



A limited liability corporation with a share capital of €12,000,000
Registered office: 8, rue de la Ville l'Evêque – 75008 Paris, France
Companies and Trade Register of Paris No. 342 376 332

MANAGEMENT REPORT (EXTRACT) – YEAR ENDED DECEMBER 31, 2006

1.1 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
<i>Of which cash and cash equivalents</i>	<i>279.5</i>	<i>51.1</i>
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

1.2 MANAGEMENT REPORT

1.2.1 Overview

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

- 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).
- 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.

• 1.2.1.1 Breakdown of revenues

1.2.1.1.1 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% – has been 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 Reunion islands, 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 €0.0227 before tax per minute of use (rate at December 31, 2006). The amount per minute is calculated by France Telecom and approved by the French Telecommunications Regulatory Authority (ARCEP).

- **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.

1.2.1.1.2 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.

1.2.1.2 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: €9.30¹
- 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.

1.2.1.3 Capital expenditures and depreciation

The Group has rolled out a telecommunications network in metropolitan 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.

¹ Since February 2006.

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.

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

EBITDA is one of the key performance indicators used throughout this Management Report.

1.2.2 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 26, 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.

1.2.2.1.1 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	(462.5)	(366.3)	26.3
Payroll costs	(36.1)	(24.7)	47.3
External charges	(47.4)	(27.5)	71.1
Taxes other than on income	(7.9)	(4.7)	68.1
Additions to provisions	(5.1)	(3.5)	45.7
Other income and expenses from operations, net	(14.7)	(12.7)	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 (<i>ADSL, Pay-as-you-go, 50-hour plan</i>)	819.0	560.6	46.1
Hosting and advertising revenues	14.3	10.4	37.5
Inter-segment and other revenues	48.3	67.9	(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 ¹	17.9%	18.2%	19.0%

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.

¹ Source: Iliad, and ARCEP for 2005 market share and France Telecom for 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 paragraph 1.2.1.2) 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 paragraph 1.2.4).

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 a 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.

1.2.2.1.2 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	22.2	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 paragraph 1.2.4).

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.

1.2.3 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 collocation 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 21, 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.

1.2.4 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: 40,038,263 shares, or 73.9% of the share capital
- Public: 14,113,287 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

1.2.5 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.).

As mentioned above, in June 2006 Iliad carried out an issue of OCEANE convertible/exchangeable bonds. The net proceeds raised from these bonds – which mature in January 2012 – amounted to €326 million.

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.

1.3 ADDITIONAL INFORMATION

1.3.1 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 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.

1.3.2 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.