



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

REGISTRATION DOCUMENT

YEAR ENDED DECEMBER 31, 2005



Pursuant to articles 212-13 of the Regulations of the *Autorité des Marchés Financiers* (AMF), this document was registered by the AMF on May 18, 2006 as No. R.06-063. It may not be used in support of a financial transaction unless it is accompanied by a *note d'opération* approved by the AMF.

This annual report has been prepared by the issuer and its signatories are liable for it. According to section L. 621-8-1 I of the French *Code Monétaire et Financier*, this registration, following an examination of the relevance and consistency of information provided regarding the Company's position, does not imply an authentication by the AMF of the accounting and financial items presented herein.

DISCLAIMER

The English-language version of the registration document is a free translation of the official *document de référence* prepared in France and registered with the French *Autorité des marchés financiers* under the above mentioned number.

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

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

GENERAL COMMENTS

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

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

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

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

TABLE OF CONTENTS

GENERAL COMMENTS	i
TABLE OF CONTENTS	ii
CHAPTER 1 PERSONS RESPONSIBLE	1
1.1 PERSONS RESPONSIBLE FOR THE REGISTRATION DOCUMENT	1
1.2 DECLARATION BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT	1
1.3 PERSON RESPONSIBLE FOR FINANCIAL INFORMATION	1
1.4 PROVISIONAL TIMETABLE FOR PUBLICATION OF FINANCIAL INFORMATION	1
CHAPTER 2 AUDITORS	2
2.1 STATUTORY AUDITORS	2
2.2 ALTERNATE AUDITORS	2
2.3 FEES PAID BY THE GROUP TO THE STATUTORY AUDITORS AND MEMBERS OF THEIR NETWORKS	2
CHAPTER 3 SELECTED FINANCIAL INFORMATION	3
CHAPTER 4 RISK FACTORS	4
4.1 RISKS RELATED TO THE GROUP AND ITS STRUCTURE	4
4.1.1 Dependence on managers and key employees	4
4.1.2 Dependence on the principal shareholder	4
4.1.3 Risks relating to the availability of equipment for the development of the broadband Internet access offering	4
4.1.4 Risks relating to the effect of acquisitions or investments	4
4.1.5 Risks relating to the need to improve the technical features and functionality of the services offered by the Group	5
4.2 RISKS CONNECTED WITH THE GROUP'S ACTIVITIES	5
4.2.1 Risks relating to the growth of the Internet market in France	5
4.2.2 Risks relating to the difficulty in upgrading the capacity of the platform for online access to the Group's services in line with the growth in Internet traffic	5
4.2.3 Risks relating to the rapid changes in pricing and technical aspects of Internet access offerings	5
4.2.4 Risks relating to competition	5
4.2.5 Risks relating to security and confidentiality of information on the Internet ..	6
4.3 FINANCIAL RISKS	6
4.3.1 Foreign exchange risks	6
4.3.2 Interest rate risks	7
4.3.3 Liquidity risks	7
4.3.4 Equity risks	8
4.4 LEGAL RISKS	9
4.4.1 Risks concerning the Group's relations with the incumbent operator	9
4.4.2 Risks relating to liability for content	9
4.4.3 Risks relating to intellectual property rights	10
4.4.4 Risks relating to the use of open source software	10
4.4.5 Links with or dependence on other companies	10
4.4.6 Assets required for business operations not owned by Iliad	10
4.4.7 Industrial and environmental risks	11
4.4.8 Risks relating to losing licences and frequencies	11
4.5 RISK RELATING TO CLAIMS AND LITIGATION	11
4.6 INSURANCE AND RISK COVERAGE	12

CHAPTER 5	INFORMATION ABOUT THE COMPANY AND THE GROUP	14
5.1	HISTORY AND DEVELOPMENT	14
5.1.1	Company name	14
5.1.2	Registration details	14
5.1.3	Date of incorporation and term	14
5.1.4	Registered office, legal form and applicable law	14
5.1.5	Key dates	14
5.1.6	Important events in the development of the Group's business	15
5.2	INVESTMENTS	17
5.2.1	Principal investments over the last three fiscal years	17
5.2.2	Principal investments in progress	18
5.2.3	Principal future investments	18
CHAPTER 6	OVERVIEW OF THE GROUP'S BUSINESS	19
6.1	PRINCIPAL ACTIVITIES	19
6.1.1	Strategy	19
6.1.2	Competitive advantages	19
6.1.3	A network servicing the Group's Internet and telephony operations	21
6.1.4	Description of the Group's principal activities	29
6.2	PRINCIPAL MARKETS	37
6.2.1	Internet access	37
6.2.2	Website hosting and sale of Internet domain names	40
6.2.3	Telephony operators	40
6.3	EXCEPTIONAL FACTORS WHICH HAVE INFLUENCED THE GROUP'S PRINCIPAL ACTIVITIES OR PRINCIPAL MARKETS	41
6.4	EXTENT TO WHICH THE GROUP IS DEPENDENT ON PATENTS OR LICENSES, INDUSTRIAL, COMMERCIAL OR FINANCIAL CONTRACTS OR NEW MANUFACTURING PROCESSES	41
6.4.1	Dependence on patents and software licenses	41
6.4.2	Dependence on supply, industrial, commercial or financial agreements	41
6.4.3	Dependence on new operating processes	42
6.4.4	Dependence on the Group's main customers and suppliers	42
6.5	BASIS FOR STATEMENTS MADE BY THE GROUP REGARDING ITS COMPETITIVE POSITION	43
6.6	REGULATORY SITUATION	43
6.6.1	Regulation of electronic communications networks and services	43
6.6.2	Regulation of the content of electronic communications	53
CHAPTER 7	ORGANIZATIONAL STRUCTURE	58
7.1	BRIEF DESCRIPTION OF THE GROUP	58
7.2	ORGANIZATION CHART	59
CHAPTER 8	PROPERTY, PLANT AND EQUIPMENT	60
8.1	EXISTING OR PLANNED MATERIAL TANGIBLE FIXED ASSETS	60
8.2	ENVIRONMENTAL ISSUES THAT MAY AFFECT THE COMPANY'S UTILIZATION OF THE TANGIBLE FIXED ASSETS	60
CHAPTER 9	OPERATING AND FINANCIAL REVIEW	61
9.1	KEY CONSOLIDATED FINANCIAL DATA	61
9.2	MANAGEMENT REPORT	61
9.2.1	Overview	61
CHAPTER 10	CASH FLOWS AND CAPITAL RESOURCES	74
CHAPTER 11	RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES	75
11.1	RESEARCH AND DEVELOPMENT	75
11.2	INTELLECTUAL PROPERTY	75
11.2.1	Patents	75

	11.2.2	Brands and trademarks	75
CHAPTER 12		TREND INFORMATION	76
CHAPTER 13		PROFIT FORECASTS OR ESTIMATES	77
CHAPTER 14		ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT	78
	14.1	MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES	78
	14.1.1	Composition of the Board of Directors	78
	14.1.2	Composition of the senior management team	81
	14.2	ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT CONFLICTS OF INTEREST	82
	14.3	DIRECTORS' AND SENIOR MANAGERS' INTERESTS IN THE COMPANY AND THE GROUP . . .	82
CHAPTER 15		REMUNERATION AND BENEFITS	84
	15.1	TOTAL AMOUNT OF REMUNERATION PAID AND BENEFITS IN KIND GRANTED TO DIRECTORS AND SENIOR MANAGERS	84
	15.1.1	Directors' fees	84
	15.1.2	Remuneration paid and benefits in kind granted to senior managers during fiscal 2005	84
	15.1.3	Change in total remuneration paid to members of the senior management team in the past three fiscal years	85
	15.2	STOCK OPTIONS GRANTED TO CORPORATE OFFICERS IN 2005	85
	15.3	AGREEMENTS ENTERED INTO BY THE COMPANY OR MEMBERS OF THE GROUP WITH THE COMPANY'S SENIOR MANAGERS OR PRINCIPAL SHAREHOLDERS	86
	15.4	LOANS AND GUARANTEES GRANTED TO SENIOR MANAGERS	86
CHAPTER 16		FUNCTIONING OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES	87
	16.1	ORGANIZATION OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES	87
	16.1.1	Organization of the Board of Directors	87
	16.1.2	Senior Management (Article 19 of the bylaws)	89
	16.1.3	Meetings of the Board of Directors	90
	16.2	SERVICE CONTRACTS ENTERED INTO BETWEEN THE COMPANY AND MEMBERS OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES	90
	16.3	INTERNAL RULES OF THE BOARD OF DIRECTORS AND DIRECTORS' CODE OF CONDUCT . . .	90
	16.3.1	Members of the Board of Directors	90
	16.3.2	Independent directors	90
	16.3.3	Meetings of the Board of Directors	91
	16.3.4	Evaluation of the Board of Directors	91
	16.3.5	Committees of the Board of Directors	91
	16.3.6	Code of conduct applicable to trading in the Company's securities	92
	16.4	INTERNAL CONTROL	93
	16.4.1	Report on the conditions governing the preparation and organization of the work of the Board of Directors and internal control procedures	93
	16.4.2	Statutory Auditors' report on the Chairman's report on internal control procedures	98
CHAPTER 17		EMPLOYEES	100
	17.1	HUMAN RESOURCES	100
	17.1.1	Changes in the Group's workforce during the past three years	100
	17.1.2	Analysis of the number of Group employees during the past three years	100
	17.2	STOCK OPTIONS AND FOUNDERS' WARRANTS GRANTED BY THE COMPANY, EXERCISED OR HELD DURING THE FISCAL YEAR ENDED DECEMBER 31 2005	101
	17.2.1	Stock options and founders' warrants granted during the year	101
	17.2.2	Stock options and founders' warrants exercised during the year	101
	17.2.3	Stock options held	101

17.3	FOUNDERS' WARRANTS ISSUED BY FREE	102
17.4	EMPLOYEE PROFIT-SHARING	102
CHAPTER 18	MAJOR SHAREHOLDERS	103
18.1	IDENTIFICATION OF SHAREHOLDERS	103
18.1.1	Shareholding structure	103
18.1.2	Movements in voting rights during the past three years	103
18.2	VOTING RIGHTS OF SHAREHOLDERS	104
18.3	SHAREHOLDERS' AGREEMENTS, LOCK-UP UNDERTAKINGS AND PARTIES ACTING IN CONCERT	104
18.3.1	Shareholders' agreements	104
18.3.2	Lock-up undertakings	104
18.3.3	Parties acting in concert	104
18.3.4	Double voting rights	104
18.3.5	Control over the Company	105
18.4	ARRANGEMENTS WHICH MAY RESULT IN A CHANGE IN CONTROL OF THE COMPANY	105
CHAPTER 19	RELATED PARTY TRANSACTIONS	106
CHAPTER 20	FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES	107
20.1	CONSOLIDATED FINANCIAL STATEMENTS FOR 2005, 2004 AND 2003	107
20.2	PARENT COMPANY FINANCIAL STATEMENTS FOR 2005, 2004 AND 2003	174
20.3	LEGAL AND ARBITRATION PROCEEDINGS	207
20.4	SIGNIFICANT CHANGES IN THE GROUP'S FINANCIAL OR TRADING POSITION	207
CHAPTER 21	ADDITIONAL INFORMATION	208
21.1	SHARE CAPITAL	208
21.1.1	Amount of share capital	208
21.1.2	Shares not representing capital	208
21.1.3	Share buyback programs	208
21.1.4	Potential share capital	209
21.1.5	Information about the terms of any acquisition rights or any obligations over authorized but unissued capital or an undertaking to increase the share capital . .	211
21.1.6	Information about the share capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option and details of such options (including those persons to whom such options relate)	211
21.1.7	Changes in the Company's share capital over the past five years	212
21.1.8	Authorized unissued share capital	213
21.2	BYLAWS	213
21.2.1	Corporate purpose (Article 2 of the bylaws)	213
21.2.2	Management of the Company	214
21.2.3	Rights and obligations attached to shares	214
21.2.4	Changes in the rights of shareholders	215
21.2.5	Shareholders' Meetings	215
21.2.6	Articles of the bylaws likely to have an impact on a change in control	216
21.2.7	Disclosure thresholds (Article 12 of the bylaws)	217
21.2.8	Specific provisions governing changes in the Company's share capital	217
21.2.9	Form of shares and identification of shareholders (Article 9 of the bylaws) . .	217
21.2.10	Fiscal year	217
21.2.11	Payment of dividends (Article 32 of the bylaws)	217
21.3	DIVIDENDS	217
21.3.1	Dividends paid in the past five fiscal years	217
21.3.2	Dividend payment policy	218
21.3.3	Statute of limitations for dividends	218

21.4	THE MARKET FOR ILIAD SHARES	218
21.4.1	General information	218
21.4.2	Changes in the Iliad share price since January 1, 2005	219
21.4.3	Transfer Agent	219
21.5	LIQUIDITY CONTRACT	219
CHAPTER 22	MATERIAL CONTRACTS	221
CHAPTER 23	THIRD PARTY INFORMATION, STATEMENTS BY EXPERTS AND DECLARATIONS OF ANY INTERESTS	222
CHAPTER 24	CONSULTATION OF LEGAL DOCUMENTS	223
CHAPTER 25	INFORMATION ON SHAREHOLDINGS	224
GLOSSARY OF TECHNICAL TERMS		225
APPENDIX	RESOLUTIONS PRESENTED TO THE ANNUAL SHAREHOLDERS MEETING OF MAY 29, 2006	231

CHAPTER 1

PERSONS RESPONSIBLE

1.1 PERSONS RESPONSIBLE FOR THE REGISTRATION DOCUMENT

Michaël Boukobza, Chief Executive Officer of Iliad.

1.2 DECLARATION BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT

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

The Company has obtained a letter from its Statutory Auditors confirming that they have verified the information about the Company's financial position and the historical accounts provided in this registration document in accordance with the professional standards and practices applicable in France, and that they have read the document as a whole."

Michaël Boukobza
Chief Executive Officer of Iliad.

1.3 PERSON RESPONSIBLE FOR FINANCIAL INFORMATION

Olivier Rosenfeld
Chief Financial Officer

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

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

1.4 PROVISIONAL TIMETABLE FOR PUBLICATION OF FINANCIAL INFORMATION

May 29, 2006:	Annual Shareholders' Meeting
By August 14, 2006:	First-half 2006 revenues
By September 30, 2006:	First-half 2006 earnings
By November 15, 2006:	Revenues for the first nine months of 2006

CHAPTER 2

AUDITORS

2.1 STATUTORY AUDITORS

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

First appointed at the Annual Shareholders' Meeting of October 19, 2000. Current term expires at the close of the Annual Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2005.

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

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

2.2 ALTERNATE AUDITORS

Pierre Coll
63, rue de Villiers
92208 Neuilly sur Seine, Cedex, France

First appointed at the Annual Shareholders' Meeting of May 28, 2004. Current term expires at the close of the Annual Shareholders' Meeting to be held to approve the financial statements for the year ended December 31, 2005.

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

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

2.3 FEES PAID BY THE GROUP TO THE STATUTORY AUDITORS AND MEMBERS OF THEIR NETWORKS

(in € thousands)	PricewaterhouseCoopers Audit				Boissière Expertise Audit			
	Amount		%		Amount		%	
	2005	2004	2005	2004	2005	2004	2005	2004
Audit								
– Statutory audit and contractual audits	165.6	125.5	90%	42%	137.5	121.0	99%	47%
– Audit-related work	19.0	176.7*	10%	58%	1.8	135.0*	1%	53%
Sub-total	184.6	302.2	100%	100%	139.3	256.0	100%	100%
Other services								
– Legal and tax advisory services								
– Information technology								
– Internal audit								
– Other								
Sub-total								
TOTAL	184.6	302.2	100%	100%	139.3	256.0	100%	100%

* Primarily corresponding to the specific review carried out in relation to Iliad's IPO.

CHAPTER 3

SELECTED FINANCIAL INFORMATION

(in € thousands)	2005	2004
INCOME STATEMENT		
Revenues	724,201	491,446
Net expenses from ordinary activities	(616,515)	(435,780)
Profit from ordinary activities	107,686	55,666
Other operating income and expense, net	0	2,556
Operating profit	107,686	58,222
Financial income and expense, net	(2,795)	2,677
Corporate income tax	(36,371)	(20,181)
Profit for the period, net of taxes, from discontinued operations/operations held for sale	378	0
Profit for the period	68,898	40,718
Diluted earnings per share	1.26	0.75
EBITDA ¹	224,313	112,818
BALANCE SHEET		
Non-current assets	425,945	283,501
Current assets	157,838	143,278
<i>o/w cash and cash equivalents</i>	<i>51,089</i>	<i>30,485</i>
Total assets	583,783	426,779
Total equity	248,575	178,477
Non-current liabilities	77,162	10,916
Current liabilities	258,046	237,386
Total equity and liabilities	583,783	426,779
CASH FLOWS		
Net cash generated from operating activities	225,817	99,826
Net cash used in investing activities	(262,205)	(168,518)
Net cash generated from financing activities	62,711	81,112
Net change in cash and cash equivalents	26,323	12,420
Cash and cash equivalents at end of year	49,416	23,093

The Group's consolidated revenues for the three months ended March 31, 2006 totaled €217 million, up 33% on the first quarter of 2005. Revenues by business segment broke down as follows:

(in € thousands)	Q1 2006	Q1 2005	% change
Consolidated revenues	217,291	163,119	33%
Internet revenues	199,219	139,231	
– Inter-segment	(12,002)	(16,732)	
<i>Internet consolidated revenues</i>	<i>187,217</i>	<i>122,499</i>	<i>53%</i>
Traditional Telephony revenues ²	36,301	43,566	
– Inter-segment	(7,686)	(5,772)	
<i>Traditional Telephony consolidated revenues</i>	<i>28,615</i>	<i>37,794</i>	<i>(24%)</i>
Other Services revenues	2,767	5,077	
– Inter-segment	(1,308)	(2,250)	
<i>Other Services consolidated revenues</i>	<i>1,459</i>	<i>2,827</i>	<i>(48%)</i>

At March 31, 2006, the Group had 1,783,000 ADSL subscribers, a 188,000 increase over the period. Average revenue per user generated by ADSL subscribers in the first quarter of 2006 came to €33 (excl. VAT).

1 Earnings before interest, tax, depreciation and amortization

2 Excluding Endeis Telecom, which was sold on October 1, 2005. Revenues for the first quarter of 2005 are not pro forma figures.

CHAPTER 4

RISK FACTORS

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

4.1 RISKS RELATED TO THE GROUP AND ITS STRUCTURE

4.1.1 Dependence on managers and key employees

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

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

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

4.1.2 Dependence on the principal shareholder

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

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

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

4.1.4 Risks relating to the effect of acquisitions or investments

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

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

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

4.2 RISKS CONNECTED WITH THE GROUP'S ACTIVITIES

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

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

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

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

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

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

4.2.4 Risks relating to competition

Internet

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

Telephony

The fixed telephony sector in France is a mature market and therefore not likely to undergo rapid expansion. It is heavily dominated by the incumbent operator. Although the Group believes it possesses a number of competitive

advantages in this market, including in particular the use of its own network, it cannot guarantee that it will manage to develop its fixed telephony business as planned in a sector where the players are principally multinational companies whose financial resources exceed those of the Group and whose capacity for investment, particularly in advertising, presents a considerable advantage.

Television

In the broadband television sector, competition increased substantially during 2005, and is likely to continue to grow. Although the Group considers that it has a competitive edge in this market, particularly through the use of its Freebox modem, which protects the transmission of audiovisual content, it cannot guarantee that it will be able to develop its audiovisual business as planned. Any such development will depend on the audiovisual content being broadcast and on being able to expand unbundling into new areas.

The outcome of the complaint lodged with the French Competition Authority (*Conseil de la Concurrence*) against TF1 and M6 is currently pending (only the HD Freebox can broadcast TF1 and M6 via DTT).

At the time of its initial public offering, the Company stated that a rejection of the above application by the *Conseil de la Concurrence* would not have any impact on its outlook. However, as the market for the broadcast of audiovisual services via ADSL has grown considerably in recent months, with the emergence of competing services offered by other telecommunications operators, the Group now considers that it is not in a position to assess the financial impact and consequences of not being able to broadcast the TF1 and M6 television channels as part of Free's offering.

Other Services

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

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

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

4.3 FINANCIAL RISKS

4.3.1 Foreign exchange risks

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

Foreign exchange risks

(in €)	USD	GBP
Assets	54,473	0
Liabilities	9,855,191	56,233
Net position before hedging	9,800,718	56,233
Off-balance sheet position	4,191,115	0
Net position after hedging	5,609,603	56,233
Closing rate	1.1848	1.4530

Foreign exchange risk sensitivity

	USD	GBP
Net position after hedging	5,609,603	56,233
Net position after hedging based on the assumption that exchange rates change unfavorably for the Group by €0.01	5,665,699	56,620
Sensitivity	56,096	387

4.3.2 Interest rate risks

The Group is not exposed to any significant interest rate risk. During 2005, Group companies obtained several confirmed lines of credit representing a maximum amount of €120 million, the longest of which is available until November 2008. At December 31, 2005, the Group had drawn down €77 million of the €120 million available. The Group's borrowings and finance leases are described in Section 9.2.1.4.4 of this registration document. The minimum future lease payments under finance leases amounted to €4.5 million at December 31, 2005, compared with €4.8 million at December 31, 2004. The Group's cash investments are at variable rates. At December 31, 2005, the Group had not entered into any hedging arrangements to cover interest rate risk. In addition, the Group has no significant financial assets (such as bonds, treasury bills, other debt securities, loans or advances) and no off-balance sheet commitments (such as repos, forward rate agreements, etc.) which expose it to interest rate risk.

The tables below show the Group's net interest rate exposure (at December 31, 2005) and an analysis of sensitivity to interest rate fluctuations.

(in € thousands)	Within 1 year	Between 1 and 5 years	Beyond 5 years
Financial liabilities	23,355	65,552	471
Financial assets	310	1,402	2,640
Net position before hedging	23,045	64,150	(2,169)
Off-balance sheet items	0	0	0
Net position after hedging	23,045	64,150	(2,169)

Net position to be rolled over within one year (in € thousands)	21,372
Change in interest rate	1%
Average remaining life (in months)	12
Sensitivity (in € thousands)	230

4.3.3 Liquidity risks

The Group has historically financed its growth principally with internal resources, with limited recourse to borrowing from time to time to finance specific projects. At December 31, 2005, the Group's net cash position stood at €49.4 million, compared with €23.1 million at December 31, 2004. In view of the ratios set out below, the

Group is not subject to any liquidity risk as a result of prepayment clauses in loans entered into by Group companies or as a result of the breach of any financial covenants.

Certain of the Group's credit agreements contain financial covenants, particularly 5 confirmed credit lines representing a maximum amount of €120 million. As at the filing date of this registration document the Group complied with, and had always complied with, these covenants, which take the form of financial ratios.

	Applicable financial ratio	Consequences of breach	Actual ratios at December 31, 2005
Credit line 1 (Borrower – Free)	Gearing ratio < 1 Leverage ratio < 2.5	Early repayment	Gearing ratio: – 0.18 Leverage ratio: – 0.09
Credit line 2 (Borrower – Free)	Gearing ratio < 1 Leverage ratio < 2.0	Early repayment	Gearing ratio: – 0.18 Leverage ratio: – 0.09
Credit line 3 (Borrower – Iliad)	Gearing ratio < 1 Leverage ratio < 2.5	Early repayment	Gearing ratio: 0.15 Leverage ratio: 0.17
Credit line 4 (Borrower – Iliad)	Gearing ratio < 1 Leverage ratio < 2.5	Default	Gearing ratio: 0.15 Leverage ratio: 0.17
Credit line 5 (Borrower – Iliad)	Gearing ratio < 1 Leverage ratio < 2.5	Early repayment	Gearing ratio: 0.15 Leverage ratio: 0.17

The Group's debt at December 31, 2005 can be analyzed as follows:

Type of borrowing	Interest rate	Total amount (in € millions)	Maturity	Hedging
Real estate loan	Euribor	1.4	2013	–
Loan	Euribor	1	2006	–
Loan	Euribor	1.3	2006	–
Credit agreement	Euribor	10.0*	2008	–
Credit agreement	Euribor	20.0*	2008	–
Credit agreement	Euribor	30.0*	2008	–
Loan	Euribor	2.4	2008	–
Credit agreement	Euribor	25.0*	2009	–
Credit agreement	Euribor	35.0*	2010	–

* A total of €77 million was drawn down at December 31, 2005, out of a maximum amount of €120 million.

4.3.4 Equity risks

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

At the filing date of this registration document, Xavier Niel, the Company's principal shareholder held 66.88% of the capital and voting rights. The fact that a significant portion of the Company's capital and voting rights is concentrated in a single shareholder and that said shareholder may freely dispose of all or part of his interest in the Company could have a material adverse effect on the price of the Company's shares.

As the Group does not have any significant equity portfolios, equity risk is minimal.

4.3.4.2 Share price volatility

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

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

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

4.3.4.3 Subsequent sale of shares by significant shareholders

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

4.4 LEGAL RISKS

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

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

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

4.4.2 Risks relating to liability for content

French law on the liability of access or hosting providers and portal operators, such as Free and Online, for the content of websites accessible through their services has changed since 2004 with the promulgation of the Law on Confidence in the Digital Economy on June 21, 2004 and the entry into force of Decree no. 2006-358 of March 24, 2006. The Group has placed on the Free portal home page forms which can be used to report unlawful content, and has established a procedure for reporting any violation of human dignity, so that web users can report any illegal content and Free can respond promptly to any complaints. However, in the past a number of suits have been filed, in France and other countries, against access or hosting providers because of the content of the information transmitted or made available online (in particular for press-related violations, invasion of privacy and trademark infringement). Free and Online may be subject to similar suits and could incur significant costs in order to defend themselves against such claims. Analysis of the proceedings and the preparation of an appropriate defense could prove to be costly even if Free and Online were eventually held not liable. Finally, any such proceedings could have an adverse effect on the Group's reputation.

4.4.3 Risks relating to intellectual property rights

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

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

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

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

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

4.4.4 Risks relating to the use of open source software

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

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

4.4.5 Links with or dependence on other companies

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

4.4.6 Assets required for business operations not owned by Iliad

Other than networks to which Iliad is interconnected as well as certain interconnection equipment and the dark fibers used by its network under long-term IRU agreements (described in Section 6.1.3 of this registration document), the Group considers that it is the owner of all the assets required for carrying out its business operations. At December 31, 2005, the Group was able to use 22,605 kilometers of fibers, including 21,558 under IRU agreements, and 1,047 under leases. The expiry date of these IRU agreements is provided in Section 6.1.3 below.

4.4.7 Industrial and environmental risks

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

4.4.8 Risks relating to losing licenses and frequencies

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

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

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

The main licenses held by the Group are the L33, L34 and WLL (wireless local loop) telecom licenses, and the Group's related commitments are defined in decisions issued by the ARCEP. The ARCEP decision number 03-1294 authorizes IFW to operate microwave frequencies in the 3.5 GHz bandwidth, provided it respects specifications that include a number of requirements relating to the network roll-out and population coverage. Further to an inspection audit, the ARCEP noted that the Group had respected its related commitments at December 31, 2005. The next inspection is scheduled for December 31, 2008.

In late January 2006, an operator applied to the French Council of State (*Conseil d'Etat*), to overturn a decision by the ARCEP not to repeal the authorization granted to IFW to use frequencies in the 3.5 GHz bandwidth (WLL – Wimax). In conjunction with IFW, the ARCEP has drawn up a statement of case defending its position and calling for this application to be rejected.

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

4.5 RISK RELATING TO CLAIMS AND LITIGATION

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

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

The Group's companies are involved in inquiries, claims and legal proceedings with regulatory authorities, competitors and other parties. The Group believes that the provisions set aside to cover these risks, claims and legal proceedings that were known or in process at the balance sheet date are sufficient to ensure that its financial

position would not be materially affected if the outcome was not in the Group's favor (see Note 33 to the consolidated financial statements).

An application has been lodged for the French Council of State to overturn the ARCEP's decision relating to IFW's 3.5 GHz frequency license. The case is currently pending and on April 24, 2006, IFW drew up its statement of case in support of ARCEP.

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

4.6 INSURANCE AND RISK COVERAGE

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

The cost of Iliad's insurance cover for all Group companies came to approximately €971 thousand in 2005, representing all the insurance premiums paid. In order to obtain the best possible coverage for all the Group's companies, Iliad uses the services of its Internet insurance brokerage company, Assunet, which negotiates the insurance policies on its behalf. The Group's main policy covers third party liability in the event of fire as required by France Telecom in respect of its occupancy of the co-location facilities. Three specific insurance policies have also been taken out to provide cover for bodily injury and property damage relating to the use of the Paris municipal highways for the roll-out of Free's metropolitan network in the capital, and the use of deactivated optical fiber pairs belonging to Electricité de Strasbourg, as well as those installed on public property owned by the city of Reims.

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

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

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

Third party liability – France Telecom			
Comprehensive cover (bodily injury, property damage and consequential loss)			
			€ 76,225,000.00
Third party liability – Electricité de Strasbourg / City of Reims / City of Paris			
Operational liability			
Bodily injury	€	7,622,451	Per claim
Property damage and consequential loss	€	15,524,491	Per claim
Third party liability and property damage (rue de la ville l'Evêque)			
Third party liability related to occupancy	€	11,436,676	
Additional operating costs	€	3,400,000	
Property damage	€	762,250	

Third party liability and property damage (Bezons site)	
Tenant's risks	€ 2,500,000
Directors' and officers' liability insurance	
Amount of coverage per insurance period	€ 15,000,000

CHAPTER 5

INFORMATION ABOUT THE COMPANY AND THE GROUP

5.1 HISTORY AND DEVELOPMENT

5.1.1 Company name

The Company's name is Iliad

5.1.2 Registration details

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

5.1.3 Date of incorporation and term

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

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

5.1.4 Registered office, legal form and applicable law

Registered office:	8 rue de la Ville l'Evêque, 75008 Paris (France)
Telephone:	+33 1 73 50 20 00

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

5.1.5 Key dates

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

- 1996 – Launch of the reverse look-up directory 3617 ANNU.
- 1999 – The Creation of the Internet service provider Free.
 - Group is granted category L.33-1 and L.34-1 telecommunications licenses, authorizing it to roll out a telecommunications network and to provide telecommunications services to the public.
- 2000 – Start of the roll-out of the Group's telecommunications network and interconnection with France Telecom's network.
 - Sale of the Group's Minitel business (excluding ANNU).
- 2001 – Completion in April 2001 of the interconnection between the Free Telecom network and the France Telecom network at regional level and in the Paris urban area.
 - Launch of the Freebox (modem and DSLAM) research and development project.
 - Acquisition of the French subsidiary of the Australian telecommunications operator One.Tel in December 2001.
- 2002 – Restructuring of One.Tel and migration of its traffic to the Group's network.
 - Launch of Free's broadband service.
 - Start of local loop unbundling (LLU) operations in Paris.
- 2003 – Roll-out of LLU to the majority of the French population.
 - The Group becomes the second largest ADSL broadband Internet service provider in France³ in March 2003.
 - Acquisition of the prepaid phone card specialist Kertel.

3 Source: IDATE, The World Atlas of the Internet, 2003 edition.

- Launch of the ADSL fixed telephony service using the Freebox modem in August 2003 (under Option 1).
- Launch of an ADSL-based audiovisual content service offering in December 2003.
- 2004 – Iliad's initial public offering. Listing on the Euronext Paris Premier Marché on January 30, 2004.
- Launch in March 2004 of voice over ADSL services under Option 5 using the Freebox modem.
- Launch of a fully unbundled service offering in June 2004.
- Launch of the ADSL 2+ service offering in October 2004.
- Broadcast of Canal+ TV offers via the Freebox in November 2004.
- 2005 – Launch of the Freeplayer offering through the Freebox in June 2005.
- Acquisition in November 2005 of Altitude Telecom which holds the only national WiMAX license for France (3.5 GHz).
- Launch of the Video on Demand (VoD) offering on the Freebox, in conjunction with Canalplay (December 2005).
- 2006 – Launch of the new Freebox HD TV service, DTT Tuner (TF1 and M6 accessible), Wi-Fi MIMO and mobile telephony over Wi-Fi (April 2006)
- Launch of Dedibox – a dedicated offering providing servers and website hosting services to individual subscribers (May 2006)

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

5.1.6.1 A leading Internet service provider and telecommunications operator in France

Formed in 1991, the Group has leveraged its telecommunications networking expertise to establish itself as the second largest Internet service provider in France⁴.

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

- the second largest ADSL broadband Internet service provider with a 17.9%⁵ share of the French residential market. At December 31, 2005, Free had 1,595,000 ADSL broadband subscribers⁶;
- a major player in the unbundling of the local loop in France, with 1,120,000 unbundled access lines. This leading position in the unbundling arena has enabled the Group to provide technically sophisticated services (such as high connection speeds and “triple play” offerings) that are both attractively priced and profitable for the Group; and
- the foremost voice over IP operator in France, with 1,304,000 users of the Group's service through the Freebox modem, and the leading ADSL broadband television operator with some 1,100,000 subscribers equipped with a Freebox modem enabling them to receive audiovisual content.

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

In November 2005, the Group acquired the entire capital of Altitude Telecom (renamed IFW) the only company with a nationwide WiMax license in France.

⁴ Source: Iliad/ARCEP

⁵ Source: Iliad/ARCEP

⁶ Source: Iliad

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

The Internet segment is undergoing a period of significant growth driven by the expansion in infrastructure and lower hardware costs (for computers, modems, etc.), as well as the increase in the number of public projects and, more particularly, by the widespread availability of broadband technologies such as ADSL and the success of optional "triple play" services. The Group's Internet business is centered on (i) Internet provider services operated by Free, based on both dial-up access (which includes a pay-as-you-go service and a fixed-rate package offering 50 hours of access per month), and broadband Internet access via ADSL, and (ii) shared website hosting services and the registration of domain names, provided by Online.

Following the success, first, of its "Pay-as-you-go" and "50-hour plan" services and subsequently of its unlimited broadband access service which costs €29.99 per month, Free is now the second largest Internet service provider in the French residential broadband market with 17.9% of all ADSL subscribers at December 31, 2005. For its part, Online hosts approximately 85,000 websites, making it a major provider of shared hosting solutions for business websites.

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

With approximately 298,000 customers at December 31, 2005, One.Tel is a relatively small fixed telecommunications operator, but it is profitable and has adopted an aggressive pricing policy. Following the acquisition of this company in December 2001, the Group focused on repositioning One.Tel's service offering, adopting a policy of carrier preselection, simplifying the range of services offered and establishing an attractive pricing policy (a price of €0.01 per minute for all local and national calls). Since its takeover by Iliad, a system of payment by direct debit has been strongly encouraged in order to guarantee the payment of bills by its customers, and at December 31, 2005 more than 89% of One.Tel's customers used this method of payment, compared with 84% at December 31, 2004. With the benefit of being able to use the Group's network and boosted by a positive marketing strategy, One.Tel has been able to win a large number of new customers without compromising its profitability.

Kertel – which was acquired by the Group in 2003 – benefits from both the quality and reach of a first-rate distribution network (particularly through its exclusive agreement with the French post office, La Poste, for the top up of mobile phone cards) and very attractive tariffs achieved as a result of economies of scale made possible by its use of the Group's network. Finally, Kedra offers high-quality call termination services in particular to the Group's fixed telephony business.

The Other Services segment includes in particular the reverse look-up directory ANNU, which is accessed mainly via Minitel and also by telephone, as well as web content services provided by the Group subsidiaries Assunet S.A., a web-based insurance broker, and Société S.A., which operates a website providing information about companies.

The following table shows the changes in the Group's consolidated revenues, EBITDA⁷ and profit from ordinary activities over the last three fiscal years:

(in € millions)	2003 (French GAAP)	2004 (IFRS)	2005 (IFRS)
Revenues	293.1	491.4	724.2
EBITDA	53.6	112.8	224.3
Profit from ordinary activities	35.0	55.7	107.7

7 Earnings before interest, tax, depreciation and amortization.

Analysis of 2005 revenues and EBITDA by business segment

(in € thousands) IFRS	Internet	Traditional Telephony	Other Services
Consolidated revenues	578,114	136,022	10,065
EBITDA	199,547	24,858	(92)

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

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

LLU allows the Group to offer its customers attractive prices (currently €29.99 per month for the ADSL broadband Internet access package, with a download rate of 24 Mbits per second) and a competitive range of services, providing higher transmission speeds combined with telephony and audiovisual services for customers with a Freebox modem.

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

By placing LLU at the heart of its strategy and adopting an aggressive and profitable pricing policy, Free succeeded in winning almost one in five new ADSL broadband customers during 2005, in an extremely competitive market. At December 31, 2005, the company had 1,595,000 ADSL customers, 1,120,000 of whom are on unbundled lines⁸.

Growth in Free's broadband customer base between 2003 and 2005⁹

	12/31/2003	12/31/2004	12/31/2005
Total ADSL subscribers	485,000	1,064,000	1,595,000
Number using unbundled lines	163,000	566,000	1,120,000
Percentage using unbundled lines	33.6%	53.2%	70.2%
Share of French residential ADSL market	15.0%	17.4%	17.9%

5.2 INVESTMENTS

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

5.2.1 Principal investments over the last three fiscal years

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

⁸ Source: Iliad.

⁹ Source: Iliad/ARCEP/France Telecom

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

	2003 (French GAAP)	2004 (IFRS)	2005 (IFRS)
Intangible assets	37,911	661	1,075
Property, plant and equipment	62,171	214,195	209,197
TOTAL	100,082	214,856	210,272

The main reclassifications at January 1, 2004 were as follows:

- The balance of “Indefeasible rights of use” (IRU) classified under intangible assets in the French GAAP accounts was reclassified under property, plant and equipment, in an amount of €24,312,000.
- The balance of “Service access fees”, classified under intangible assets in the French GAAP accounts was reclassified under property, plant and equipment, in an amount of €20,095,000.

The main reclassifications at December 31, 2004 were as follows:

- The balance of “Indefeasible rights of use” (IRU), classified under intangible assets in the French GAAP accounts was reclassified under property, plant and equipment, in an amount of €71,301,000.
- The balance of “Service access fees” classified under intangible assets in the French GAAP accounts was reclassified under property, plant and equipment, in an amount of €57,107,000.

5.2.2 Principal investments in progress

During the first quarter of 2006, the Group’s principal investments represented (i) growth-related expenditure which directly depends on the number of new customers won – such as Freeboxes, Freebox DSLAMs and service access fees or wiring connection costs invoiced by France Telecom, and (ii) network-related expenditure – including expenditure incurred to increase network density invested jointly with private operators or local authorities, or under IRU agreements.

Financing

These investments are financed by cash flows from operating activities.

5.2.3 Principal future investments

The Group anticipates devoting substantially all of its future capital expenditures to (i) producing both the current and future versions of the Freebox modem and distributing these modems to its subscribers and (ii) increasing its network density by installing additional Freebox DSLAMs in France Telecom sites and operating new sections of optical fiber. The Group also intends to continue to develop its access to the unbundled local loop by financing the construction of shared co-location facilities at France Telecom sites. This development will accelerate the migration of broadband subscribers to Option 1 (unbundled) which, as explained in Section 9.2.1.2 of this registration document, will result in a substantial reduction in the cost of providing broadband Internet access. In addition, the Group will continue to invest as necessary in securing and extending its network by increasing the number of optical fiber loops (thereby reducing the risk of loss of service in the event of a failure in any one section of the network) and will carry out certain civil engineering works, either independently or in conjunction with other parties, to extend its network (thereby increasing network density).

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

CHAPTER 6

OVERVIEW OF THE GROUP'S BUSINESS

6.1 PRINCIPAL ACTIVITIES

6.1.1 Strategy

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

Continuing to provide the most competitive Internet access offerings in France

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

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

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

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

Since the launch of its ADSL-based telephony service in August 2003, the Group has consistently added new free and pay-per-use services for customers with Freebox modems in unbundled areas. In 2005, the Freeplayer media center service was added, along with a multi-device offering and Video on Demand provided in partnership with Canalplay. The Group considers that these services strengthen the appeal of its ADSL broadband offering and foster customer loyalty. The Group's strategy is therefore focused on increasing the number of these services and ensuring their user-friendliness, notably by simplifying interfaces and procedures relating to invoicing.

Considering acquisition opportunities which could contribute to Group growth

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

6.1.2 Competitive advantages

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

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

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

Technically sophisticated and attractively priced service offerings

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

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

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

A leading player in local loop unbundling

The Group considers that the unbundling of the local loop is at the heart of its ability to offer original, sustainable and profitable broadband Internet access services. Currently the Group has 1,120,000 unbundled lines thanks to the installation of approximately 1,700 Freebox DSLAMs in 675 co-location facilities located in France Telecom exchanges. The Group intends to capitalize on its experience in unbundling the local loop to expand the areas in which it can offer differentiated services to its customers.

Targeted research and development focusing on the consumer market

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

Understanding of key regulatory issues

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

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

The Group has posted profits each year since 2001, despite its significant investments in interconnection and LLU operations and the intense competition in its markets. It has demonstrated its capacity to internally the majority of its capital expenditures and new business start-up costs, while continuing to pay dividends. With its

high-performance network and large customer base, the Group believes it will be able to continue to pursue its strategy of profitable growth.

The ability to build on its experience

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

An experienced management team with complementary skills

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

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

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

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

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

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

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

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

Connection points between the Group's network and the France Telecom network at December 31, 2005

Type of France Telecom site	Number of connection points	Total number of France Telecom sites
Digital main switching units	18	18
Digital local exchanges	230	540
France Telecom LLU sites	675	12,309

6.1.3.1 General principles of interconnection and local loop unbundling in France

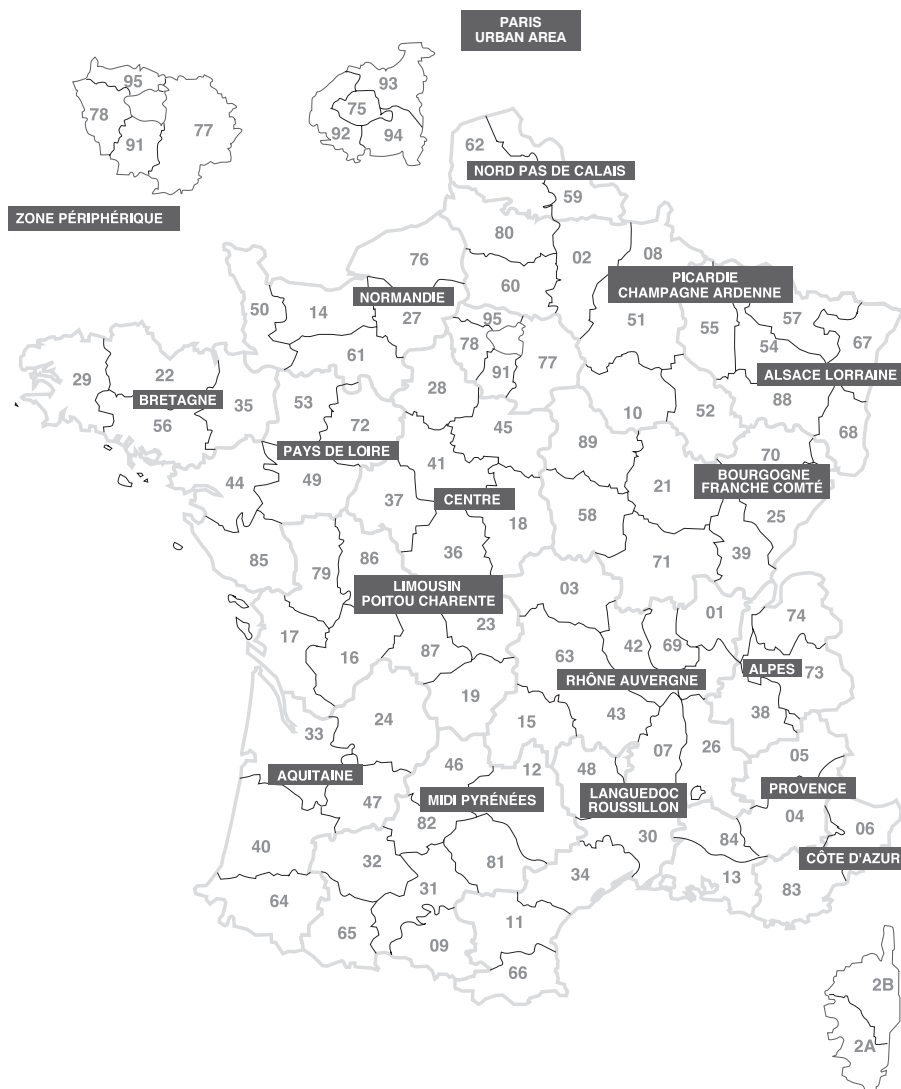
Interconnection and local loop unbundling allow operators to access and use part of the incumbent operator's network in return for payment to the incumbent operator of access and usage charges. Interconnection to the incumbent operator's network allows the alternative operator to deliver its customers'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

6.1.3.1.1 Interconnection

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

France Telecom network showing the 18 trunk exchange areas

Source: Iliad



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

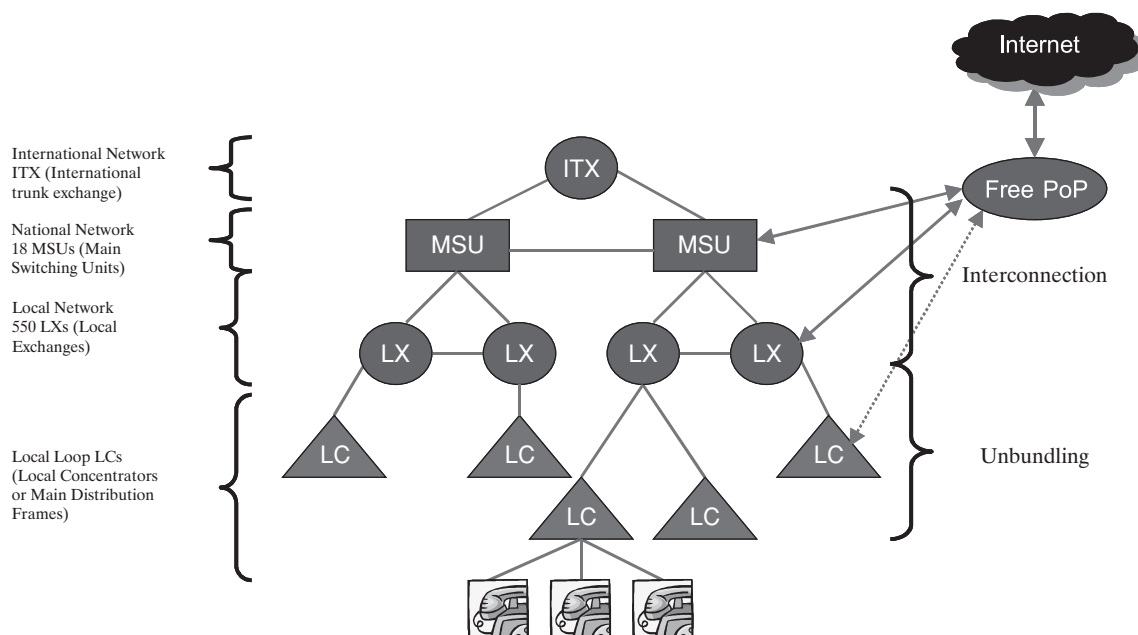
The alternative operator may also connect to the lowest hierarchical level of switches installed on the network, i.e. the digital local exchange, which is the switch closest to the customer.

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

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

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

Schematic diagram of France Telecom's switched network



6.1.3.1.2 Unbundling of the local loop

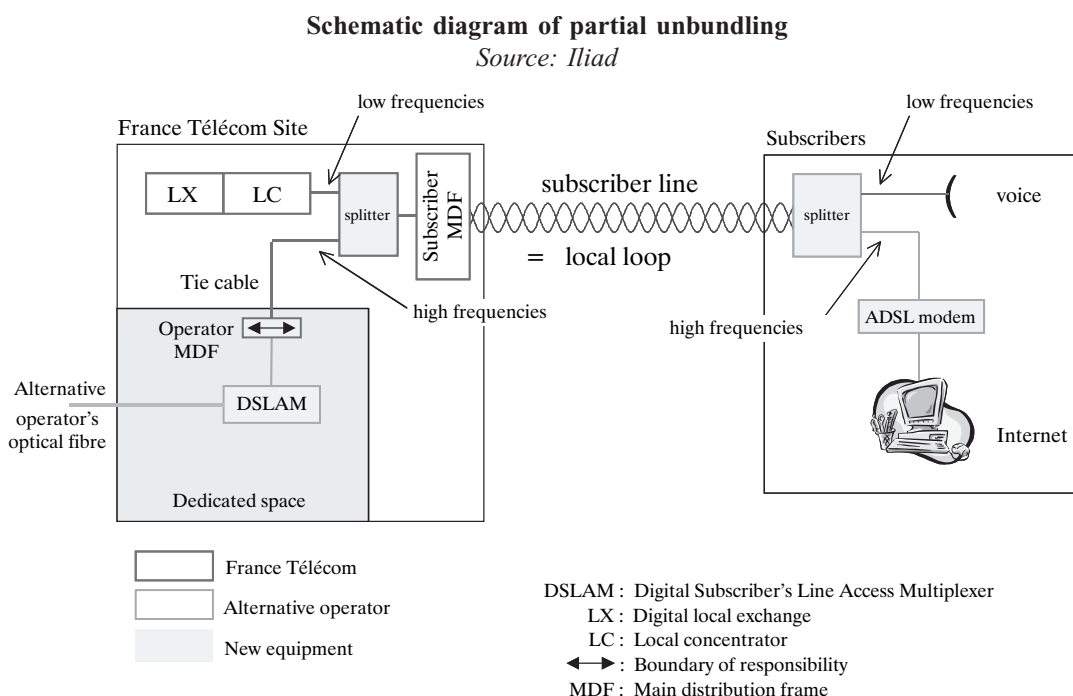
The local loop is that part of the network located between the telephone socket on the subscriber's premises and the main distribution frame (or local concentrator) to which the subscriber's line is connected.

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

In an unbundled system, the copper pair (the part of the subscriber's line which connects the subscriber to the closest digital local exchange) is not connected directly to the equipment managed by France Telecom, but rather to an ADSL line concentrator (also called a DSLAM) installed in co-location facilities or dedicated spaces provided for this purpose in the France Telecom exchanges and managed by the operator chosen by the subscriber. A special modem is installed on the subscriber's premises to allow the subscriber to receive data transmissions at a speed of up to 24 Mbits per second.

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

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



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

Local loop unbundling completely frees an operator from dependence on France Telecom's network. The recurring charges payable to France Telecom relate primarily to the rental of the copper pair, the splitter and the copper tie cable linking the subscriber's modem to the operator's DSLAM¹⁰.

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

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

6.1.3.2 Development phases of the Group's network

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

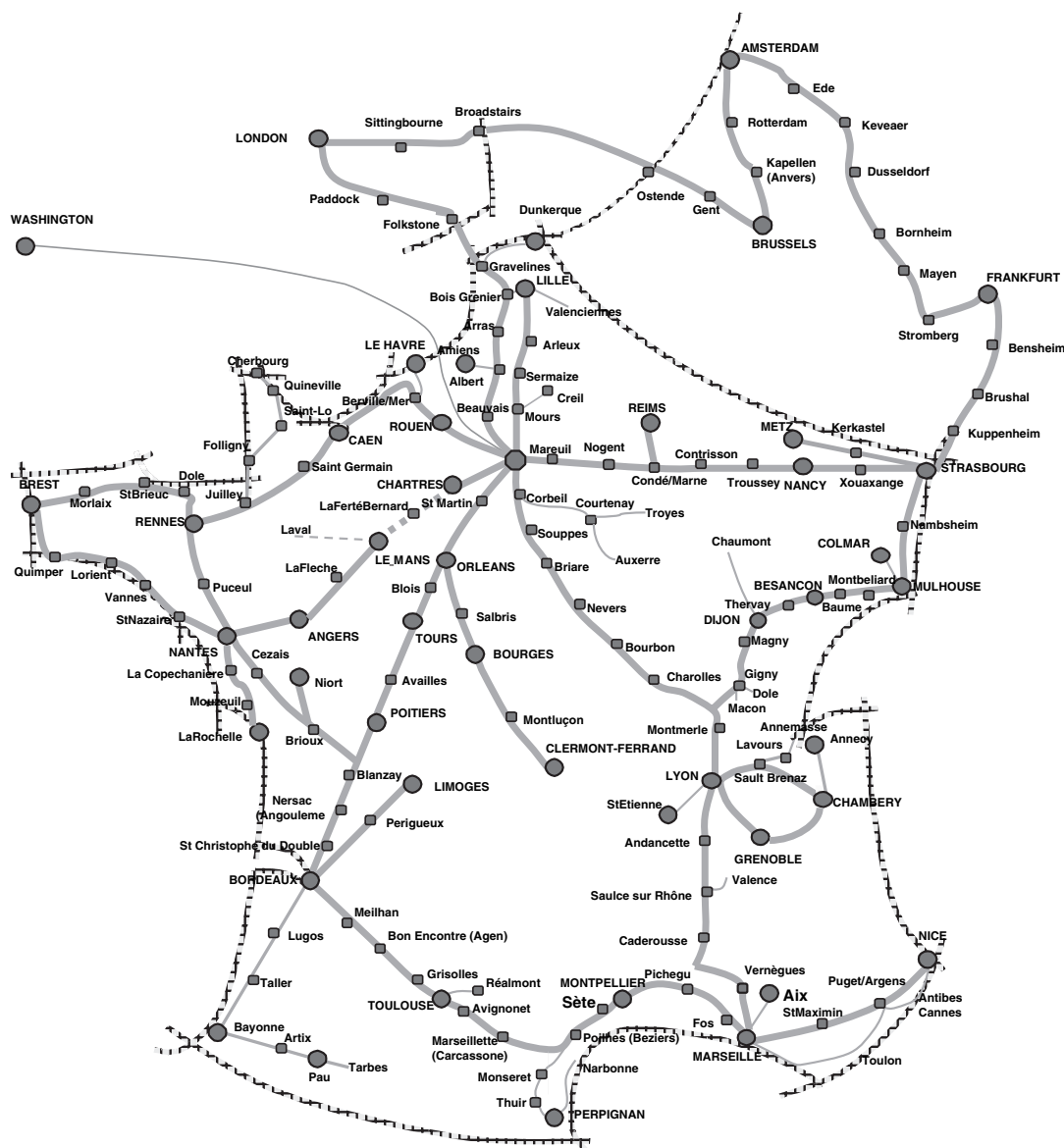
6.1.3.2.3 Unbundling of the local loop and expansion of the national network

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

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

Map showing the Group's national network at December 31, 2005

Source: Iliad



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

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

During 2005, the Group significantly extended its network, connecting to and installing Freebox DSLAMs in new France Telecom exchanges in order to be able to provide all broadband customers within the area of coverage of these France Telecom sites with access to the benefits of Free's unbundled service offering. At December 31, 2004, 1,342 DSLAMs had been installed in 410 France Telecom sites.

Although, at December 31, 2005, Free maintained its interconnections at all 18 MSUs in mainland France and at 230 LXs (including all those located within the Paris city limits), it also enjoyed autonomy on a national level as a result of IRU agreements for the provision of an optical fiber pair which it operates for its own account.

At December 31, 2005, the Group's network comprised some 22,000 km of optical fiber, compared with 16,000 km at December 31, 2004, and 7,135 km at December 31, 2003. The substantial majority of the network is held pursuant to IRU agreements, Free's preferred method. In June, 2004, Free signed an agreement with Neuf Telecom extending until December 31, 2030 the validity of most of the IRU agreements it had already concluded. The few sections of the network that are not covered by such agreements are either leased or owned outright, often in conjunction with joint construction projects undertaken with private operators or local authorities.

In 2005, the Group pursued its existing contractual relationships with local authorities and conducted similar negotiations with other local authorities which have decided to develop their own networks.

6.1.3.3 Other network elements

Network security

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

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

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

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

Peering

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

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

International transit

At December 31, 2005 for international transit, Free used the services of two transit service providers offering bandwidth capacity of more than 10 Gigabits per second: Opentransit (France Telecom International) and Teleglobe.

Server platform

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

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

6.1.4 Description of the Group's principal activities

6.1.4.1 Internet access

6.1.4.1.1 Free

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

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

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

After completing the roll-out of its telecommunications network and interconnecting with the France Telecom network in April 2001, Free was in a position to control the cost structure of an offering based on Internet connection time. It therefore launched an attractive and profitable dial-up package, charging a fixed rate of €14.94 for 50 hours of Internet usage per month.

With less than 100,000 "50-hour plan" subscribers at December 31, 2005 (compared with 143,500 at December 31, 2004 and 215,000 at December 31, 2003), Free has capitalized on the different nuances of its brand name, transforming it from a name implying that the offering is free of charge into a name associated with high-quality paid services and the freedom offered to users of these services.

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

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

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

Details of Internet access services provided by Free at April 1, 2006

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

Free's Broadband Service Offering €29.99 per month, including VAT	
Option 1 (Unbundled line)*	Option 5*
• Unlimited usage for a fixed price – up to 24 Mbits per second download rate and 1 Mbit per second upload (ATM) • Freebox modem provided to subscribers free of charge • No minimum contract period • Termination charge: €96 maximum including VAT (reduced by €3 for each month of duration of the subscription) • Unlimited use of bandwidth • Unlimited number of e-mail addresses • 1 Gb of space for hosting the customer's personal website • Specific tools enabling customers to manage and customize their websites • No line rental payable to France Telecom in the case of full unbundling • In the case of migration from partial unbundling to full unbundling: migration charge of €90 including VAT (reduced by €3 for each month of duration of the subscription to Free's broadband service) • Access to telephony services and audiovisual content offerings for customers with a Freebox modem	• Unlimited usage for a fixed price – up to 10 Mbits per second download rate and 1 Mbit per second upload (ATM) • Freebox modem provided to subscribers free of charge • No minimum contract period • Termination charge: €96 maximum including VAT (reduced by €3 for each month of duration of the subscription) • Unlimited use of bandwidth • Unlimited number of e-mail addresses • 1 Gb of space for hosting the customer's personal website • Specific tools enabling customers to manage and customize their websites • Access to telephony services and audiovisual content offerings for customers with a Freebox modem

Charges for calls made using the Freebox modem		Charges for calls made using the Freebox modem	
Type of call	Charge	Type of call	Charge
Local, national and 14 foreign countries ¹	Free	Local, national and 14 foreign countries ¹	Free
To other Freebox subscribers	Free	To other Freebox subscribers	Free
Other international calls	From €0.03 per minute (billed per second)	Other international calls	From €0.03 per minute (billed per second)
Mobile	To Orange and SFR: Peak: €0.16 per minute Off-peak: €0.05 per minute Connection charge: €0.21 per call To Bouygues: Peak: €0.28 per minute Off-peak: €0.09 per minute Connection charge: €0.29 per call	Mobile	To Orange and SFR: Peak: €0.16 per minute Off-peak: €0.05 per minute Connection charge: €0.21 per call To Bouygues: Peak: €0.28 per minute Off-peak: €0.09 per minute Connection charge: €0.29 per call
Audiovisual content offerings			
Unscrambled general interest or public service channels	Free		
Pay channels and packages	From €0.25 per month		
Video on Demand	From €1.99 per movie – accessible for 24 hours		

* Subject to line eligibility

1 In mainland France, calls to France Telecom fixed lines and other Freebox subscribers (excluding calls to short numbers, special numbers and third party local loop operators). Calls to foreign countries include those to fixed lines in:

- Australia
- Austria
- Canada
- China
- Germany
- Ireland
- Israel
- Italy
- Netherlands
- Portugal
- Singapore
- Spain
- United Kingdom
- USA
- calls to mobiles in the USA and Canada

Dial-up Internet access offering

The “Pay-as-you-go” offering

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

With this type of offering, the customer pays France Telecom for the telephone call while using the Internet at the local Internet call rate. France Telecom then repays approximately 98% of the average revenues generated to Free. The economic model for this type of service is therefore based entirely on repayments by France Telecom.

The “50-hour plan”

Following the emergence of fixed-rate packages on the Internet access market and once Free was able to control the cost of providing telecom minutes following the completion of the first phase of the roll-out of the Group's network, it decided in April 2001 to launch its own fixed-rate service whose main selling points were its reasonable price (€14.94 per month) and the high number of usage hours offered (50 hours). The “50-hour plan” was therefore designed to complement and serve as an alternative to the “Pay-as-you-go” offering for users wishing to access the

Internet for long periods of time at the lowest possible price. This fixed-rate package is still one of the most attractively priced on the dial-up market, but is suffering from competition from the unlimited broadband offerings, particularly in the case of subscribers whose Internet usage approaches or exceeds 50 hours per month.

Broadband Internet access offering

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

- **Option 5.** Under Option 5, the ADSL subscriber's traffic is delivered directly to the Internet service provider's main server center through regional server centers by France Telecom. In this case, the Internet service provider is dependent on France Telecom for access and for the collection of all the traffic. Since March 18, 2004, a Freebox modem has been provided by Free to each new subscriber, free of charge.
- **Option 1.** Under Option 1, or local loop unbundling, a Freebox DSLAM is installed in France Telecom sites and a Freebox modem is installed on the subscriber's premises. With this configuration, the Group leases the copper pair for transporting Internet traffic from France Telecom. The "high" frequencies are entirely at the alternative operator's disposal for routing data, voice and audiovisual content. ADSL traffic can thereby be managed from end to end by the Group. In the case of partial unbundling, France Telecom's role is restricted to leasing the equipment between the Freebox modem installed on the subscriber's premises and the Freebox DSLAM, plus the initial wiring installation. In the case of full unbundling, the subscriber no longer has any link to France Telecom.

A further increase in bandwidth was implemented in 2005, thanks to version 4 of the Freebox modem and the upgraded DSLAM, both of which use ADSL 2+ technology (see the paragraph entitled "ADSL 2+ services" below).

This increase in bandwidth was provided to customers without any increase in the price of their subscription, and therefore has not had any impact on the Iliad Group's profit margin.

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

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

The Freebox DSLAM. The DSLAM developed by Freebox S.A. is technically configured to optimize the existing Free network and guarantees each subscriber a theoretical download rate of up to 24 Mbits per second (with the latest version) from the local concentrator. Each Freebox DSLAM, installed in racks which can hold up to two DSLAMs, can be connected to 1,008 lines and is designed to leverage the Free network which uses only IP protocol, unlike conventional transmission networks which use ATM/SDH protocol. The Freebox DSLAM has a Giga Ethernet output and was designed to accommodate the high bandwidth requirements of the new audiovisual services launched in December 2003.

The Freebox modem. The Freebox modem is a multi-function ADSL modem developed to enable customers to receive services that can be offered via broadband Internet access. In addition to traditional access using a personal computer connected via a USB or Ethernet socket, the Freebox modem has one telephone socket for

voice-over-ADSL services and a SCART TV socket and is capable of decoding audiovisual content compressed in MPEG-2 format.

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

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

The use of both the Freebox modem and the Freebox DSLAM allows Free to provide its customers with the best in ADSL and ADSL 2+ technology as well as a very high theoretical bandwidth (up to 24 Mbits per second) while reducing the loss of bandwidth over distance. Free has been using this high bandwidth capacity since December 2003 to offer value-added optional services such as audiovisual services over ADSL (MPEG-2 format) and voice services, as well as, since October 2004, high-speed Internet access (up to 24 Mbits per second).

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

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

Telephone service offered to subscribers with a Freebox modem

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

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

Since August 24, 2004, Free has offered its subscribers with a Sagem modem the opportunity to replace their Sagem modem with a Freebox V4 modem, for a small charge, in order to be able to benefit from the ADSL telephony service. Since November 2004, it has also offered to replace subscribers' old generation Freebox modems with a Freebox V4, so that they can benefit from ADSL 2+ technology.

Audiovisual content offered to subscribers with a Freebox modem

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

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

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

During 2005, Free continued to expand its range of audiovisual services, introducing new features including DTT channels in the basic TV package, Dolby sound, radio stations, Freeplayer (a mediacenter integrated within the Freebox), a multi-device service, and Video on Demand in partnership with Canalplay.

6.1.4.1.2 Online

Online was created in 1999 and now manages some 85,000 Internet domains (compared with 77,000 at the end of 2004 and 55,000 at the end of 2003), making it the second largest provider of shared web hosting services in France. Its core customer base consists of small office/home office (SOHO) customers, and small and medium-sized businesses which wish to benefit from a cost-effective solution for hosting their websites.

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

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

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

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

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

Free, One.Tel and Kertel offer their customers technical support and customer service through a helpdesk platform run by two Group subsidiaries, Centrapel and Total Call. The Group is currently in the process of expanding and training its technical support and customer service teams. Centrapel seeks to recruit operators who have completed two years of post-baccalauréat level studies or who have experience working in technical support for an ISP, and is also investing in providing training for its operators. All new employees are therefore given one month's training in support techniques before starting work answering customer calls. At December 31, 2005, the Group's call centers employed 952 people, compared to 617 at December 31, 2004 and 343 at December 31, 2003. This support service operates from 8 a.m. to 10.30 p.m. Monday to Friday and from 9 a.m. to 8 p.m. on weekends and public holidays. A dedicated helpline for fully unbundled customers was brought into service at the beginning of 2005.

Centrapel's support team includes approximately 65 employees based in Paris and elsewhere in France responsible solely for dealing with problems related to local loop unbundling (relations with France Telecom, migration of lines, etc.).

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

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

6.1.4.2 Traditional Telephony segment

The Group's traditional telephony business is centered around the fixed telephony operator One.Tel – which was acquired by the Group in 2001 – and the call termination business operated by Kedra. It was expanded during 2003 with the acquisition of the prepaid phone card provider Kertel. In a market dominated by large players, the Group has managed to develop a sustainable and profitable business largely due to the economies of scale offered by the use of its own network.

6.1.4.2.1 One.Tel

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

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

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

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

Against a backdrop of tighter control of marketing costs and the growing success of voice over ADSL services the number of One.Tel's billed customers has decreased from 335,000 at December 31, 2004 to 298,000 at December 31, 2005.

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

6.1.4.2.2 Kertel

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

Kertel is a leading provider of prepaid phone cards in France. It sold 7 million cards in 2005, compared with 7.5 million in 2004 and 4.9 million in 2003.

Kertel sells its products nationwide through the largest distribution network in the market, and the brand is well known in France. Kertel cards are sold in more than 40,000 outlets such as post offices (on the basis of the

distribution agreement signed between the company and the French post office, La Poste), tobacco stores (under the terms of a distribution agreement with the French tobacco company Altadis and the Société Pipière Française) and the Relay newsstand chain, as well as a large number of local shops (gasoline stations, grocery stores, etc.) and large chain stores (Carrefour, Casino, Monoprix, Fnac, etc.).

On a commercial level, the difference in call charges between prepaid phone cards sold by Kertel and the France Telecom smart card was as high as 80% for certain call destinations at December 31, 2005.

Group Management believes that by further increasing its distribution network, Kertel will be in a position to further enhance its competitive position in the prepaid phone card market.

6.1.4.2.3 Kedra

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

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

6.1.4.3 "Other Services" segment

The "Other Services" segment mainly consists of the Minitel-based reverse look-up directory service, which historically has been one of the most profitable of the Group's services. Before it sold almost all of the Minitel services in its portfolio in 1998, Minitel services provided by the Group were the main source of its internally-financed growth. This segment also includes the Group's subsidiaries Assunet and Société S.A. which offer web content services to their customers.

On April 1, 2006, the French directory enquiries' service was privatized. At that date, the Group launched a free enquiries' service (118 818) based on the national database. Under this offering the calls, telephone look-up services and connection services are free. The call that is made once the customer is connected with his or her correspondent is billed at a rate equivalent to that of the incumbent operator.

6.1.4.3.1 ANNU

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

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

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

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

Furthermore, the Group's reverse look-up directory is faced with strong competition from France Telecom, which has launched its own reverse look-up directory service (3617 QuiDonc). The combined effect on Iliad's earnings of this increase in competition and the decline in the use of Minitel in France has been significant, resulting in a decrease in revenues from ANNU of over 30% for 2005 compared to 2004.

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

6.1.4.3.2 E-commerce business

Iliad operates two web content sites, www.assunet.com and www.societe.com, which account for only a very minor proportion of the Group's revenues. These two companies were restructured in 2001. www.societe.com is currently in a profit-making position, and www.assunet.com is approaching break-even.

www.assunet.com

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

www.societe.com

Société.com provides information about companies, such as entries, amendments and removals from the French Trade Register¹². The Société.com website also provides access to a number of documents which can be ordered and paid for in a number of different ways.

6.2 PRINCIPAL MARKETS

6.2.1 Internet access

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

In Western Europe, following a period of very strong growth in the level of Internet usage, particularly as a result of so-called "free" services followed by the introduction of fixed-rate inclusive packages, the prospects for further growth now partly depend on the roll-out of broadband technologies. The market should continue to grow during 2006, largely due to:

- the level of penetration of home computer use. The use of home computers is a key factor in the development and expansion of the Internet access market. Western Europe has still not reached the same level as the United States, which is a far more mature market, although the disparity is decreasing. There are however still considerable differences in the level of home computer use within Western Europe itself;
- the use of new technologies offering both broadband Internet access (such as ADSL and cable) and the widespread distribution of new types of content (such as TV, video on demand, network gaming, etc.);
- the growth and general improvement of local language content and e-commerce;
- increased liberalization and competition in the telecommunications sector;
- the commitment on the part of the authorities towards promoting ever-wider usage of the Internet.

¹² Source: INPI.

The broadband market: a powerful vector for growth

With 8.9 million residential ADSL lines at January 1, 2006¹³, France is one of the frontrunners among European countries in terms of both the number of ADSL lines and market penetration. Over 37% of households now have a broadband Internet connection. At January 1, 2006, France ranked second in Europe, behind Germany, in terms of the number of unbundled lines.

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

Choice of broadband technology

In Western Europe, ADSL appears to have become the technology of choice, accounting for 83.5% of broadband subscribers. In France, ADSL has established itself as the primary technology used for broadband access, accounting for more than 94% of all broadband connections¹⁴.

Broadband penetration rate in Europe – still enormous potential in France

The number of DSL and cable modem connections in Europe continued to increase in 2005. The northern European countries are generally ahead of other European countries in terms of penetration of broadband technologies, particularly due to the early deregulation of the telecommunications sector – such as in Sweden which was deregulated in 1993 – and a high level of commitment on the part of the public authorities.

Broadband continued to develop rapidly in the second half of 2005 in most European countries. The French market is still buoyant, with growth outstripping the European average.

6.2.1.2 A thriving broadband market in France

At September 30, 2005, France had a household broadband penetration rate of 36.1%, which is above the European average of 32.4%. At January 1, 2006, France Telecom had delivered 1,107 sites to unbundling operators, which represents a population coverage of 54%. All France's overseas dependencies have at least one unbundled site. There is likely to be accelerated growth in France in terms of the number of households with broadband access, which means that prospects are healthy for the Group in light of its positioning in this sector.

6.2.1.3 Players on the Internet access market in France

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

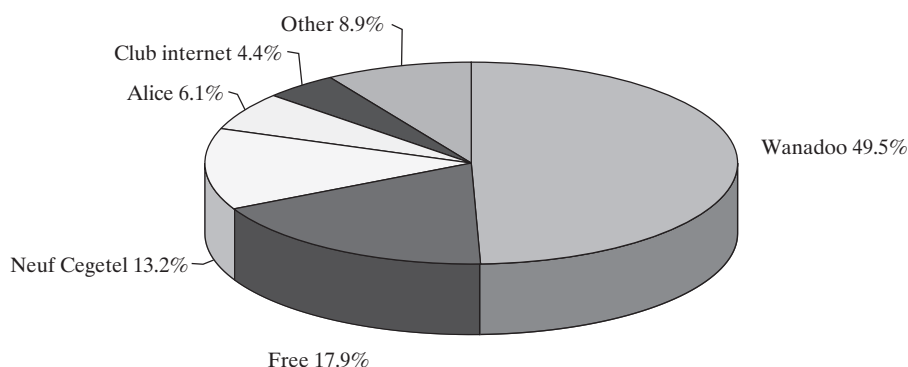
The Group's main competitors in the French Internet access market are:

- international Internet service providers, some of which are partnered with telecommunications operators, such as Wanadoo, AOL, TOnline (Club-Internet), Telecom Italia (Alice) and Neuf-Cégétel;
- cable network operators (Noos);
- independent local access providers; and
- companies offering Internet access as a means of winning customers for their services, such as banks and mass-marketing companies.

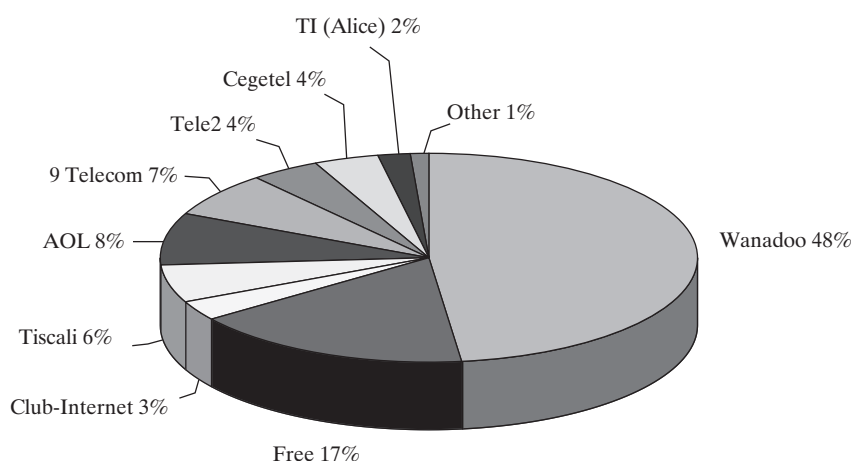
¹³ Source: ARCEP.

¹⁴ Source: ARCEP.

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



Market share of leading ISPs in the ADSL sector (December 31, 2004)*



* Source: ARCEP

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

Since mid-2002, most of the Group’s main competitors have decided to focus on providing ADSL-based broadband offerings. The proliferation of different service offerings accompanied by increased segmentation and strong competitive pressure on prices stimulated growth in the Internet market during 2003, 2004 and 2005.

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

The key development in 2005 was the rapid expansion in full unbundling. At December 31, 2005, according to the ARCEP the total number of unbundled lines in France stood at 2.82 million, breaking down as 2.228 million partially unbundled and 0.592 million fully unbundled. The quarterly figures published by the ARCEP show that full unbundling increased significantly during the year, registering a six-fold increase. In terms of net flows, fully unbundled lines have now replaced partially unbundled lines.

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

6.2.2 Website hosting and sale of Internet domain names

Online's business covers both the web hosting market and, since the merger between Online and its subsidiary BookMyName, the sale of domain names.

The web hosting market is highly competitive, as demonstrated by the very large number of players in the market. According to the OECD, Online.net ranks with sites such as ovh.com, lerelaisinternet.com, amen.fr and transpac.fr as one of the best known Internet hosting sites. The fragmentation of competition in this sector has resulted in a wide range of pricing according to the size of the site to be hosted, the services provided (telephone support, dedicated server, forums, multiple simultaneous connections, etc.) and the expected number of visitors to the site.

The more specialized business of domain name sales is also subject to intense competition, and includes a number of specialist players such as gandi.net, joker.com and nsi.com, as well as most Internet service providers which offer web hosting services, such as Wanadoo or Alice.

6.2.3 Telephony operators

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

6.2.3.1 Traditional Telephony

Since January 1, 2002, all subscribers have been able to choose which operator to use for local calls, as had already been the case since January 1, 1998 for long distance and international calls and since November 1, 2000 fixed-to-mobile calls. The operator can be selected on a call-by-call basis or by automatic carrier preselection which allows subscribers to specify that all calls be automatically routed through the operator of their choice. At September 30, 2005, 6.2 million customers had opted for carrier preselection and 2.5 million for call-by-call selection¹⁵.

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

6.2.3.2 Prepaid phone cards

France Telecom launched the first prepaid phone smart card (the "Télécarte") in 1987. Prior to 1998, 100 million cards were sold each year. After the initial liberalization of the French market, a number of new prepaid phone card providers entered this market as from 1997-1998 with a PIN-based calling card product line. These new operators rapidly gained market share through aggressive pricing and wide distribution networks. During 2000, in response to this competition, France Telecom launched its own line of calling card products (known as the "Ticket Téléphone") as an addition to its Télécarte product.

The prepaid phone card market covers two main products:

- *Smart cards*: a chip inserted on the front of the card records the remaining credit. This type of card is mainly sold by France Telecom under the Télécarte brand and may only be used in phone booths equipped with a special decoder. The market for this product is currently in sharp decline due to the increasing popularity of PIN-based calling cards.
- *Calling cards*: these cards have a unique PIN on the back which corresponds to a prepaid account in the operator's central system. This type of card, sold by Kertel, may be used from any type of touchtone phone, including residential, mobile or public phones.

To use PIN-based calling cards, customers dial a toll free number (3003 or 3031 for Kertel). After entering a 12-digit code, they can call anywhere in the world.

¹⁵ Source: ARCEP.

Kertel has chosen to focus on the PIN-based calling card market, offering consumers a choice from a full range of cards:

- Standard cards for general fixed telephony usage (the main competitors in this segment are France Telecom, Intercall and GTS Omnicom).
- Geographical or “ethnic” cards aimed at specific regions or communities abroad (the main competitors in this segment are Telecom Center and Leader Communication);
- Promotional cards provided by advertisers as part of their publicity strategy (such as product launches, promotions and customer loyalty campaigns) which serve as an ideal and widely accessible method of communication for current or prospective customers.

Kertel's service offering is part of a relatively mature market.

Kertel's main competitor is the incumbent operator. A large number of other phone card providers have entered the prepaid card market, but they do not have as wide a distribution network or as attractive a pricing structure as the France Telecom group.

The Group believes that in view of France Telecom's position in the smart phone card market, where the cost of the Télécarte service covers both the cost of manufacturing the smart card and the cost of its phone booths, there is no incentive for the incumbent operator to align its prices with those of its competitors.

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

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

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

6.4.1 Dependence on patents and software licenses

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

6.4.2 Dependence on supply, industrial, commercial or financial agreements

Network operated by the Group

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

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

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

Freebox modems and Freebox DSLAMs

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

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

6.4.3 Dependence on new operating processes

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

6.4.4 Dependence on the Group's main customers and suppliers

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

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

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

Interconnection and unbundling agreements provide the Group with access to its subscribers, either by means of the France Telecom network in the case of interconnection agreements or directly in the case of unbundling arrangements. As described more fully in Section 6.6.1 of this registration document, the interconnection and unbundling agreements, respectively, allow the Group (i) to interconnect its own network with the France Telecom network by means of a physical connection to one of the incumbent operator's switches and (ii) to take advantage of

direct access to a segment of the network between the subscriber's telephone socket and the main distribution frame to which the subscriber is connected in order to achieve the closest possible proximity to the subscriber. In the case of interconnection agreements, the incumbent operator charges fees based on the transmission capacity made available to the operator. In the case of unbundling, the amounts charged by France Telecom are essentially limited to the rental of the copper pair, the splitter and the copper tie cable that connect the subscriber's modem to the operator's DSLAM. France Telecom is required to offer both interconnection and unbundling to all alternative operators.

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

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

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

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

6.6 REGULATORY SITUATION

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

6.6.1 Regulation of electronic communications networks and services

The EC regulatory framework for electronic communications

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

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

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

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

On July 25, 2003, the existing European regulatory framework was replaced by a new regulatory framework (the "2002 Telecoms Package") which was due to have been transposed into the national law of the member states by that date.

The 2002 Telecoms Package subjects all types of transmission networks and related services to the same regime. The scope of the regulation is therefore no longer limited to just telecommunications but covers the whole of the electronic communications sector (mobile, cable, satellite, telecommunications and broadcasting of radio or audiovisual programs). It does not, however, apply to the content of the services provided on electronic communications networks using electronic communications services, such as broadcast content (in particular radio

or television programs), financial services and certain services specific to the information society which are subject to other regulations (see paragraph 6.6.2 below, "Regulation of the content of electronic communications").

In particular the 2002 Telecoms Package includes the following texts:

- Directive 2002/21/EC of March 7, 2002, on a common regulatory framework for electronic communications networks and services ("Framework Directive"), which establishes a harmonized regulatory framework for electronic communications networks and services. The Framework Directive defines the role of the national regulatory authorities ("NRAs") in respect of the management of radio frequencies, numbering, rights of way, co-location and sharing of resources, accounting separation, interoperability and the resolution of disputes between operators. It also introduces a new concept concerning the designation of undertakings with significant market power on the relevant markets and establishes criteria and procedures aimed at ensuring a coherent assessment of the dominant undertakings throughout the European Union. In this regard, the Framework Directive is supplemented by (i) the Commission Recommendation of February 11, 2003 (C-2003/497) on the identification of the product and service markets susceptible to *ex ante* regulation in relation to operators having significant market power on the relevant market, and (ii) the Commission Guidelines of July 11, 2002 (2002/C165/03), the purpose of which is to assist the NRAs with the market analysis process and the identification of operators with significant market power on the relevant markets. The Framework Directive provides that Member States must impose obligations on undertakings with significant market power proportional to the distortion of competition on the market in question.
- Directive 2002/19/EC of March 7, 2002, on access to, and interconnection of, electronic communications networks and associated facilities ("Access Directive"). This directive harmonizes the rights and obligations of operators and service providers requesting interconnection or access to electronic communications services or networks. The Access Directive establishes objectives for the NRAs concerning access and interconnection, and determines procedures for ensuring that the obligations imposed by the NRAs are reassessed and possibly withdrawn once the desired targets are actually met.
- Directive 2002/22/EC of March 7, 2002, on universal service and users' rights relating to electronic communications networks and services ("Universal Service Directive"). The aim of the Universal Service Directive is first to ensure the availability throughout the EC of good quality publicly available services through effective competition and choice, and second to deal with circumstances where the needs of end users are not satisfactorily met by the market. The Directive defines a minimum set of services of a specified quality to be available to all end users at an affordable price, taking into account specific national conditions and without distorting competition. The Universal Service Directive also determines obligations in terms of the supply of a certain number of mandatory services, such as the retail provision of leased lines or carrier selection (either by carrier preselection or selection on a call-by-call basis).
- Directive 2002/20/EC of March 7, 2002, on the authorization of electronic communications networks and services ("Authorization Directive"). This Directive harmonizes and simplifies the rules and conditions for authorization to supply electronic communications networks and services. It does away with the individual license regime in favor of a general authorization regime (i.e. based on a notification procedure). According to this Directive, only the allocation of scarce resources (i.e. radio frequencies and numbers) should be subject to individual licenses.
- Directive 2002/77/EC of September 16, 2002, on competition in the markets for electronic communications networks and services. This Directive replaces Directive 90/388/EEC, as last amended, and its aim is to extend the scope of the liberalization process to cover all electronic communications. The Directive takes into account the convergence phenomenon and groups under one single definition all the services and networks used for the conveyance of signals, thereby reaffirming the principle of the freedom to offer communications services and networks.
- Regulation (EC) 2887/2000 of December 18, 2000, on unbundled access to the local loop. This Regulation, which is directly applicable in all the Member States, provides that all operators with significant market power must offer unbundled access to their local loop and associated facilities, under transparent, fair and non-discriminatory conditions.

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

http://europa.eu.int/information_society/topics/ecom/all_about/implementation_enforcement/index_en.htm

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

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

Market analysis

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

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

In 2004, the ARCEP began a public consultation process in the 18 relevant markets likely to be subject to specific regulation, including 6 retail markets and 12 wholesale markets. Descriptions of each market and the status of the market analysis process can be found on the ARCEP's website at the following address: <http://www.arcep.fr/dossiers/marches/index-d.htm>.

By March 15, 2006, the ARCEP had completed its analysis of some of the markets, including the following:

- Market 16, i.e. termination of voice calls (fixed and mobile) on individual mobile networks in mainland France and in the overseas dependencies. The ARCEP notified the operators having significant market power (SMP) (i.e. SFR, Bouygues Télécom and Orange France in mainland France, and SFR and Orange Caraïbes in the overseas dependencies) of their obligations which basically involve the orientation of tariffs towards the cost of providing call termination services and the publication of a reference offer.
- With respect to markets 11 (access to the local loop) and 12 (broadband access at a regional point of presence), the ARCEP completed its analysis in June 2005 and imposed access obligations on France Telecom.
- With respect to the fixed telephony wholesale and retail markets, the ARCEP published its decisions on September 28, 2005. 23 operators, including Free SAS, were considered as having SMP on the market for termination of geographic calls on their respective networks, and have been subjected to obligations relating to access and interconnection, non discrimination and transparency, as well as an obligation not to engage in excessive pricing.
- With respect to market 15 (call origination in mobile networks), in May 2005 the ARCEP, in agreement with the European Commission, suspended its analysis until May 2006. The analysis will be resumed once the ARCEP has had time to reflect on the effects of the Mobile Virtual Network Operator (MVNO) contracts concluded by two GSM operators in mainland France with different companies involved in MVNO services (e.g. Télé2, M6 and NRJ).

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

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

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

Until July 25, 2003, the installation and operation of a public telecommunications network (provided for in Article L.33-1 of the former Post and Telecommunications Code) and the provision of a public telephone service (provided for in Article L.34-1 of the same code) required an individual administrative authorization, valid for fifteen years, issued by the Minister for Telecommunications after examination by the ARCEP.

Following the enactment of Law 2004-669 and the amendment of Article L.33-1 of the Post and Electronic Communications Code, a simple notification to the ARCEP is henceforth all that is required (except for the allocation of frequencies or numbering resources which still require a prior individual license). Law 2004-669 also specifies that existing authorizations are deemed to be a notification within the meaning of the 2002 Telecoms Package, in accordance with the principles laid down in Article 17 of the Authorization Directive.

The Minister for Telecommunications has issued the following authorizations to Group companies: an L.33-1/L.34-1 license granted to Free (Ministerial Order of December 14, 2000, amending the Order of November 9, 1999), an L.34-1 license granted to One.Tel (Order of September 1, 2002, amending the Order of November 21, 2000) and an L.34-1 license granted to Kertel (Order of March 14, 2002).

The holder of an L.33-1 license (and, since July 25, 2003, of an L.33-1 notification of an electronic communications network) may benefit from rights of way in consideration for the payment of a fee, in order to establish its network infrastructure on public highway land or other public property and to benefit, under certain conditions, from easements on private property. The Group benefits from these rights and has developed its network infrastructure mainly on public property.

All licensed operators must pay the annual license fees and taxes, including the fees for management and control of the licenses, as well as for the numbers or frequencies allocated to the operator.

Internet service provider business

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

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

Prepaid cards

The sale of prepaid phone cards (such as those sold by Kertel) and, more generally, the purchase (and/or resale) of telecom minutes does not as such require a license or notification.

Interconnection

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

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

Up to July 25, 2003, four relevant markets had been defined in France: (i) the fixed public telephony market, (ii) the leased lines market, (iii) the mobile public telephony market and (iv) the national interconnection market. Since 2005, following the ARCEP's analysis of the relevant markets, there have been eighteen markets instead of the four original markets (see above).

Under the former regulatory framework, prior to publication of the ARCEP's decisions relating to its analysis of the markets, only those operators of public networks designated as having significant market power on the fixed telephony and leased lines markets were required to publish a document detailing their interconnection pricing and technical conditions ("Reference Interconnect Offer"), which was subject to prior approval by the ARCEP. A list of these operators was drawn up each year by the ARCEP, after consulting the French competition authority. In addition to their obligation to meet interconnection requirements, these operators were (and are still) required to meet justified requests for special access. These operators had (and still have) to comply, under objective, transparent and non-discriminatory conditions, with requests for interconnection submitted by any licensed operator. Consequently, France Telecom had (and still has) to provide interconnection services to its competitors, including Free and One.Tel, under the same conditions as offered to other licensed operators (including its subsidiaries). Requests for interconnection must not be refused if they are reasonable, considering the needs of the requesting party and the operators' ability to meet such needs. Requests for interconnection will be the subject of an agreement between the parties, a copy of which is sent to the ARCEP, and which must comply with legal and regulatory requirements. The ARCEP has the power, after consulting the French competition authority, to require changes to be made to an interconnection agreement, in order to ensure that both competition and the interoperability of the telecommunications services are maintained. Finally, in the event of any dispute relating to interconnection, either party may refer the case for arbitration by the ARCEP, whose decision is binding on the operators, although they do have a non-suspensive right of appeal.

On February 15, 2000, Free signed an interconnection agreement reflecting in operational terms the principles set out in France Telecom's Reference Interconnect Offer. Amendments were added to this agreement to take account of the implementation of services introduced in successive editions of the Reference Interconnect Offer as well as the interconnection services supplied by Free to France Telecom (call termination on Free's local loop, collection of calls made from Free's local loop to France Telecom's special numbers).

Every year, after approval from the ARCEP, France Telecom used to publish a Reference Interconnect Offer, which set out, in particular, the main interconnection prices, a list of the interconnection access points, the terms for connection by third party network operators to these access points, the support services provided by France Telecom, the conditions applying to carrier selection (selection on a call-by-call basis or preselection), and the interconnection of other operators' leased lines, as well as the provision of partial leased lines and in-span interconnect links.

The ARCEP has issued several decisions relating to the successive versions of France Telecom's Reference Interconnect Offer, and has in particular imposed a gradual reduction in prices based on the principle of cost orientation (see in particular Decision 02-1027 of November 5, 2002, in which the ARCEP introduced long-run average incremental costs as a reference for France Telecom's interconnection prices, instead of the relevant

projected average accounting costs, the method previously used). Pursuant to Article L. 38 of the French Post and Electronic Communications Code and Decision 05-571 of the ARCEP of September 27, 2005, France Telecom published a new interconnection reference offer based on the technical principles and tariffs set out in the previous 2005 edition.

As far as the Group's business is concerned, the ARCEP issued a decision on July 24, 2003 (Decision 03-905) further to an application made by the Company on March 28, 2003, for the ARCEP to settle a dispute with France Telecom concerning the terms of the interconnection used for routing telephone calls to the "universal and personal numbers" of its "Freebox" subscribers (08 7B PQ MC DU numbers). In its notice 04-31 of January 8, 2004, the ARCEP validated the financial terms proposed by France Telecom for direct interconnection, allowing the routing of calls to the "Freebox" telephone numbers, which specifically means that France Telecom must apply to such calls an average price per minute lower than the average price per minute charged for a national call. This mechanism has subsequently been extended to apply to the routing of calls to 08 7B PQ MC DU numbers belonging to other operators, including Wanadoo (Decision 04-597), Cegetel and Azurtel (Decision 04-1096) and Tiscali (Decision 05-0058).

Dial-up Internet access

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

In France, France Telecom's Reference Interconnect Offer has been progressively amended to reflect numerous opinions and decisions issued by the ARCEP, particularly those concerning the settlement of disputes between France Telecom and new entrants on the market, in order to allow Internet service providers to benefit from operational and pricing conditions enabling them to carry out their business. France Telecom supplies interconnected operators with call collection services at cost-oriented prices, combined with third-party billing of traffic generated by customers, charged at a rate of 4% of the revenues billed (these rates were changed in July 2004).

France Telecom's interconnection offer was improved during the second half of 2001 by the addition of new pricing conditions for the routing of switched traffic, with the introduction of a flat-rate Internet access connection (FRIACO) offer, where the price is based on the network capacity bought by the operator, unlike the traditional offer which is based on duration of the connection.

Broadband Internet access and local loop unbundling

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

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

Local loop unbundling

EC Regulation 2887/2000 of December 18, 2000 on unbundled access to the local loop requires operators designated as having significant market power in the access segment (in practice this means France Telecom in France) to publish a reference offer for unbundled access, including shared access, to their local loops and related facilities (prior information about the technical characteristics of the copper links, the addresses of the main MDFs, the co-location conditions, etc.). As this is a Regulation, it applies directly in all the Member States and therefore does not require transposition into national law. In France, however, Decree 2000-881, dated September 12, 2000, ("the local loop decree") requires dominant operators (i.e. in practice France Telecom) to meet reasonable requests for access to their copper local loop infrastructure as from January 1, 2001.

However, it was not until the first half of 2002 that France Telecom's reference offer, amended as requested by the ARCEP, first permitted the effective start of unbundling in France. The ARCEP had to make repeated requests for

changes to France Telecom's reference offer for unbundled access to its local loop, including in particular on April 16, 2002, resulting in the publication of a new reference offer on June 14, 2002. This new reference offer included the changes required by the ARCEP, particularly relating to the co-location of third party operator equipment next to France Telecom's equipment, as well as the prices for the leasing of unbundled lines by network operators.

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

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

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

On December 6, 2002, Free signed an agreement for access to France Telecom's local loop reflecting in operational terms the principles set out in the public reference offer.

In accordance with the EC Regulation and with the French local loop decree, the prices of unbundled access to the local loops must be cost-oriented. In particular, the network elements are valued at their long-run average incremental cost. For the valuation of shared access to the local loop, the ARCEP decided that the calculation should be based on the specific costs incurred (Decision 02-323 of April 16, 2002).

As far as full unbundling is concerned, France Telecom's pricing and operational conditions were such that it could not be properly put into effect until the summer of 2004. The ARCEP's intervention in January 2005 resulted in a reduction in the charges for access to the service billed by France Telecom to operators wishing to avail themselves of full unbundling.

In accordance with the ARCEP's decision in relation to the pricing methods for access to the local loop, France Telecom amended its reference offer by reducing its price to €9.29 excluding VAT as from January 1, 2006.

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

Withdrawal of the approval process

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

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

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

Therefore, the pricing of the IP/ADSL offering is no longer subject to ministerial approval, but to the terms of a reference offer which can be amended by the ARCEP.

Free will also be able to refer to the ARCEP any dispute or disagreement arising in connection with the technical or pricing principles of the IP/ADSL offering.

Numbering and carrier preselection

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

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

Since January 1, 1998, subscribers who change operator for fixed telephone services, but do not change geographical location, have been able to keep their numbers. Number portability has been available for shared-cost services since the second half of 2001 and for shared-revenue services since December 17, 2002. The technical conditions for carrier preselection and number portability are set out in France Telecom's Reference Interconnect Offer and are in the interconnection agreements entered into between France Telecom and third party operators.

