities.