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)***

. Basic earnings per share for profit from continuing operations (in €) . Diluted earnings per share for profit from continuing operations (in €)	14 14	2.15 2.14	1.27 1.25
. Basic earnings per share for profit from discontinued operations (in €) . Diluted earnings per share for profit from discontinued operations (in €)	14 14	0.13 0.13	0.01 0.01
. Basic earnings per share (in €) . Diluted earnings per share (in €)	14 14	2.29 2.27	1.28 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**
<u>Movements in 2005</u>						
▪ 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**
<u>Movements in 2006</u>						
▪ 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 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, 2005
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[1]*; 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.

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[1] 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	/	/