Directories and provision of subscriber lists

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

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

However, Order 2001-670 of July 25, 2001, adapting the Intellectual Property Code and the Post and Telecommunications Code in line with EC law, transposed several European directives into French law, including the Directive on the processing of personal data and the protection of privacy in the telecommunications sector (Directive 97/66/EC) and the Directive of February 26, 1998 on the application of open network provision (ONP) to voice telephony (98/10/EC). The aforementioned Order 2001-670 of July 25, 2001 provides that operators are required to supply their subscriber lists when so requested, under non-discriminatory conditions and at a price reflecting the actual cost of the service provided, for the purpose of publishing a universal directory or providing a directory enquiries service, even if geographically restricted.

The means of obtaining access to these lists are governed by a legal and regulatory framework requiring non-discriminatory access and a fee reflecting costs, as well as the protection of personal rights. These provisions are set out in an implementing decree (Decree 2003-752 of August 1, 2003) which determines the conditions applicable for providing these lists and aims to facilitate the creation of truly universal directories and directory enquiries services, including for mobile subscribers. In accordance with the 1998 EC Directive mentioned above, these lists must be provided at a price reflecting actual cost. A further Decree (Decree 2005-606) was issued in France on May 27, 2005 concerning directories and information services to complete the legal framework.

As far as the Group's business is concerned, the ARCEP issued a decision on September 23, 2003 (Decision 03-1038) following an application submitted by the Company asking the ARCEP to rule on a dispute with France Telecom concerning the technical and pricing conditions of access to the incumbent operator's subscriber list in order to provide a universal information service. The ARCEP ruled that the structure of France Telecom's pricing offer did not respect the principles of cost-orientation and non-discrimination and was likely to restrict the development of competition. It therefore ordered France Telecom to propose to the Company an offer respecting the principles of cost-orientation and non-discrimination within a period of 60 days. On October 23, 2003, France Telecom filed an appeal before the Paris Court of Appeal, asking it to quash the September 23, 2003 decision. The Paris Court of Appeal issued a ruling on April 6, 2004, setting aside and quashing Decision 03-1038.

The issue of access to France Telecom subscriber lists also gave rise to a ruling by the *Conseil de la Concurrence*, on September 12, 2003 (Decision 03-D-43). On the basis of general competition law, and following a claim by Sonera France and Scoot France, the competition authority held that France Telecom had failed to comply with the

injunctions made against it by the Paris Court of Appeal in its ruling of June 29, 1999, concerning the operator's failure to respect the principles of non-discrimination and cost-oriented pricing for its file management activity, and fined France Telecom €40 million.

On December 16, 2004, the ARCEP published technical and financial guidelines for the transfer of subscriber lists. These guidelines set out the principles for the provision of lists of subscribers by telecommunications operators to publishers of directories, and are applicable to all types of numbers, i.e. fixed or mobile, 0870 numbers, Audiotel numbers, etc.

As no universal directory had been put in place by the operators, in December 2005 the ARCEP announced (i) the commencement of a formal demand procedure aiming to force operators to respect their obligation to communicate their subscriber lists to publishers, and (ii) the putting in place of a management chart to measure the progress of the universal directory.

Contribution to universal service funding

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

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

The aforementioned law amends the method used for calculating the contribution of various electronic communications operators (including Internet service providers) to the funding of universal service obligations. The cost of the universal service will henceforth be shared between operators pro rata to their revenues derived from telecommunications services (rather than pro rata to their traffic volume), "*excluding revenues from interconnection and access services subject to the agreements defined in paragraph I of Article L.34-8, and other services provided or billed on behalf of third party operators*". These new conditions for funding the universal service apply to the 2002 fiscal year and subsequent years. The publication of implementing Decree 04-1222 of November 17, 2004, relating to public service obligations and the funding of the universal electronic communications service provided a regulatory framework for the definitive calculation of the contribution due for the 2002 fiscal year. The ARCEP was therefore able to issue its Decision 04-1027 on November 25, 2004, adopting a notice of declaration of the revenues to be taken into account for calculating the contribution to universal service funding for the year 2002. The net cost of universal service obligations, after taking account of intangible benefits, was estimated by the ARCEP at €124,989,000 for 2002 (Decision 04-1068), €53,271,000 for 2003 (Decision 05-0426) and €33,283,000 for 2004 (Decision 05-917).

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

Government initiatives relating to information society networks

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

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

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

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

Broadcasting of audiovisual services via ADSL

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

The oversight powers of the French broadcasting watchdog, the *Conseil Supérieur de l'Audiovisuel* (“CSA”) were extended by Law 2004-669 to cover all radio and television services, whatever their method of transmission and broadcast. This law also introduced more flexibility for rules governing the broadcast of radio and television services, by allowing such services to be broadcast on a network that does not have to use frequencies allocated by the CSA – including broadcasting via ADSL – subject solely to prior declaration to the CSA. Free has made this declaration to the CSA, in accordance with Decree no. 2005-1355 of October 31, 2005.

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

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

- Article 34-2 states that for all types of network (cable, satellite and ADSL) the following channels must be provided to subscribers free of charge: public service channels broadcast over microwave, the Chaîne Parlementaire, TV5, and RFO services specifically aimed at the general public in mainland France (i.e. the RFO-Sat program). Excluding satellite, the same rules apply to local cable channels.
- Article 34-4 introduces must-carry rights on all means of transmission (cable, satellite, and ADSL) for free-to-air analog or digital channels broadcast via microwave, under fair, reasonable and non-discriminatory conditions. Only the channels themselves can demand that their programs be carried by the distribution networks and not vice-versa.

On November 28, 2003, following the refusal by TF1 and Métropole Télévision (M6) to agree to Free’s request that their content be broadcast on Free’s ADSL network, the Company and Free submitted a complaint to the *Conseil de la Concurrence*, citing abuse by France Telecom, TF1, TPS and possibly Métropole Télévision (M6) of their dominant position in the broadcasting of private television content. The Company lodged this complaint with the *Conseil de la Concurrence* on December 10, 2003.

On April 15, 2004, the *Conseil de la Concurrence* rejected Iliad and Free’s application for interim protective measures against TF1, Métropole Télévision (M6), TPS and France Telecom. As a result of this decision, Iliad and Free are currently deprived of the content broadcast by two major players in the field of audiovisual content in France. The Company is awaiting the competition authority’s ruling on the merits of the complaint.

At the time of its initial public offering, the Company stated that a rejection of the above application by the *Conseil de la Concurrence* would not have any impact on its outlook. However, as the market for the broadcast of

audiovisual services via ADSL has grown considerably in recent months, with the emergence of competing services offered by other telecommunications operators, the Group now considers that it is not in a position to assess the financial impact and consequences of not being able to broadcast the TF1 and M6 television channels as part of Free's offering.

Lastly, discussions are currently under way on the regime to be applied to video-on-demand services, as well as to radio and television services with partially interactive content.

6.6.2 Regulation of the content of electronic communications

Content of online services and liability of Internet market players

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

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

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

- Providers of online communication services are obliged directly or indirectly to identify themselves. Pursuant to Article 6.III of Law 2004-575, individuals providing an online communication service on a non-professional basis are obliged to indicate on their website their name and address or the name and address of their hosting provider if they wish to remain anonymous. Legal entities and private individuals offering professional services on a website must give their full contact details on their website, as well as the name of the publications director and/or co-director and the name and address of their hosting provider. Hosting and access providers must supply the providers of online services with the technical means to meet their identification obligations.
- Access and hosting providers are required to keep data that could identify persons having participated in the creation of the content of the services which they provide, in order to be able to pass on such data to the judicial authorities.
- Pursuant to Article 6 of Law 2004-575, hosting providers cannot be held civilly liable on the grounds of the activities or information stored at the request of a recipient of these services if they are not aware of their unlawful nature or of any facts or circumstances making this unlawful nature obvious, or if, as soon as they do become aware of it, they act promptly to withdraw the data or to prevent access to it. Furthermore, hosting providers cannot be held criminally liable if they are unaware of the unlawful activity or information or if, as soon as they do become aware of it, they act promptly to withdraw the information or to prevent access to it. These rules concerning liability do not apply if the recipient of the service is acting under the authority or control of the hosting provider.
- Pursuant to Article L.32-3-3 of the Post and Electronic Communications Code, access providers cannot be held either civilly or criminally liable for the content to which they provide access, except in circumstances where either they have originated the request for the transmission of the content concerned, or they have selected the recipient of the transmission, or selected and/or modified the transmitted content.

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

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

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

Processing of personal data and protection of individuals

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

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

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

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

- Article 7 of Law 2004-801 establishes the principle that no personal data may be processed without the consent of the person concerned. This article does, however, set forth a limited number of circumstances in which such processing may be lawful, even without the consent of the person concerned. This applies in particular if such processing is necessary in the legitimate interests of the data processor or the recipient “provided that it does not disregard the interests or infringe the fundamental rights and freedoms of the person concerned”. Such exceptions do not, however, apply to the processing of “sensitive data”, for which Article 8 of Law 2004-801 requires the express consent of the person concerned.
- The data processor's obligation to provide information covers all situations in which personal data is processed, even if this data has not been collected directly from the person concerned, such as for file transfers. In the latter case, Article 32-III of Law 2004-801 states that the data processor must provide this information as soon as the data is recorded or, at the latest, when the data is first divulged to a third party. This information is not necessary, however, if the sole purpose of the processing is to permit or facilitate communication by electronic means.

In addition to the obligation to inform people of the mandatory or optional nature of their responses, of the consequences of any failure to respond, of the recipients of the data and of their right to access and correct their personal data, Article 32 of Law 2004-801 imposes on data processors the obligation to inform the person from whom the personal data is collected of the identity of the data processor, the purpose for which the data is processed, and of their right to object to the information being transferred to a third party, as well as, where necessary, of any proposed transfers of data to a country which is not a member state of the

European Community. This obligation is immediately applicable and concerns all types of processing. Companies have until August 6, 2007, to comply with the new requirements in respect of processing carried out before Law 2004-801 came into force.

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

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

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

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

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

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

Legal protection of databases

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

Article L. 341-1 of the Intellectual Property Code provides that the producer of a database, understood to be the person taking the initiative and bearing the risk of the investments relating to the preparation of the database in question, benefits from protection of the content of the database “when its compilation, verification or presentation involves a substantial financial, material or human investment”. This protection is independent and applies without

prejudice to the protection resulting from copyright or any other right relating to the database in question or one of its component parts, pursuant in particular to Article L. 112-3 of the Intellectual Property Code.

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

Intellectual property law and online broadcasting

The purpose of Directive 2001/29/EC of May 22, 2001 on “the harmonization of certain aspects of copyright and related rights in the information society” is to adapt intellectual property law to the specifics of digital broadcasting. A draft bill for the transposition of this directive into French law was adopted by the National Assembly on its first reading on March 21, 2006. The draft bill is scheduled to be examined by the Senate before the summer of 2006. The transposition of this directive was due to have been completed by December 2002, and in July 2003 the European Commission instigated proceedings against France for not having yet signed it into law.

Directive 2001/29/EC introduces a mandatory exception for reproduction as part of a technological process, but does not achieve its primary objective of harmonization, as Member States are able to choose whether or not to adopt other optional exceptions, such as the exception for reproduction for private use, accompanied by an obligation of fair compensation.

Domain names

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

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

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

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

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

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

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

CHAPTER 7

ORGANIZATIONAL STRUCTURE

7.1 BRIEF DESCRIPTION OF THE GROUP

Iliad S.A is the parent company of the Group and acts as the operational holding structure. It operates in two areas within the French telecommunications sector: the ANNU reverse look-up directory business, and traditional corporate telephony services provided under the Iliad Telecom name. In addition, in its role as the Group's holding company, Iliad S.A. directly controls 15 consolidated subsidiaries, including 14 in France.

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

The financial details of the acquisition of IFW S.A.S. (formerly Altitude Telecom) are presented in Note 2 to the 2005 consolidated financial statements. The primary purpose of this acquisition was to gain access to WiMax technology. A condensed balance sheet and income statement relating to IFW are provided below.

IFW (Formerly Altitude Telecom) Balance Sheet (In €)

ASSETS	At December 31, 2005	At December 31, 2004
	Net	Net
Non-current assets	1,646,321	10,350,841
Current assets	4,956,247	11,558,226
TOTAL ASSETS	6,602,568	21,909,068

EQUITY AND LIABILITIES	At December 31, 2005	At December 31, 2004
Equity	4,349,894	7,085,130
Non-voting participating securities		
Conditional advances		188,112
Borrowings and other payables	2,247,687	14,108,725
TOTAL EQUITY AND LIABILITIES	6,602,568	21,909,068

INCOME STATEMENT (IN €)

	Year ended December 31, 2005	Year ended December 31, 2004
	Total	Total
Net revenues	930,496	16,,126,623
OPERATING LOSS	(353,245)	2,307,895
LOSS FOR THE PERIOD	(4,585,248)	1,976,776

The Group's main subsidiary is Free S.A.S, which houses the dial-up and broadband ISP business. In 2005, Free S.A.S. generated revenues of €634.6 million and its operating profit came to €75.9 million.

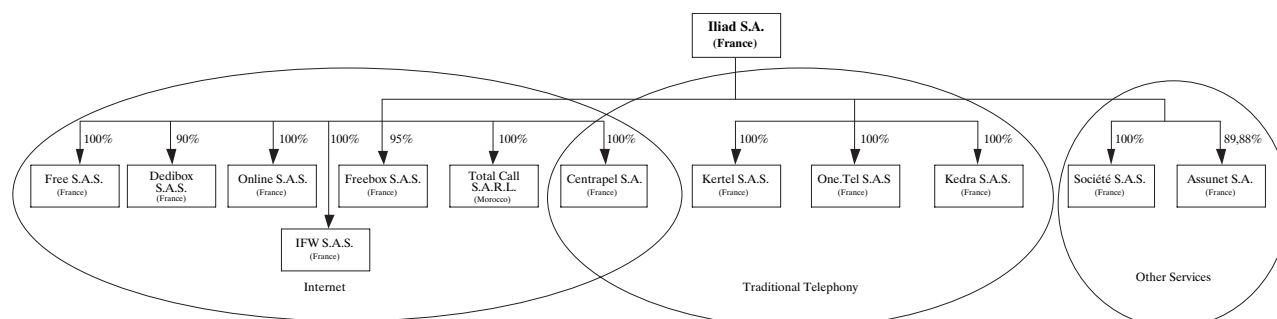
Iliad S.A. rebills to its subsidiaries (i) their share of the lease payments relating to the premises at rue de la Ville l'Evêque in Paris, (ii) administrative, financial, accounting and legal services provided and (iii) interest payable on current account advances. Further details of these transactions are provided in the Statutory Auditors' special report in Section 20.2 below.

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

The Group does not have any significant minority shareholders.

7.2 Organization chart

At March 31, 2006, the Group's organizational structure was as follows:



CHAPTER 8

PROPERTY, PLANT AND EQUIPMENT

8.1 EXISTING OR PLANNED MATERIAL TANGIBLE FIXED ASSETS

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

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

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

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

Not applicable.

CHAPTER 9

OPERATING AND FINANCIAL REVIEW

MANAGEMENT REPORT – YEAR ENDED DECEMBER 31, 2005

9.1 KEY CONSOLIDATED FINANCIAL DATA

(in € thousands)	Year ended December 31, 2005	Year ended December 31, 2004
STATEMENT OF INCOME		
Revenues	724,201	491,446
Operating expenses, net	(616,515)	(435,780)
Profit from ordinary activities	107,686	55,666
Other operating income and expense, net	0	2,556
Operating profit	107,686	58,222
Financial income and expense, net	(2,795)	2,677
Corporate income tax	(36,371)	(20,181)
Profit from discontinued operations	(378)	0
Profit for the period	68,898	40,718
Diluted earnings per share (in €)	1.26	0.75
EBITDA	224,313	112,818
BALANCE SHEET		
Non-current assets	425,945	283,501
Current assets	157,838	143,278
<i>Of which cash and cash equivalents</i>	<i>51,089</i>	<i>30,485</i>
Total assets	583,783	426,779
Total equity	248,575	178,477
Non-current liabilities	77,162	10,916
Current liabilities	258,046	237,386
Total equity and liabilities	583,783	426,779
CASH FLOWS		
Net cash generated from operating activities	225,817	99,826
Net cash used in investing activities	(262,205)	(168,518)
Net cash generated from financing activities	62,711	81,112
Net change in cash and cash equivalents	26,323	12,420
Cash and cash equivalents at year-end	49,416	23,093

9.2 MANAGEMENT REPORT

9.2.1 Overview

The Group's operations are made up of three business segments:

- The Internet segment, which includes Internet service provider operations (under Free and related brands), hosting services (the Online, BookMyName and Dedibox brands), and Wimax activities (operated by IFW).
- The Traditional Telephony segment, which includes switched fixed-line telephony (One.Tel and Iliad telecom), prepaid phone cards (Kertel) and resale of minutes to operators (Kedra).
- Other Services, which include directory services (mainly the ANNU reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging) and e-commerce operations (Société.com and Assunet.com).

These business segments may change in the future, based on the development of Group operations and according to operating criteria.

Changes in Group structure during the year concerned the Traditional Telephony segment where Iliad sold a 50% interest in a non-material subsidiary, and the Internet segment where the Group (i) set up Dedibox – which was dormant in 2005 – as well as Total Call and (ii) acquired the entire capital of Altitude Telecom in November 2005 for €57 million. The company was subsequently renamed IFW. IFW owns the only national Wimax licence in France.

The consolidated financial statements of the Iliad Group have been prepared in accordance with IAS/IFRS. A report summarizing the impact of the transition to IFRS is available on the Iliad website.

9.2.1.1 Breakdown of revenues

9.2.1.1.1 Internet revenues

- **“Pay-as-you-go” access.** For this no-subscription dial-up offer, the customer pays the price of the phone call invoiced by France Telecom. Customers dial the Free access number (08 60 92 20 00) from any fixed line in France, and the call is charged by France Telecom at the local Internet rate. Revenues from the “Pay-as-you-go” offer are therefore directly related to the time customers spend online and to the fee passed on to Free by France Telecom. Free invoices France Telecom on a monthly basis. The customer pays France Telecom a connection charge of €0.106 (including tax) and a flat rate of €0.02 per minute (including tax), excluding special offers, 24 hours per day, seven days per week. The fee passed on by France Telecom to Free as the operator of an interconnected network amounts to €0.0231 before tax per minute of use (rate at December 31, 2005). The amount per minute is calculated by France Telecom and approved by the French Telecommunications Regulatory Authority (ARCEP).
- **The “50-hour” plan.** Under the “50-hour plan”, the subscriber is entitled to 50 hours of dial-up Internet access per month for a flat fee of €14.94 (including tax). The subscriber connects to the Internet by dialing a toll-free number (08 68 92 20 00). The subscription fee is paid directly to Free by direct debit at the beginning of each month. Any additional dial-up time and charges for incomplete months are invoiced by Free at the local Internet rate. They are debited to the subscriber at the beginning of the following month but are recognized in revenue for the current month.
- **Unlimited ADSL broadband offer.** Since October 2002, Free has been offering its subscribers unlimited broadband access for €29.99 per month (including tax), including use of an ADSL modem and without installation fees. This unique offer allows subscribers to access the Internet at a speed of at least 2 MB per second and up to 24 MB (observed) in areas where the local loop is unbundled (which depends on whether a subscriber’s line is eligible). Free invoices subscribers by direct debit for their €29.99 monthly subscription. Subscribers who cancel their subscription are invoiced and charged a termination fee that decreases by €3 for every month of their subscription period, from a maximum of €96 (including tax).
- Since January 1, 2004, the portion of television services included in the Freebox subscription – which is taxed at the reduced VAT rate of 5.5% – has been set at 56%.
- **Telephony via ADSL.** Since August 2003 (unbundled areas) and March 2004 (non-unbundled areas), a telephony service has been offered as part of subscriptions to Free Haut Débit broadband access using the Freebox modem. Telephone calls made through the Freebox to another Freebox subscriber or to any standard France Telecom fixed line in mainland France (excluding short numbers and special numbers) are completely free. Revenues generated by calls to French mobile phones and to international numbers, as well as revenues generated by incoming calls to Freebox subscribers, are included within the revenues of the Internet segment.

- **Free’s preselection offer.** Since June 2005, Free Haut Débit broadband subscribers have been able to apply for a preselection offering where they have not opted for full unbundling. By signing up with the Free preselection service, the subscriber authorizes the company to make a preselection request to France Telecom so that all calls made from the designated fixed line can be transferred to and billed by Free (excluding special numbers). This enables the subscriber to benefit from Free’s rates on all local, national and international calls, as well as on calls to mobile phones.
- **Television via ADSL.** Since December 2003, subscribers to broadband Internet via the Freebox, in unbundled areas, have been offered a television service with more than 222 channels, including 81 free channels as of December 2005. Revenues generated by pay-per-view channels are included within the revenues of the Internet segment. These revenues are also subject to 5.5% VAT. Since November 2004, the Canal+ Group channels have likewise been available via Freebox. These offers are billed directly by the Canal+ Group, which pays a commission to Free.
- **Video on demand via ADSL (VoD).** Since December 2005, subscribers to broadband Internet via the Freebox, in unbundled areas, have been offered a video on demand service operated jointly with the Canal+ Group. This service enables subscribers to access a catalog of movies 24 hours a day, 7 days a week, and view them on their television. The movies – which are ordered using the Freebox remote control – include DVD player features and may be viewed for a period of 24 hours. The price of the movies, which varies between €1.99 and €3.99, is invoiced directly on the subscriber’s Free Haut Débit bill. These revenues are subject to 5.5% VAT.
- **Modem offering and migration to the fully unbundled service.** Since June 2004, Free Haut Débit broadband subscribers can request migration from partially to fully unbundled access. Subscribers are invoiced a fee for this migration that decreases in line with the duration of their subscription period, from a maximum of €90 (including tax). In addition, since September 2004, subscribers who have Sagem modems can receive a Freebox modem in return for a €60 administrative fee for people who have held a subscription for less than one year and €30 for those who have been subscribers for between 12 and 24 months. At the same time, subscribers with a Freebox modem can receive an upgraded version in return for a €90, €60, or €30 administrative fee depending on the length of time they have held a subscription.
- **Hosting services.** Revenues from the hosting of websites are invoiced at a flat annual rate by domain name or by site.
- **Marketing of domain names and selling of advertising space** on Free’s portal.
- **Other Internet-based revenues** corresponding mainly to the sale of switched traffic to the Traditional Telephony segment and the sale of WiFi cards.

9.2.1.1.2 Traditional Telephony revenues

Traditional Telephony segment revenues are mainly attributable to One.Tel and Kertel and break down as follows:

- **One.Tel’s** offer is a no-subscription carrier preselection offer. By signing up with One.Tel, the subscriber authorizes the company to make a preselection request to France Telecom so that all calls made from the designated fixed line can be transferred to and billed by One.Tel (excluding special numbers). This enables the customer to benefit from One.Tel’s rates on all local, national and international calls, as well as on calls to mobile phones, including the €0.01 per minute offer for all local and national calls. At the end of each month, the total cost of calls is calculated for each customer and invoiced for payment within two weeks. Since Iliad took over One.Tel, customers have been strongly encouraged to pay by direct debit in order to reduce the risk of non-payment. At December 31, 2005, over 89% of customers had signed up for this payment method, compared with 84% at December 31, 2004.
- **Kertel’s** revenues are generated by the use of telephone services. They are recognized as the phone cards are used, but also include what is known as “breakage”, i.e. the unused amount remaining on cards when they reach their expiration date.

9.2.1.1.3 Revenues from Other Services

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

Société.com’s e-commerce revenues are generated by online sales of documents or subscriptions and, to a lesser extent, advertising. Assunet, an online insurance broker, derives its revenues from commissions on sales of insurance policies to private individuals and to Group companies.

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

Free’s ADSL offer involves two types of services:

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

Under Option 1, direct costs per subscriber and per month, as mentioned in the basic unbundling offer, were as follows in 2005:

Operating costs of Option 1 (partial unbundling)

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

Operating costs of Option 1 (full unbundling)

- Rental of the copper pair: €9.50¹⁴
- Copper tie cable (average): €1.32

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

Operating costs of Option 5	Until February 28, 2005	From March 1, 2005
● IP-ADSL CO > 20,000 subscribers (512 Kbps):	€13.00	€13.00
● IP-ADSL CO < 20,000 subscribers (512 Kbps):	€15.50	€15.50
● IP-ADSL CO > 20,000 subscribers (1,024 Kbps):	€13.00	€13.00
● IP-ADSL CO < 20,000 subscribers (1,024 Kbps):	€18.00	€17.00
● IP-ADSL CO > 20,000 subscribers (2,048 Kbps):	€13.00	€13.00
● IP-ADSL CO < 20,000 subscribers (2,048 Kbps):	€20.00	€17.00
● IP-ADSL CO > 20,000 subscribers (Max IP):	–	€13.00
● IP-ADSL CO < 20,000 subscribers (Max IP):	–	€17.00

¹⁴ €10.50 between January and June 2005.

The operating cost structure under Option 5 has been simplified since October 1, 2005 and is no longer directly related to the bit rate concerned or the type of connection node. For the DSL Access offer, the monthly subscription fee is now set at €14.20 per single VC access.

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

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

9.2.1.3 Capital expenditures and depreciation

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

Just as operating costs differ significantly between Option 1 and Option 5, so do levels of capital expenditure. In addition to capital expenditures on optical fiber during the network roll-out phase, under Option 1 the Group is required to make available a Freebox modem and a Freebox DSLAM and to pay fees to France Telecom for access to unbundling services. The cost of these three items came to about €170 per subscriber in 2005. The cost of access to France Telecom's unbundling services, as well as the Freebox modems and Freebox DSLAMs is depreciated over three years from the date of subscriber installation. Since February 2005, fees invoiced by France Telecom for access to unbundling services have been reduced from €78.7 to €50 per subscriber for full unbundling and to €55 for partial unbundling.

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

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

EBITDA (earnings before interest, tax, depreciation and amortization) is one of the key performance indicators used throughout this Management Report.

9.2.1.4.1 Comparison of results for the years ended December 31, 2005 and December 31, 2004

The following comments are based on the consolidated financial statements for the years ended December 31, 2005 and December 31, 2004.

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

Consolidated revenues and operating expenses disclosed in the financial statements do not match the sum of the segment revenues and expenses in the section below, due to adjustments for inter-segment transactions. The bulk of these inter-segment transactions corresponds to the resale to the Traditional Telephony segment of

telecommunications services provided over the network operated by Free, for a total amount of €96.6 million in 2005 and €89.7 million in 2004.

(in € thousands)	Year ended December 31, 2005	Year ended December 31, 2004	% change
Revenues	724,201	491,446	47.4
Purchases used in production	(385,886)	(278,843)	38.4
Payroll costs	(29,811)	(21,756)	37.0
External charges	(59,940)	(65,550)	(8.6)
Taxes other than on income	(5,530)	(3,117)	77.4
Additions to provisions	(4,463)	(3,068)	45.5
Other income and expenses from operations, net	(14,258)	(6,294)	126.5
EBITDA	224,313	112,818	98.8
Depreciation and amortization	(116,627)	(57,152)	104.1
Profit from ordinary activities	107,686	55,666	93.5
Other operating income and expense, net	0	2,556	(100.0)
Operating profit	107,686	58,222	85.0
Financial income and expense, net	(2,795)	2,677	
Corporate income tax	(36,371)	(20,181)	
Profit from discontinued operations	378	0	
Profit for the period	68,898	40,718	69.2

Revenues

Revenues for 2005 rose over 47% compared with fiscal 2004. Growth was primarily driven by increased revenues from the Internet segment, particularly from broadband access and optional value-added services available through the Freebox. For the year ended December 31, 2005, these optional services accounted for almost €75 million, versus €13.5 million in 2004.

Operating expenses

Excluding depreciation and amortization, operating expenses climbed 32% in 2005, to €500 million. As mentioned in the Management Report for the year ended December 31, 2004, the Group has crossed the inflection point beyond which the increase in revenues outpaces that in net operating expenses.

Operating profit

Operating profit surged to €107.7 million from €58.2 million. This performance was attributable to the combined impact of:

- Greater profitability in the Internet segment, thanks to an ever-increasing proportion of broadband subscribers on unbundled lines.
- The contribution of value added optional services provided through the Freebox.

In addition, capital expenditure related to equipment for broadband subscribers and measures to extend the network fueled an over 104% rise in depreciation and amortization expense versus 2004, to €116.6 million, representing more than 16% of the Group's 2005 revenues.

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

Group EBITDA totaled €224.3 million in 2005, up 98.8% on 2004. This jump was mainly the result of (i) signing up new ADSL subscribers directly under Option 1, (ii) migrating existing Option 5 subscribers to Option 1, and (iii) the contribution of value added optional services provided through the Freebox. The Group EBITDA margin advanced from 23% in 2004 to 31% in 2005.

Financial income and expense, net

In 2005, net financial expense amounted to €2.8 million, corresponding primarily to interest on borrowings obtained by the Group, as well as foreign exchange losses on purchases of Freebox components denominated in U.S. dollars. The Group does not have any systematic currency hedging policy, including for purchases denominated in US dollars.

Profit for the period

Profit for the period amounted to €68.9 million, up from €40.7 million in 2004, representing a year-on-year increase of over 69%. The income tax charge for 2005 totaled €36.4 million, versus €20.2 million one year earlier.

9.2.1.4.2 Analysis of results for the Internet segment

The Internet segment includes the following operations:

- Internet Service Provider (ISP) operations, both through the switched telephone network and via ADSL, marketed under the Free, Free Haut Débit, Free Telecom and Freebox brands.
- Hosting and domain-name creation services, marketed under the Online, BookMyName and Dédibox brands.
- Call center operations, carried out by Centrapel and Total Call.

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

(in € thousands)	Year ended December 31, 2005	Year ended December 31, 2004	% change
Revenues	638,923	394,052	62.1
Purchases used in production	(366,267)	(259,501)	41.1
Payroll costs	(24,647)	(16,243)	51.7
External charges	(27,536)	(24,141)	14.1
Taxes other than on income	(4,707)	(2,105)	123.7
Additions to provisions	(3,474)	(2,507)	38.6
Other income and expenses from operations, net	(12,745)	(4,516)	182.2
EBITDA	199,547	85,039	134.7
Depreciation and amortization	(115,472)	(55,093)	109.6
Profit from ordinary activities	84,075	29,947	180.7

Revenues

The table below shows the breakdown by category of consolidated revenues for the Internet segment for the years ended December 31, 2005 and December 31, 2004, as well as the percentage change between these two years.

(in € thousands)	Year ended December 31, 2005	Year ended December 31, 2004	% change
ISP revenues (<i>Pay-as-you-go, 50-hour plan, ADSL</i>) .	560,557	322,179	74.0
Hosting and advertising revenues	10,449	6,294	66.0
Inter-segment and other revenues	67,917	65,579	3.6
Total revenues	638,923	394,052	62.1

Internet-segment revenues for 2005 grew by €244.9 million or 62% compared with a year earlier, spurred by the success of Free's ADSL broadband offer.

ISP revenues

	Year ended December 31, 2003	Year ended December 31, 2004	Year ended December 31, 2005
Total ADSL subscribers	485,000	1,064,000	1,595,000
Unbundled subscribers	163,000	566,000	1,120,000
Percentage of unbundled subscribers	33.6%	53.2%	70.2%
Share of French residential ADSL market ¹⁵	15.0%	17.4%	17.9%

ISP revenues (Free, Free Telecom and Free Haut Débit), through both the switched telephone network and ADSL, totaled €560.6 million for the year ended December 31, 2005.

Revenue growth in the ISP business, totaling 74%, resulted from the following factors:

- **Continuing success of the broadband offer.** At December 31, 2005, total ADSL subscribers numbered 1,595,000, against 1,064,000 at December 31, 2004, reflecting a near-50% increase.
- **The increasing use of optional value-added services provided through the Freebox.** In 2005, revenues related to these services totaled close to €75 million. At December 31, 2005, users of Free's telephony services, via Freebox, numbered 1,304,000, while its pay-per-view television subscribers totaled some 195,000. This take-up rate places Free in the position of European leader in broadband telephony and television services.

The decline in take-up of the "pay-as-you-go" and "50-hour plan" dial-up offers continued during 2005, reflecting the increased popularity of broadband offers.

Hosting and advertising revenues

The marketing of domain names in France, value-added hosting services and the sale of advertising space on Free's portal generated hosting and advertising revenues of almost €10.5 million for the year ended December 31, 2005, up from €6.3 million in 2004.

Inter-segment and other revenues

Inter-segment and other revenues correspond primarily to the resale to the Traditional Telephony segment of call minutes on Free's directly-operated network and proceeds from the sale of WiFi cards. These revenues were on a par with the previous year, due to the combined impacts of a decrease in revenues in the Traditional Telephony segment and an increase in the sale of WiFi cards.

15 Source: France Telecom (2003) and ARCEP (2004 and 2005)

Purchases used in production and external charges

Purchases used in production and external charges were 38.8% higher in 2005 than in 2004. Purchases used in production for the Internet segment are rising at a much slower pace than revenues, as a result of the unbundling strategy adopted by the Group. The key factors causing operating expenses to fall as a proportion of revenues are as follows:

- The rising proportion of Option 1 ADSL subscribers among total broadband subscribers, reaching 70.2% at December 31, 2005, from 53.2% at December 31, 2004.
- The overall decline in costs of Option 5 subscriptions (see paragraph 1.2.1.2), offset by the opportunity offered to subscribers of increasing their available bandwidth to the maximum bandwidth of 10Mbps, thereby raising Free's costs of IP transit.

Payroll costs

The rise in payroll costs in the Internet segment was a result of the recruitments carried out at Centrapel to enhance Free's customer service. Centrapel's payroll costs rose to almost €21.5 million in 2005, reflecting an increase in the company's average number of employees (including part-time workers) from 517 in 2004 to 834 in 2005. This staff increase has enabled Free to markedly improve customer service levels, particularly by significantly reducing Hotline queues. At the same time, however, it caused payroll costs to outstrip revenues generated from incoming calls at the Hotline.

Additions to provisions

Additions to provisions topped €3.4 million in 2005 and primarily corresponded to provisions for doubtful customer accounts.

Other income and expenses from operations, net

This item represented net income of over €12.7 million, up more than 182% on 2004. The total includes royalties, bad debts, expenses relating to audiovisual content, and proceeds from asset disposals.

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

Internet segment EBITDA for 2005 was up almost 135% on the prior-year figure. The EBITDA margin, excluding inter-segment sales, came to 34.5%, compared with 25.7% in 2004. This performance was due to (i) the greater number of France Telecom sites connected with optical fiber, which made it possible to increase the number of subscribers having access to broadband connections through the unbundling of the local loop (Option 1), and (ii) an increase in the average gross margin per user for unbundled subscribers to over €20 a month during the second half of the year.

The rise in EBITDA margin excluding inter-segment sales was particularly significant in the second half of 2005, despite the steady increase in total number of fully unbundled subscribers:

- 31.9% margin in the first half, compared with
- 36.7% in the second half of the year.

During 2005, the number of France Telecom sites connected with optical fiber expanded from over 410 to more than 675. The number of unbundled lines also rose sharply, from 566,000 at December 31, 2004 to 1,120,000 at December 31, 2005.

Profit from ordinary activities

Depreciation and amortization for the Internet segment totaled nearly €115.5 million, up almost 110% on 2004.

Profit from ordinary activities for 2005 came to over €84 million, representing an over €54 million increase compared with the previous year.

9.2.1.4.1.2 Analysis of results for the Traditional Telephony segment

The Traditional Telephony segment includes the following operations:

- Fixed-line telephony and prepaid phone card operations under the One.Tel, Kertel and Iliad Telecom brands;
- Telephony services provided to operators by Kedra.

(in € thousands)	Year ended December 31, 2005	Year ended December 31, 2004	% change
Revenues	162,250	162 976	(0.4)
Purchases used in production	(102,601)	(94,135)	9.0
Payroll costs	(1,973)	(2,748)	(28.2)
External charges	(30,668)	(38,511)	(20.4)
Taxes other than on income	(731)	(825)	(11.4)
Additions to provisions	(933)	(542)	72.1
Other income and expenses from operations, net	(486)	(725)	(33.0)
EBITDA	24,858	25,491	(2.5)
Depreciation and amortization	(904)	(1,800)	(49.8)
Profit from ordinary activities	23,954	23,691	(1.1)

Revenues

The table below shows the breakdown by category of consolidated revenues for the Traditional Telephony segment for the years ended December 31, 2005 and December 31, 2004, as well as the percentage change between the two years.

(in € thousands)	Year ended December 31, 2005	Year ended December 31, 2004	% change
Fixed telephony and prepaid phone card revenues	110,806	123,492	(10.3)
Revenues from services to operators and inter-segment sales	51,444	39,484	30.3
Total revenues	162,250	162,976	(0.4)

Revenues for the Traditional Telephony segment were on an overall par with 2004, coming in at €162.3 million. This total does not, however, reveal the significant change in the revenue mix between 2004 and 2005, corresponding to a decrease in fixed telephony and prepaid phone card revenues, and an increase in revenues from services to operators and inter-segment sales.

Fixed telephony and prepaid phone card revenues

Revenues from fixed telephony and prepaid phone cards, generated primarily by One.Tel and Kertel, amounted to almost €111 million for 2005. The decline in these revenues stemmed primarily from the combination of the following three factors:

- **A decrease in the number of One.Tel customers.** Against a backdrop of contained marketing costs and growing take-up of broadband voice offerings, the number of invoiced customers dropped from 335,000 in December 2004 to 298,000 in December 2005.
- **A 24% decline in average revenue per user (ARPU) between December 2004 and 2005.**

- **A contraction in Kertel's revenue contribution.** During 2005, Kertel sold 7 million prepaid telephone cards and top-ups – 500,000 less than in 2004.
- **The disposal of Endeis Telecom.** The contribution of that activity to the 2004 Traditional Telephony revenues amounted to €2.3 million.

Revenues from services to operators and inter-segment sales

The increase in revenues from services to operators and inter-segment sales was mainly attributable to a greater volume of transactions with the Internet segment, and with Free in particular for its broadband voice offering.

Purchases used in production and external charges

Purchases used in production and external charges increased 0.5% on 2004, coming in at €133.3 million.

The pace of revenue growth outstripped that for expenses as the rise in traffic costs relating to Kertel and inter-segment sales were offset by a significant decrease in One.Tel's marketing costs.

Payroll costs

The reduction in payroll costs in the Traditional Telephony segment reflects the economies of scale that can be achieved in alternative fixed-line telephony operations. On a constant scope basis, payroll costs are decreasing by 13%.

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

The Traditional Telephony segment's EBITDA totaled €24.9 million, down slightly on the 2004 figure. The EBITDA margin, excluding inter-segment sales, came to 18.3% in 2005, compared with 17.3% the previous year.

Profit from ordinary activities advanced to €24 million.

9.2.1.4.3 Analysis of results for the Other Services segment

The Other Services segment includes:

- Reverse look-up directory services, one of Iliad's historic businesses, marketed under the names 3617 ANNU and Annu.com, accessible via Minitel, telephone, Internet and SMS text messaging;
- E-commerce operations, including Assunet.com, an online insurance broker, and Société.com, an online provider of financial information; and
- Holding structure activities.

(in € thousands)	Year ended December 31, 2005	Year ended December 31, 2004	% change
Revenues	19,671	24,152	(18.6)
Purchases used in production	(90)	(56)	60.7
Payroll costs	(3,191)	(2,764)	15.4
External charges	(15,307)	(17,785)	(13.9)
Taxes other than on income	(92)	(187)	(50.8)
Additions to provisions	(56)	(19)	194.7
Other income and expenses from operations, net	(1,027)	(1,052)	(2.4)
EBITDA	(92)	2,288	(104.0)
Depreciation and amortization	(251)	(260)	(3.5)
Profit/(loss) from ordinary activities	(343)	2,029	(116.9)

Revenues

Other Services revenues contracted by more than 18% in 2005. Directory services revenues decreased by over 30% year on year.

Purchases used in production and external charges

The decrease in purchases used in production and external charges mainly reflected changes in the allocation of headquarters costs and lower marketing expenditure re-invoiced to other Group entities, in particular One.Tel.

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

Due to the overall decline in revenues for the segment, Other Services reported a negative EBITDA and a €343 thousand loss from ordinary activities.

9.2.1.4.1.4 Liquidity and capital resources

(in € thousands)	Year ended December 31, 2005	Year ended December 31, 2004
CASH FLOWS		
Net cash generated from operating activities	225,817	99,826
Net cash used in investing activities	(262,205)	(168,518)
Net cash generated from financing activities	62,711	81,112
Net change in cash and cash equivalents	26,323	12,420
Cash and cash equivalents at year-end	49,416	23,093

The net change in cash and cash equivalents during the year totaled over €26 million. Based on a constant structure, the Group had a positive free cash flow position in 2005. Net cash generated from operating activities amounted to €226 million, while net cash used in investing activities (excluding changes in Group structure) amounted to approx. €208 million. Altogether, positive free cash flow came to almost €18 million for the year ended December 31, 2005. This includes € 6 million obtained in a litigation at the end of 2005.

Another factor to be noted in relation to cashflows is that additional DSLAMs had to be manufactured during the year to respond to the extension of unbundled areas, with the number of installed units rising to more than 1,700 ADSL 2+ DSLAMs at December 31, 2005, from 419 at December 31, 2004. Aside from Freebox modems and DSLAMs, optical fiber makes up the bulk of acquisitions of fixed assets, which totaled €214.9 million in 2005, breaking down as follows:

- Capex related to growth operations (including Freebox modems and DSLAMs, and access fees to the France Telecom service), corresponding to €164.9 million.
- Capex relating to the network (including IRU contracts, France Telecom collocation rooms, civil engineering work, and transmission equipment), corresponding to €50.0 million.

On June 9, 2005, Iliad paid out a dividend of €0.04 per share, representing a total payout of €2.2 million. It had previously paid out an interim dividend of €0.075 per share, on December 19, 2004.

On June 30, 2005, Iliad purchased the Free shares issued on the exercise of founders' share subscription warrants (BSPCE) by Free employees, in order to retain full control of its subsidiary. The net outlay for these purchases amounted to almost €0.9 million.

9.2.1.4.2 Ownership structure at December 31, 2005

At December 31, 2005, Iliad's capital stock was composed of 54,151,550 ordinary shares, breaking down as follows:

- Executive Management: 41,076,592 shares, or 75.9% of capital stock

– Public: 13,074,958 shares or 24.1% of capital stock

At December 31, 2005 there were three Iliad stock option plans in place, whose main characteristics are as follows:

	Grant date	Exercise price	Exercise date	Number of shares to be issued on exercise of options
Options	January 20, 2004	€16.30	January 20, 2008	444,132
Options	December 20, 2005	€48.44	December 20, 2009	270,758
Options	December 20, 2005	€48.44	December 20, 2010	270,757

9.2.1.4.3 Off-balance sheet commitments

The table below analyzes the Group's commitments under non-cancelable leases at December 31, 2005 by type of asset and by maturity.

Type of leased assets	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Beyond 5 years	Total
(in € thousands)							
Real estate	4,869	4,569	4,484	2,492	621	1,242	18,277
Vehicles	278	160	31	0	0	0	469
Equipment	1,044	574	196	0	0	0	1,814
Other	1,415	793	700	667	412	1,789	5,776
Total	7,606	6,096	5,411	3,159	1,033	3,031	26,336

The Group has given a € 1.7 million deposit to SITA (Suez Environnement). In addition the Group had given a € 4.6 million purchase commitment to Neuf Telecom. This commitment was reached and extinguished on January 31, 2006. In relation to the IFW acquisition, a € 1 million price supplement was granted to the seller. This amount will have to be paid if certain conditions are met between January 1, 2007 and December 31, 2010. The realization of this clause is at the sole discretion of the seller and no payment has been anticipated at this date.

The ARCEP decision number 03-1294 authorizes IFW to operate microwave frequencies in the 3.5 GHz bandwidth provided it respects specifications that include a number of requirements relating to the network roll out and population coverage. Further to an inspection audit, the ARCEP noted that the Group had respected its related commitment at December 31, 2005. The next inspection is scheduled for December 31, 2008. Wimax technologies that will be used for future deployment are not readily available. The Group is thus unable to estimate the financial commitments relating to future roll outs.

There are no other off balance sheet commitments.

9.2.1.4.4 Group indebtedness

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

Outstanding obligations under finance leases totaled €4.5 million at December 31, 2005.

At December 31, 2005, the Group had confirmed credit lines of €120 million, €77 million of which had been drawn down. The longest maturity under these credit lines is until November 2010.

CHAPTER 10

CASH FLOWS AND CAPITAL RESOURCES

For information on the Company's cash flows and capital resources see Section 4.3.3. of this registration document, as well as the financial report in Section 9.2 and the notes to the 2005 consolidated financial statements.

CHAPTER 11

RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

11.1 RESEARCH AND DEVELOPMENT

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

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

The team responsible for the Group's research and development is based at Freebox S.A. and Free S.A.S. and is composed of 22 employees. In 2005, the Group devoted €1.3 million to research work versus €1.9 million in 2004 and €1.6 million in 2003, mainly relating to the Group's Internet and Telephony businesses.

The aim of the Group's research and development policy is to develop network architectures and software solutions that are tailored to specific offerings and needs, and to ensure that the corresponding equipment can be easily assembled by third party manufacturers under optimal financial terms. In 2004, the R&D team finalized the new versions of the Freebox modem (Freebox V4) and DSLAM which will allow subscribers to receive ADSL 2+ services, and is continuing to work on other technologies still in the experimental stage, while maintaining a technology watch on developments in ADSL and ADSL 2+, as well as other technologies (such as WiFi networks and the development of fiber-to-home technology).

11.2 INTELLECTUAL PROPERTY

11.2.1 Patents

To date the Group has not filed any patents.

11.2.2 Brands and trademarks

See Section 4.4.3.

CHAPTER 12

TREND INFORMATION

No significant trends have impacted the Group's operations since January 1, 2006.

CHAPTER 13

PROFIT FORECASTS OR ESTIMATES

The Company has issued the following operational objectives for 2006.

1. To have an ADSL subscriber base of over 2 million by the end of 2006
2. For unbundled subscribers to represent 75% of total ADLS subscribers
3. To maintain an average gross margin per unbundled subscriber of €20 per month.

Objective 3 relates to less than 50% of the Consolidated Revenues.

CHAPTER 14

ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

14.1 MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

14.1.1 Composition of the Board of Directors

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

Name	Office	Elected	Term expires
Cyril Poidatz	Chairman	12/12/2003	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Michaël Boukobza	Director/ Chief Executive Officer	12/12/2003	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Xavier Niel	Director/ Senior Vice-President	12/12/2003	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Olivier Rosenfeld	Director/ Senior Vice-President	12/12/2003	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Antoine Levavasseur	Director/ Senior Vice-President	05/27/05	at the Annual Shareholders' Meeting to be held to approve the 2010 financial statements
Alain Weill	Director	12/12/2003	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Axa Investment Managers Private Equity Europe represented by François Jerphagnon	Director	01/22/2004	Resignation placed on record by the Board of Directors at its December 20, 2005 meeting.
Dominique Roux	Director	02/08/06 ¹⁶	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements
Shahriar Tadjbakhsh	Director	03/11/2005 ¹⁷	At the Annual Shareholders' Meeting to be held to approve the 2008 financial statements.
Jean-Louis Missika	Director	06/28/2004	At the Annual Shareholders' Meeting to be held to approve the 2009 financial statements.

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

¹⁶ Appointment by the Board of Directors to be submitted to the Company's shareholders for ratification at the Shareholders' Meeting to be held on May 29, 2006.

¹⁷ Appointment by the Board of Directors ratified by the Company's shareholders at the Shareholders' Meeting held on May 27, 2005.

Alain Weill, Jean-Louis Missika, Shahriar Tadjbakhsh and Dominique Roux are independent directors within the meaning of the Board of Directors' internal rules of operations described in Section 16.3 of this registration document.

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

Director	Position	Company
Cyril Poidatz	–	–
Michaël Boukobza	–	
Xavier Niel	–	–
Olivier Rosenfeld	–	–
Antoine Levavasseur	–	–
Alain Weill	Chairman of the Management Board Chairman of the Board of Directors Chairman and CEO Chief Executive Officer	NextRadio BFM RMC NRJ
François Vice-Jerphagnon	Chairman of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board Permanent representative of AXA IMPEE Permanent representative of AXA IMPEE	Financière Daum CFC Daum Omnium's ASD Equity Riber Moteurs Baudoin
Shahriar Tadjbakhsh	–	–
Dominique Roux	Director	Fintel Millemercis.com RFO (State representative)
Jean-Louis Missika	Chairman and Chief Executive Officer Member of the Supervisory Board	JLM Conseil Modelabs

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

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

- convicted of fraud, charged with any other offence or had any official public disciplinary action taken against them by statutory or regulatory authorities;
- involved in a bankruptcy, receivership or liquidation as a corporate officer or director;
- disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

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

Cyril Poidatz

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

Michaël Boukobza

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

Xavier Niel

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

Olivier Rosenfeld

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

Alain Weill

Alain Weill holds a degree in economics and is a graduate of the Institut Supérieur des Affaires. Between 1985 and 1989 he was Network Director for NRJ S.A., then Chief Executive Officer of Quarare (Sodexho Group). In 1990, he joined the management team of Compagnie Luxembourgeoise de Télédiffusion (CLT), then became Chairman and Chief Executive Officer of the network, a subsidiary of CLT and the Spanish group SER. In 1992, he was appointed to the senior management team of the NRJ Group, followed by NRJ Régies in 1995, where he has served as Deputy Chairman of the Management Board since 1997. He has served as Chairman of Next Radio S.A. since November 8, 2000, and has been Chairman of the French association of Private Radio Stations, SIRRP (*Syndicat indépendant des régies de radios privées*) since 1998.

Shahriar Tadjbakhsh

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

François Jerphagnon, director representing AXA Investment Managers Private Equity Europe

François Jerphagnon began his career at the Caisse des Dépôts et Consignations before joining MACIF in 1995 where he managed asset allocation and equity portfolios. He then joined AXA Investment Managers Private Equity in 2001, where he is currently a Senior Investment Manager. François Jerphagnon has a Masters in Finance from Université Paris Dauphine and is also a graduate of the French business school ENSAE (*Ecole Nationale de la Statistique et de l'Administration Economique*). François Jerphagnon is a member of the French Institute of Actuaries.

Jean-Louis Missika

Jean-Louis Missika holds a doctoral degree (*Doctorat d'Etat*) in Management (Paris IX Dauphine) and degrees from the Institut d'Etudes Politiques in Paris and the Institut d'Etudes Supérieures de Sciences Economiques (Paris I Panthéon-Sorbonne) and a degree in philosophy (Paris I Panthéon-Sorbonne). He began his career as adviser to the Chairman and Chief Executive Officer of Antenne 2, the French public broadcaster, from 1979 to 1984. He is currently Chairman and Chief Executive Officer of JLM Conseil, a consulting firm specializing in media strategies, new media and communications strategies that he founded in 1998.

Dominique Roux

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

14.1.2 Composition of the senior management team

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

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

Michaël Boukobza. See Section 14.1.1 above.

Xavier Niel. See Section 14.1.1 above.

Olivier Rosenfeld. See Section 14.1.1 above.

Rani Assaf

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

Franck Brunel

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

Antoine Levavasseur

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

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

There are no potential conflicts of interest between any duties to the Company, of the persons referred to in Section 14.1 above and their private interests and/or other duties. Likewise, none of the persons referred to in said Section have agreed any restrictions on the disposal within a certain period of time of their holdings in the Company's securities.

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

At March 31, 2006, Iliad's directors and senior managers held the following interests in the Company:

Shareholder	Shares and voting rights	Percentage of the share capital and voting rights
Xavier Niel	36,214,810	66.88%
Antoine Levavasseur	952,590	1.76%
Rani Assaf	952,590	1.76%
Cyril Poidatz	650,000	1.20%
Olivier Rosenfeld	623,286	1.15%
Michaël Boukobza	600,000	1.11%
Franck Brunel	608,525	1.12%
Alain Weill	55,628	0.10%
Jean-Louis Missika	250	0.01%
Shahriar Tadjbakhsh	0	0
Dominique Roux	0	0
Total	41,076,592	75.85%

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

- **Kertel:** Cyril Poidatz, Michaël Boukobza, Olivier Rosenfeld, Rani Assaf and Franck Brunel each hold one share in Kertel, representing an aggregate of approximately 0.16% of the company's capital and voting rights.
- **Kedra:** Xavier Niel, Cyril Poidatz, Michaël Boukobza and Olivier Rosenfeld each hold one share in Kedra, representing an aggregate of approximately 0.01% of the company's capital and voting rights.
- **Freebox:** Xavier Niel, Cyril Poidatz, Michaël Boukobza and Antoine Levavasseur each hold one share in Freebox, and Rani Assaf holds 464 shares, representing total interests of approximately 1.87% of the company's capital and voting rights.

- **Online:** Cyril Poidatz holds one share in Online, representing approximately 0.01% of Online's capital and voting rights.
- **One.Tel:** Cyril Poidatz holds one share in One.Tel, which does not represent a significant holding in the company.
- **Société:** Xavier Niel holds one share in Société, which does not represent a significant holding in the company.
- **Centrapel:** Xavier Niel, Cyril Poidatz and Michaël Boukobza each hold one share in Centrapel, representing approximately an aggregate of approximately 0.01% of the company's capital and voting rights.
- **IH:** Xavier Niel, Cyril Podiaz, Michaël Boukobza, Olivier Rosenfeld, Rani Assaf and Franck Brunel each hold one share in IH, representing an aggregate of approximately 0.02% of the company's capital and voting rights.
- **Assunet:** Xavier Niel and Michaël Boukobza each hold one share in Assunet, representing an aggregate of approximately 0.02% of the company's capital and voting rights.

CHAPTER 15

REMUNERATION AND BENEFITS

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

15.1.1 Directors' fees

At the Annual Shareholders' Meeting of May 27, 2005, the amount of directors' fees was set at €90,000, to be allocated between the Company's directors for the years ended December 31, 2004 and 2005. At its July 11, 2005 meeting, the Board of Directors decided to allocate these fees among the Board's individual independent directors, as set out in Section 15.1.3 below.

15.1.2 Remuneration paid and benefits in kind granted to senior managers during fiscal 2005

		Compensation received (<i>in €</i>)			Total
	Position	Fixed portion	Variable portion	Benefits in kind	
Cyril Poidatz	Chairman of the Board of Directors	118,980	N/A	N/A	118,980
Michaël Boukobza	Director/ Chief Executive Officer	94,980	N/A	N/A	94,980
Olivier Rosenfeld	Director/ Senior Vice-President	127,740	N/A	N/A	127,740
Xavier Niel	Director/ Senior Vice-President	171,744	N/A	o/w 97,500	171,744
Rani Assaf	Senior Vice-President	90,300	N/A	N/A	90,300
Franck Brunel	Senior Vice-President	76,260	N/A	N/A	76,260
Antoine Levavasseur	Senior Vice-President	90,060	N/A	N/A	90,060
Alain Weill	Director	N/A	N/A	N/A	N/A
Shahriar Tadjbakhsh	Director	N/A	N/A	N/A	N/A
Axa Investment Managers Private Equity Europe	Director	N/A	N/A	N/A	N/A
Jean-Louis Missika	Director	N/A	N/A	N/A	N/A

There is no retirement plan established specifically for the Company's senior managers.

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

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

	Position	Total compensation (in €)		
		2003	2004	2005
Cyril Poidatz	Chairman of the Board of Directors	147,167	112,860	118,980
Michaël Boukobza	Director/ Chief Executive Officer	92,705	80,640	94,980
Olivier Rosenfeld	Director/ Senior Vice-President	116,469	107,354	127,740
Xavier Niel	Director/ Senior Vice-President	84,000	126,000	171,744
Rani Assaf	Senior Vice-President	71,651	77,825	90,300
Franck Brunel	Senior Vice-President	45,735	55,927	76,260
Antoine Levavasseur	Senior Vice-President	64,065	63,547	90,060
Alain Weill	Director	N/A	15,000 ¹	15,000 ¹
Shahriar Tadjbakhsh	Director	N/A	15,000 ¹	15,000 ¹
Axa Investment Managers Private Equity Europe	Director	N/A	N/A	N/A
Jean-Louis Missika	Director	N/A	15,000 ¹	15,000 ¹

¹ Corresponding to directors' fees.

15.2 STOCK OPTIONS GRANTED TO CORPORATE OFFICERS IN 2005

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

	Total number of options ¹⁸	Exercise dates
Michaël Boukobza Director/Chief Executive Officer	40,614	December 19, 2009 December 19, 2010
Olivier Rosenfeld Director/Senior Vice-President	40,614	December 19, 2009 December 19, 2010
Rani Assaf Senior Vice-President	40,614	December 19, 2009 December 19, 2010
Franck Brunel Senior Vice-President	40,614	December 19, 2009 December 19, 2010
Antoine Levavasseur Director/Senior Vice-President	40,614	December 19, 2009 December 19, 2010
Cyril Poidatz Chairman	40,614	December 19, 2009 December 19, 2010
TOTAL	243,684	

¹⁸ Half of the options may be exercised at each of the exercise dates.

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

- **Current account advance granted to the Company by Xavier Niel** in an amount of €2,784,255.70. This interest-free loan – which was authorized in advance by the Board of Directors on February 9, 2005 – is classified as a shareholder's loan.
- **Share purchases from certain shareholders of Freebox** Rani Assaf, who is a Senior Vice-President (non-director) of the Company, could benefit from the purchase by Iliad of Freebox shares. For this reason, the agreement relating to these share purchases – particularly concerning Rani Assaf – was authorized in advance by the Board of Directors on February 9, 2005.
- **Authorization to enter into a cash pooling agreement with Total Call** When Iliad's directors were planning to set up the "Total Call" subsidiary – which would be managed by the Chairman of Iliad's Board – they decided that if the subsidiary was created it would be necessary to enter into a cash-pooling agreement. Prior authorization for such an agreement was required due to the fact that Total Call and Iliad would have at least some common directors. Prior authorization to enter into a cash pooling agreement was therefore given at the Board of Directors' meeting held on February 9, 2005.
- **Guarantee of financial commitments given by Freebox** At its meeting held on September 2, 2005, the Board of Directors authorized the Company to guarantee the financial commitments given by Freebox relating to Freebox's purchase of electronic components from Micron Europe Limited.
- **Authorization to sign two statements for Iliad to provide premises free of charge** to ToutCom and Sasam – subsidiaries that are more than 90%-owned by the Company. This prior authorization was granted during the Board of Directors' meeting held on October 26, 2005.
- **At the request of Acticall**, Iliad S.A. purchased three receivables due from OneTel for a total of €51,754.17. These receivables, which were payable in yearly instalments until December 31, 2010, formed part of OneTel's debt repayment plan approved by Nanterre Commercial Court on November 20, 2001. At that date, the Company – acting in its capacity as OneTel's majority shareholder – requested that this €51,754.17 debt due by OneTel be waived, in order to alleviate OneTel's debt repayment plan. The waiver was authorized in advance during the Board of Directors' meeting held on December 26, 2005.

15.4 LOANS AND GUARANTEES GRANTED TO SENIOR MANAGERS

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

CHAPTER 16

FUNCTIONING OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

16.1 ORGANIZATION OF THE COMPANY'S ADMINISTRATIVE AND MANAGEMENT BODIES

16.1.1 Organization of the Board of Directors

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

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

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

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

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

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

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

Directors are elected for a six-year period.

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

Outgoing directors may be re-elected without restriction.

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

Chairman

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

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

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

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

Board meetings

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

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

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

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

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

Quorum and majority

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

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

Representation

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

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

Duty of confidentiality

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

Minutes of meetings

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

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

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

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

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

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

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

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

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

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

16.1.2 Senior Management (Article 19 of the bylaws)

16.1.2.1 Organization

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

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

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

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

16.1.2.2 Chief Executive Officer

Appointment – Removal from office

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

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

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

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

Powers

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

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

16.1.2.3 Senior Vice-Presidents

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

The maximum number of Senior Vice-Presidents is five.

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

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

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

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

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

16.1.3 Meetings of the Board of Directors

The Company's Board of Directors met 11 times in 2005, compared with 21 times in 2004, and 14 times in 2003. The average attendance rate at these meetings was approximately 76%.

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

At the date of this registration document, there are no service contracts in force between the Company and any members of its administrative and management bodies.

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

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

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

16.3.1 Members of the Board of Directors

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

16.3.2 Independent directors

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

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

In order to be considered independent, a director:

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

- cannot be a corporate officer (within the meaning of COB recommendation 2002-01) of a company in which the Company holds, either directly or indirectly, a directorship, or in which a directorship is held by an employee of the Company designated as such or by a current or former (going back five years) corporate officer of the Company;
- cannot be a customer, supplier, investment banker or a commercial banker which is material for the Company or the Group or for which the Company or the Group represents a material proportion of the entity's activity;
- cannot have close families ties to a corporate officer;
- cannot have been an auditor of the Company during the past five years;
- cannot have been a director of the Company for more than twelve years;
- cannot represent a significant shareholder of the Company, taking into account that:
 - (i) a shareholder who owns over 10% of the Company's capital or voting rights is considered significant; and
 - (ii) below this threshold, the Board of Directors systematically reviews whether the director is independent, taking into account the composition of the Company's share capital and whether there exists potential for any conflicts of interest.

Based on these criteria, at its April 6, 2006 meeting, the Board of Directors noted that the Board includes four independent directors: Alain Weill, Jean-Louis Missika, Shahriar Tadjbakhsh¹⁹ and Dominique Roux.

16.3.3 Meetings of the Board of Directors

The Board of Directors met on 11 occasions in 2005 upon request by the Chairman or another duly authorized person. If the Board has not met for over two months, a group of directors representing at least one-third of the Board members may call a meeting with a specific agenda.

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

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

16.3.4 Evaluation of the Board of Directors

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

16.3.5 Committees of the Board of Directors

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

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

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

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

¹⁹ Shahriar Tadjbakhsh became a director in his own name on March 11, 2005 and has been an independent director since that date.

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

16.3.5.1 Responsibilities of the Audit Committee

The Audit Committee is responsible for:

- reviewing individual and consolidated financial statements prior to their being presented to the Board of Directors;
- ensuring the relevance and consistency of accounting methods used in preparing the financial statements;
- verifying internal procedures for collecting and auditing information used in preparing the financial statements;
- providing all appropriate reports and recommendations on the above, both on a periodic basis when the accounts are closed, and as warranted by events;
- overseeing the process of selecting the Statutory Auditors and renewing their appointments, providing an opinion on the fees requested, and submitting the results of the selection process to the Board of Directors; and
- reviewing in detail the fees paid by the Company and the Group to the Statutory Auditors and verifying that the portion of fees paid to each audit firm relative to its revenue is not likely to impair the Auditors' independence.

16.3.5.2 Responsibilities of the Compensation Committee

The Compensation Committee is responsible for:

- making recommendations to the Board of Directors on the compensation and benefits to be allocated to corporate officers;
- establishing and conducting an annual review of the rules governing the variable portion of corporate officers' compensation, ensuring that it is consistent with their performance assessments and the Company's medium-term strategy;
- defining general policies for allocating stock options, with or without discounts;
- reviewing stock option plans for the Company's and/or Group's corporate officers and employees; and
- providing recommendations on compensation and incentive systems for managers of the Company.

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

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

The Board of Directors' code of conduct prohibits directors from trading in the securities of companies for which they possess non-public information by reason of their positions.

If the Company's securities are traded on a regulated exchange, the directors are barred from buying or selling the Company's shares during the thirty calendar days preceding the announcement of the Company's quarterly, half-year and annual earnings. On December 20, 2005, the Board of Directors reduced this timeframe to fifteen days.

16.4 INTERNAL CONTROL

16.4.1 Report on the conditions governing the preparation and organization of the work of the Board of Directors and internal control procedures

16.4.1.1.1 Corporate Governance

The Company is headed by a Chief Executive Officer who is responsible for the Company's management, together with a number of Senior Vice-Presidents. At its December 12, 2003 meeting, the Board of Directors elected to segregate the duties of Chairman of the Board of Directors and Chief Executive Officer. The Board of Directors has not placed any specific restrictions on the powers of the Chief Executive Officer.

At December 31, 2005 the Board of Directors comprised the following eight members:

- Cyril Poidatz, Chairman of the Board of Directors
- Michaël Boukobza, Director and Chief Executive Officer
- Xavier Niel, Director and Senior Vice-President
- Olivier Rosenfeld, Director and Senior Vice-President
- Antoine Levavasseur, Director and Senior Vice-President
- Shahriar Tadjbakhsh, Director
- Alain Weill, Director
- Jean-Louis Missika, Director

In accordance with the criteria set out in the Board of Directors' internal rules adopted on December 12, 2003, as amended on February 9, 2005, three directors qualify as independent: Alain Weill, Jean-Louis Missika and Shahriar Tadjbakhsh.

The majority of directors were elected at the Shareholders' Meeting held on December 12, 2003, for a term expiring at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2008.

Jean-Louis Missika was elected at the Shareholders' Meeting of June 28, 2004 for a period expiring at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2009.

Antoine Levavasseur was elected at the Shareholders' Meeting of May 27, 2005, for a term expiring at the close of the Shareholders' Meeting to be held to approve the financial statements for the year ending December 31, 2010.

The Board of Directors determines the Company's overall business, economic, financial and technological strategies and oversees their implementation by Management.

Meetings of the Board of Directors

In 2005, Iliad's Board of Directors met eleven times, with an average attendance rate of around 76%.

Information provided to directors

Prior to every meeting, Board members receive a pack containing information about items on the agenda, in order to help them prepare for the meeting and make fully informed decisions.

Venue and participants

Board meetings take place at the Company's registered office, located at 8 rue de la Ville l'Evêque – 75008 Paris, France.

The Statutory Auditors are regularly invited to attend the Board meetings devoted to the review and/or approval of the interim and annual financial statements.

Minutes of the meetings

The minutes of Board meetings are drawn up by the Board Secretary after each meeting. The directors receive a draft version on which they may comment, and the Chairman subsequently submits the minutes for their approval at the following Board meeting.

Operational structure of the Company's Senior Management team

Since June 2004, the Company's Senior Management team has been structured around a Management Committee headed by the Chairman of the Board of Directors. The Management Committee is the Group's decision-making body. It meets twice a week, and is responsible for tracking weekly reporting schedules, deciding on the Group's strategy and operations in conjunction with the Board, discussing and collectively deciding on key management issues, and setting annual objectives. The meetings are attended by the Chairman of the Board of Directors, the Chief Executive Officer, the Senior Vice-Presidents, and the head of the Group's Research & Development Department. The Chairman and CEO of Centrapel also regularly attends the meetings, as does the Group head of Debt Recovery. The issues covered also serve as a basis for management presentations given during Board of Directors' meetings.

This operational structure complies with corporate governance practices applicable in France.

16.4.1.1.2 Internal control procedures

(i) Presentation and organization of the Group

Since June 2003, all of the Group's organizational structures and employees have been located in one building at 8 rue de la ville l'Evêque, 75008 Paris, in order to simplify the tasks of relaying information, and monitoring and harmonizing internal control procedures.

In addition, all of the Group's departments – encompassing finance and accounting, legal affairs, human resources, technology and marketing – are cross-functional and are identical for each Group entity. This structure enables the Group to be managed consistently and makes it easier to perform controls.

During 2005, the Group's operations continued to grow significantly, with consolidated revenues climbing from €491,446,000 to €724,201,000.

(ii) The objectives of internal control

Internal control is a process implemented by Management designed to provide reasonable assurance that the following objectives are achieved:

- efficiency and effectiveness of operations;
- reliability of financial information; and
- compliance with applicable laws and regulations.

Irrespective of how effective an internal control system may be, it can only provide reasonable assurance -and not an absolute guarantee – that the company will achieve its objectives.

The Iliad Group's internal control system is structured around (i) internal rules, which set out regulations to be respected by employees within each Group company, and (ii) an operating procedure manual, which is updated by the Finance Department.

The Group does not currently have a specific Internal Audit department, but the Finance Department, as well as the accounting and management accounting control teams and the other departments described above are at the heart of the overall internal control system.

Each Group company carries out controls on its accounting and financial data on a monthly basis.

(ii) *Control processes for major risks*

The Group has set up an internal control system that enables it to manage the risks relating to its business strategy, development and decision-making processes.

Risks relating to the Group's operations and business strategy

In 2000, the Group created a research and development team with a view to safeguarding its capacity to remain technologically innovative. This team reports directly to Senior Management.

In addition, in view of the Group's rapid growth and in order to anticipate recruiting needs – notably within the Centrapel teams – a reporting procedure has been established within Centrapel to measure the rate of calls received and dealt with, and to monitor queuing time. These reporting schedules are relayed regularly to Management.

Management is also regularly provided with technical information concerning the Group's platform and network, as well as recruitment needs (in terms of number of staff and skills), and the financing required in order to develop the Group's technical infrastructure.

Risks relating to the Internet and telecommunications sectors

Risks relating to the Group's business sectors are principally monitored by an internal team dedicated to tracking regulations within the Internet and telecommunications sectors and the financial and legal impact of these regulations on the Group's operations. This team reports to the Senior Vice-President responsible for regulatory affairs.

Legal risks linked to Internet access

In order to limit the risks relating to the potential liability of Internet access and web hosting service providers, the subscription procedure set up by Free does not permit any anonymous users on its network. This procedure does not allow a new user to connect online, as new users must wait until they have received a confirmation letter with a login and password before they can connect to Free for the first time.

This procedure, which enables the Group to validate the name and address of each new subscriber, was set up when Free was initially launched and means that the Group has no anonymous users on its network. Consequently, Free can respond to and assist with any requests concerning the identity of any dubious users in the event of a legal claim.

Security

The Group has set up procedures to guarantee the security and physical integrity of its network.

Control procedures relating to financial communication

The Company is required to keep its shareholders, the financial community and the general public informed about its financial position.

All financial information, including press releases, management reports, and financial statements, is drawn up by the Finance Department and is reviewed by Senior Management, including the Chairman of the Board of Directors, the Chief Executive Officer, the Senior Vice-Presidents and the Legal Department. In addition, this information is regularly submitted to the Company's directors for approval.

In order to restrict the risks relating to erroneous or contradictory information, an internal procedure is used whereby the Group's press officer centralizes all strategic, commercial, financial and technical data that is released outside the Group. The information is supplied directly by Management to the press officer. Furthermore, in accordance with the aforementioned procedure, the press officer attends any and all interviews in order to ensure that the information relayed is consistent.

16.4.1.1.3 Financial information

Several procedures have been set up to implement controls over the Group's financial management and ensure that the accounting data provided is correct.

(i) *Budgetary process*

Each year, the Finance Department – assisted by management accounting control – draws up a forecast business model for the Group, based on the Group's strategic decisions, and approved by Management. The assumptions used for the budgetary process are updated quarterly. The budget and quarterly reviews are split out into monthly calculations in order to provide a framework for the Group's reporting procedures.

Each Group subsidiary uses the same budgetary process.

(ii) *Monthly reporting process*

A monthly reporting schedule is drawn up by the Group's financial units. During 2005, management accounting control tracked the Group's purchases and investments, notably those relating to the components used in the Freebox modem. The reports of the management accounting controller are transmitted to the Finance Department and incorporated into the overall reporting schedule, which contains key data for monitoring the Group's operations and results. This process forms one of the cornerstones of the internal control and financial information system, as it is the key tool used by Management for tracking, controlling and monitoring the Group's business activity.

The Board of Directors is informed of the latest available indicators during its meetings.

(iii) *Accounts-closing process*

The Group's Finance Department performs a quarterly close for each Group company.

The Group's organization structure, based on a single Finance Department for all of the Group's companies and the use of a common accounting manual, enables consistent use of accounting policies and methods. In addition, the Group's Finance Department tasks an external certified public accountant with reviewing the statutory accounts of each entity on at least a quarterly basis.

The financial statements are consolidated once every three months and presented to the Board of Directors.

(iv) *Preparing for the transition to International Financial Reporting Standards (IFRS)*

The Group's Finance Department applied the recommendation of the French Securities Regulator (AMF), and communicated pro-forma information for 2004 when it published its financial statements for the first half of 2005.

(v) *Specific procedures relating to the preparation and processing of accounting and financial information*

The internal control procedures in force within the Group relating to the major operating functions are as follows:

Sales: The revenues of each Group company are controlled by the Finance Department in conjunction with the Group's operating teams, by carrying out tests on sales movements, valuations and invoicing of calls and subscriptions, as well as on payment collection and debt recovery processes.

Capital expenditure: Controls on the telecommunication network's capital expenditure and asset management programs are performed through a procedure based on predetermined authorized thresholds and budgets.

Purchases: Purchases other than capital expenditure are also controlled based on authorized thresholds, as well as by segregating tasks, with control of Internet operating costs being separated from control of fixed telephony costs.

Cash and cash equivalents: Control over cash management is performed through bank reconciliations, secure means of payment, and specific signature authorizations, including for off-balance sheet commitments.

Payroll: Employees' salaries are controlled through a procedure that is based on segregating line managers' controls.

16.4.2 Statutory Auditors' report on the Chairman's report on internal control procedures

STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH THE LAST PARAGRAPH OF ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE (CODE DE COMMERCE), ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF ILIAD SA, ON THE INTERNAL CONTROL PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

(Year ended December 31, 2005)

Iliad
8, rue de la Ville l'Evêque
75008 Paris

Boissière Expertise Audit
57, rue Boissière
75116 Paris

PricewaterhouseCoopers Audit
63, rue de Villiers
92208 Neuilly-sur-Seine cedex

STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH THE LAST PARAGRAPH OF ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE (*CODE DE COMMERCE*), ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF ILIAD SA, ON THE INTERNAL CONTROL PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

(Year ended December 31, 2005)

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

ILIAD SA
8, rue de La Ville l'Evêque
75008 Paris

To the shareholders,

In our capacity as Statutory Auditors of Iliad SA and in accordance with the last paragraph of article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby present our report on the report prepared by the Chairman of the Board of Directors of the Company in accordance with article L. 225-37 of the French Commercial Code for the year ended December 31, 2005.

In his report, the Chairman of the Board of Directors is required to comment on the conditions in which the duties of the Board are prepared and organized, and the internal control procedures in place within the Company. Our responsibility is to report to you our observations on the information set out in the Chairman's report concerning the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with the professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information set out in the Chairman's report concerning the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures mainly consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the Chairman's report;
- obtaining an understanding of the work performed to support the information given in the Chairman's report.

Based on these procedures, we have no matters to report on the information concerning the Company's internal control procedures relating to the preparation and processing of financial and accounting information, contained in the report of the Chairman of the Board of Directors, prepared in accordance with the last paragraph of article L. 225-37 of the French Commercial Code.

Paris, Neuilly, April 8, 2006

The Statutory Auditors

Boissière Expertise Audit
Tita A. Zeïtoun

PricewaterhouseCoopers Audit
Xavier Cauchois

CHAPTER 17

EMPLOYEES

17.1 HUMAN RESOURCES

17.1.1 Changes in the Group's workforce during the past three years

At March 31, 2006, the Group had a workforce of 1,214 employees, all with open-ended employment contracts. This number is rising constantly and significantly as a result of the Group's policy of strengthening its technical support and customer service teams working for its Centrapel and Total Call subsidiaries. This active recruitment policy is aimed at meeting the expected increase in the number of the Group's subscribers, particularly those using telephony services, and at enhancing the support service offered to customers.

The Group also offers callout support to its subscribers. In the case of connection problems, Free's technicians visit the subscriber to establish the cause of the problem (faulty user equipment, faulty jumpers, DSLAM failure, etc.) and rectify it. This service is paid for by subscribers unless their personal equipment is not the cause of the problem.

Agreements relating to the reduction of working hours to 35 hours per week have been entered into within the Group companies in compliance with applicable legislation.

17.1.2 Analysis of the number of Group employees during the past three years

Breakdown by socio-professional category

	Number of employees		
	Management	Non-Management	Total
December 31, 2003	114	391	505
December 31, 2004	95	657	752
December 31, 2005	111	1,017	1,128
March 31, 2006	116	1,098	1,214

Breakdown by line of business

	Number of employees			Total
	Holding company and others	Internet	Telephony	
December 31, 2004	38	667	47	752
December 31, 2005	36	1,053	39	1,128
March 31, 2006	36	1,143	35	1,214

17.2 STOCK OPTIONS AND FOUNDERS' WARRANTS GRANTED BY THE COMPANY, EXERCISED OR HELD DURING THE FISCAL YEAR ENDED DECEMBER 31, 2005

17.2.1 Stock options and founders' warrants granted during the year

The Company did not grant any founders' warrants during 2005. However, the Board of Directors used the authorization given at the Shareholders' Meeting on December 12, 2003 to set up a stock option plan, with two separate exercise dates. At December 31, 2005, the following plans were in effect:

	Grant date	Exercise price	Exercise date	Number of shares to be issued on exercise of options ²⁰
<i>January 20, 2004 plan</i> .	January 20, 2004	€16.30	January 19, 2008	444,132
<i>December 20, 2005 plan</i>	December 20, 2005	€48.44	December 19, 2009	270,758
<i>December 20, 2005 plan</i>	December 20, 2005	€48.44	December 19, 2010	270,757

17.2.2 Stock options and founders' warrants exercised during the year

240,000 founders' warrants granted in 2001 were exercised on March 15, 2005 for 104,010 new shares at €2.97 per share.

59,531 founders' warrants granted in 2002 were exercised on March 15, 2005 for 595,310 new shares at €4.67 per share.

At April 1, 2005, there were no outstanding founders' warrants issued by the Company.

17.2.3 Stock options held

The following table sets out the main characteristics of the stock options granted to the ten employees of the Group (other than senior managers) who hold the largest number of options.

	Number of options	Exercise period ²¹	New shares to be issued on exercise of options	Exercise price (in €)
<i>January 20, 2004 plan</i> The ten Group employees granted the highest number of options	270,643	from Jan. 20, 2008 to Jan. 19, 2014	270,643	16.30
<i>December 20, 2005</i> The ten Group employees granted the highest number of options	20,164	From Dec. 20, 2009 to Dec. 19, 2015	20,164	48.44
<i>December 20, 2005 plan</i> The ten Group employees granted the highest number of options	20,164	From Dec. 20, 2010 to Dec. 19, 2015	20,164	48.44

20 Total including options granted to senior managers and other employees

21 Except if the beneficiary leaves the Company.

17.3 FOUNDERS' WARRANTS ISSUED BY FREE

Free, a 100%-owned subsidiary of Iliad, issued founders' warrants ("Free Founders' Warrants") to 14 of its employees. The Company made an offer to the holders of these warrants to buy the Free shares issued upon their exercise, representing a maximum of 1,623,000 shares making up 2% of Free's capital and voting rights, every six months beginning June 30, 2004. All of the warrant holders accepted the Company's offer to buy their Free shares.

Eleven holders of Free Founders' Warrants exercised 501,000 warrants in 2005 for the same number of new Free shares.

The total price paid by the holders of the 501,000 warrants amounted to €485,970. Out of the 501,000 Free shares issued on exercise of the warrants, 287,000 were sold to the Company as follows:

- title of the 287,200 Free shares was transferred to the Company during the second half of 2005;
- the Company paid the purchase price for the 287,200 Free shares to Free's shareholders within several days of the transfer of title.

In January 2006, seven holders of Free Founders' Warrants exercised 179,900 of their warrants for the same number of new Free shares. These shares were acquired by Iliad in the first quarter of 2006.

Taking into account these transactions, at March 31, 2006, 226,900 Free Founders' Warrants remained outstanding.

17.4 EMPLOYEE PROFIT-SHARING

Not applicable.

CHAPTER 18

MAJOR SHAREHOLDERS

18.1 IDENTIFICATION OF SHAREHOLDERS

18.1.1 Shareholding structure

At March 31, 2006, the Company's capital and voting rights broke down as follows:

	Number of shares/ voting rights	%
Xavier Niel ¹	36,214,810	66.88%
Antoine Levavasseur ¹	952,590	1.76%
Rani Assaf ²	952,590	1.76%
Cyril Poidatz ¹	650,000	1.20%
Olivier Rosenfeld ¹	623,286	1.15%
Michaël Boukobza ¹	600,000	1.11%
Franck Brunel ¹	608,525	1.12%
Alain Weill ¹	55,628	0.10%
Jean-Louis Missika ³	250	0.01%
Public	13,074,958	24.15%
Total	54,151,550	100.0%

1 Senior manager and director of the Company

2 Shareholder and senior manager of the Company

3 Shareholder and director of the Company

To the best of the Company's knowledge, there are no shareholders other than those listed above who directly or indirectly hold more than 1% of the Company's capital and voting rights.

18.1.2 Movements in voting rights during the past three years

At the close of the past three fiscal years, the Company's voting rights broke down as follows (as a percentage of the total):

Shareholder	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005
Xavier Niel ¹	77.95%	69.45%	67.62%
Antoine Levavasseur ¹	2.42%	1.97%	1.76%
Rani Assaf ²	2.42%	1.78%	1.76%
Olivier Rosenfeld ¹	2.00%	1.36%	1.15%
Cyril Poidatz ¹	2.00%	1.35%	1.20%
Michaël Boukobza ¹	2.00%	1.39%	1.11%
Franck Brunel ¹	2.00%	1.37%	1.12%
Alain Weill ³	0.20%	0.16%	0.10%
Jean Louis Missika ³	—	—	0.01%
<i>Sub-total – senior managers</i>	<i>90.99%</i>	<i>78.3%</i>	<i>75.85%</i>
<i>Goldman Sachs fund</i>	<i>6.90%</i>	<i>1.75%</i>	—
AXA fund	0.65%	—	—
Employees (excluding senior managers)	1.46%	0.11%	—
Iliad SA	0.00%	0.00%	0.08%
Public	0.00%	19.31%	24.07%
Total	100%	100%	100%

1 Senior manager and director of the Company

2 Shareholder and senior manager of the Company

3 Shareholder and director of the Company

18.2 VOTING RIGHTS OF SHAREHOLDERS

At Ordinary and Extraordinary Shareholders' Meetings, each shareholder has a number of votes equal to the number of shares held, without limitation.

However, the Extraordinary Shareholders' Meeting held on December 12, 2003 decided to attribute double voting rights to all fully paid shares registered in the name of the same shareholder for at least three years as from the listing of the Company's shares on a regulated market.

In addition, in the event of a capital increase by the capitalization of reserves, earnings or premiums, or when shares are exchanged as part of a stock split or reverse stock split, the new registered shares allocated to a shareholder in respect of existing shares carrying double voting rights will also have double voting rights from the date of issue, provided that they are held as registered shares.

Any share converted into bearer form or whose ownership is transferred is stripped of double voting rights, in accordance with Article 28-1 of the Company's bylaws. However, registered shares are not stripped of voting rights and the qualifying period continues to run following the transfer of shares included in the estate of a deceased shareholder, or in connection with the settlement of the marital estate or an inter vivos gift to a spouse or relative in the direct line of succession.

Any merger or demerger of the Company would have no impact on double voting rights which can be exercised within the new company if the latter's bylaws include such a provision.

Double voting rights may only be abolished by an Extraordinary Shareholders' Meeting after prior approval by a special meeting of the shareholders holding those rights.

18.3 SHAREHOLDERS' AGREEMENTS, LOCK-UP UNDERTAKINGS AND PARTIES ACTING IN CONCERT

18.3.1 Shareholders' agreements

Not applicable.

18.3.2 Lock-up undertakings

Xavier Niel's commitment to JP Morgan Cazenove Limited to retain all his shares expired on September 22, 2005.

18.3.3 Parties acting in concert

To the best of the Company's knowledge, there are no shareholders acting in concert, other than the Company's senior managers who are also shareholders – corresponding to Xavier Niel, Rani Assaf, Franck Brunel, Antoine Levasseur, Michaël Boukobza, Cyril Poidatz, Olivier Rosenfeld and Alain Weill – who act jointly in their capacity as senior managers of the Company.

18.3.4 Double voting rights

Further to the Shareholders' Meeting held on December 12, 2003, Article 28 of the Company's bylaws provides that all fully paid shares registered in the name of the same holder for at least three years as from the date the Company's shares began trading on a regulated market (i.e. January 30, 2004) shall carry double voting rights. The shares held by the following shareholders will carry double voting rights at January 30, 2007, provided said shareholders still own their shares at that date:

Xavier Niel
Antoine Levasseur
Rani Assaf
Olivier Rosenfeld
Cyril Poidatz
Michaël Boukobza
Franck Brunel

This list only includes major shareholders.

18.3.5 Control over the Company

At the date of this registration document, Xavier Niel – the Company’s majority shareholder – held 67.62% of the Company’s capital and the same percentage of voting rights. The risk of the majority shareholder exercising his control over the Company in an abusive manner is attenuated through the application of the internal control system, as described in Section 16.4.

18.4 ARRANGEMENTS WHICH MAY RESULT IN A CHANGE IN CONTROL OF THE COMPANY

Not applicable.

CHAPTER 19

RELATED PARTY TRANSACTIONS

See section 15.3 in Note 31 to the 2005 consolidated financial statements. For relationships with subsidiaries, also see Section 7 – “Organizational structure” and the Statutory Auditors’ special report in Section 20.2 of this registration document.

CHAPTER 20

FINANCIAL INFORMATION CONCERNING THE COMPANY'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

20.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2005, 2004 AND 2003

In accordance with Article 28 of European Commission Regulation (EC) number 809/2004, the following information is incorporated by reference in this registration document:

- The consolidated financial statements of the Iliad Group and the report of the Statutory Auditors on the consolidated financial statements for the year ended December 31, 2003 as shown on pages 102 *et seq.* of the registration document filed on May 10, 2004 under number R. 04-082.
- The consolidated financial statements of the Iliad Group and the report of the Statutory Auditors on the consolidated financial statements for the year ended December 31, 2004 as shown on pages 96 *et seq.* of the registration document filed on May 24, 2005 under number R. 05-072.

CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT	109
CONSOLIDATED BALANCE SHEET (ASSETS)	110
CONSOLIDATED BALANCE SHEET (EQUITY AND LIABILITIES)	111
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	112
CONSOLIDATED CASH FLOW STATEMENT	113
NOTE 1: ACCOUNTING PRINCIPLES	114
NOTE 2: SCOPE OF CONSOLIDATION	122
NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS	123
NOTE 4: REVENUES	124
NOTE 5: PURCHASES USED IN PRODUCTION	124
NOTE 6: HUMAN RESOURCES DATA	124
NOTE 7: DEVELOPMENT COSTS	125
NOTE 8: OTHER INCOME AND EXPENSES FROM OPERATIONS, NET	125
NOTE 9: ADDITIONS TO DEPRECIATION, AMORTIZATION AND PROVISIONS	126
NOTE 10: OTHER OPERATING INCOME AND EXPENSE, NET	126
NOTE 11: FINANCIAL INCOME AND EXPENSE	127
NOTE 12: CORPORATE INCOME TAX	127
NOTE 13: RESULT OF DIVESTED AND DISCONTINUED OPERATIONS	130
NOTE 14: BASIC AND DILUTED EARNINGS PER SHARE	130
NOTE 15: NOTES TO THE CASH FLOW STATEMENT	131
NOTE 16: SEGMENT REPORTING	133
NOTE 17: GOODWILL	135
NOTE 18: OTHER INTANGIBLE ASSETS	137
NOTE 19: IMPAIRMENT TESTS ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES	137
NOTE 20: PROPERTY, PLANT AND EQUIPMENT	138
NOTE 21: OTHER FINANCIAL ASSETS	140
NOTE 22: INVENTORIES	141
NOTE 23: TRADE AND OTHER RECEIVABLES AND OTHER NON-CURRENT ASSETS	142
NOTE 24: CASH AND CASH EQUIVALENTS	142
NOTE 25: EQUITY	142
NOTE 26: STOCK OPTION PLANS	144
NOTE 27: PROVISIONS	146
NOTE 28: FINANCIAL LIABILITIES	148
NOTE 29: TRADE AND OTHER PAYABLES AND OTHER NON-CURRENT LIABILITIES	150
NOTE 30: NON-CANCELABLE LEASE COMMITMENTS	150
NOTE 31: RELATED-PARTY TRANSACTIONS	151
NOTE 32: EXPOSURE TO EXCHANGE-RATE AND INTEREST-RATE RISKS	152
NOTE 33: COMMITMENTS AND CONTINGENCIES	153
NOTE 34: SUBSEQUENT EVENTS	154
NOTE 35: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2005	155
NOTE 36: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2004	156
NOTE 37: CHANGES IN SCOPE OF CONSOLIDATION AND PERCENTAGE CONTROL IN 2005 ..	157
NOTE 38: TRANSITION TO IFRS	158

CONSOLIDATED INCOME STATEMENT

(in € thousands)	Note	2005	2004
Revenues	4	724,201	491,446
Purchases used in production	5	(385,886)	(281,354)
Payroll costs	6	(29,811)	(21,756)
External charges		(59,940)	(65,550)
Taxes other than on income		(5,530)	(3,117)
Additions to provisions	9	(4,463)	(3,068)
Change in work-in-progress and finished products inventories .		0	2,511
Other income and expenses from operations, net	8	(14,258)	(6,294)
Earnings before interest, tax, depreciation and amortization (EBITDA)		224,313	112,818
Depreciation and amortization	9	(116,627)	(57,152)
Profit from ordinary activities		107,686	55,666
Other operating income and expense, net	10	0	2,556
Operating profit		107,686	58,222
Income from cash and cash equivalents	11	499	918
Finance costs, gross	11	(1,686)	(972)
Finance costs, net	11	(1,187)	(54)
Other financial income and expense, net	11	(1,608)	2,731
Corporate income tax	12	(36,371)	(20,181)
Profit for the period before results of discontinued operations/operations held for sale	13	68,520	40,718
Profit for the period, net of taxes, from discontinued operations/operations held for sale		378	0
PROFIT FOR THE PERIOD		68,898	40,718
• <i>Attributable to equity holders of the parent</i>		68,902	40,717
• <i>Minority interests</i>		(4)	1
• Basic earnings per share for continuing operations (in €) . .	14	1.27	0.76
• Diluted earnings per share for continuing operations (in €) .	14	1.25	0.75
• Basic earnings per share for discontinued operations (in €) .	14	0.01	/
• Diluted earnings per share for discontinued operations (in €) .	14	0.01	/
• Basic earnings per share (in €)	14	1.28	0.76
• Diluted earnings per share (in €)	14	1.26	0.75

CONSOLIDATED BALANCE SHEET (ASSETS)

(in € thousands)		At December 31, 2005	At December 31, 2004
Goodwill	17	60,504	4,460
Intangible assets	18	1,326	975
Property, plant and equipment	20	357,244	267,649
Other long-term financial assets	21	4,639	5,071
Deferred income tax assets	12	2,232	5,280
Other non-current assets	23	0	66
TOTAL NON-CURRENT ASSETS		425,945	283,501
Inventories	22	5,965	10,086
Trade and other receivables	23	100,455	102,412
Other short-term financial assets	21	329	295
Cash and cash equivalents	24	51,089	30,485
TOTAL CURRENT ASSETS		157,838	143,278
TOTAL ASSETS		583,783	426,779

CONSOLIDATED BALANCE SHEET (EQUITY AND LIABILITIES)

(in € thousands)		At December 31, 2005	At December 31, 2004
Share capital	25	12,000	10,000
Additional paid-in capital		86,722	83,763
Retained earnings and other reserves	25	149,853	84,714
TOTAL EQUITY		248,575	178,477
• <i>Attributable to equity holders of the parent</i>		<i>248,574</i>	<i>178,476</i>
• <i>Minority interests</i>		<i>1</i>	<i>1</i>
Long-term provisions	27	595	540
Long-term financial liabilities	28	66,023	5,245
Deferred income tax liabilities		746	0
Other non-current liabilities	29	9,798	5,131
NON-CURRENT LIABILITIES		77,162	10,916
Short-term provisions	27	738	952
Taxes payable		22,352	6,258
Trade and other payables	29	211,379	206,065
Short-term financial liabilities	28	23,577	24,111
CURRENT LIABILITIES		258,046	237,386
TOTAL EQUITY AND LIABILITIES		583,783	426,779

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, 2004	1,000	1,126	0	100	53,014	55,240
<u>Movements in 2004</u>						
• Issuance of shares	9,000	85,997				94,997
• Share issuance costs		(3,360)				(3,360)
• Dividends paid					(9,354)	(9,354)
• Profit for the period					40,718	40,718
• Impact of own shares held			(39)			(39)
• Impact of stock options				275		275
At December 31, 2004	10,000	83,763	(39)	375	84,378	178,477
<u>Movements in 2005</u>						
• Issuance of shares	2,000	2,959		900	(2,770)	3,089
• Share issuance costs						
• Dividends paid					(2,165)	(2,165)
• Profit for the period					68,898	68,898
• Impact of own shares held			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

Note: Minority interests have not been analyzed as they represent a non-material amount of less than €1,000.

CONSOLIDATED CASH FLOW STATEMENT

(in € thousands)	Note	2005	2004
Profit for the period (including minority interests)		68,898	40,718
+/- Depreciation, amortization and provisions (excluding provisions against current assets)	9	116,557	51,118
-/+ Unrealized gains and losses on changes in fair value		0	0
+/- Income and expenses related to stock options and other share-based payments		318	275
-/+ Other income and expenses, net		0	(15)
-/+ Gains and losses on disposals of assets		(6,471)	(649)
-/+ Gains and losses from dilution		0	0
+/- Income from companies accounted for by the equity method		0	0
- Dividends (investments in non-consolidated undertakings)		0	0
Cash flows from operations after finance costs, net, and income tax		179,302	91,447
+ Finance costs, net	11	1,188	54
+/- Income tax expense (including deferred taxes)	12	36,371	20,514
Cash flows from operations before finance costs, net, and income tax (A)		216,861	112,015
- Income tax paid (B)		(16,360)	(6,261)
+/- Change in operating working capital requirement (including employee benefit obligations) (C)	15	25,316	(5,928)
= NET CASH GENERATED FROM OPERATING ACTIVITIES (D) = (A + B + C)		225,817	99,826
- Acquisitions of property, plant and equipment and intangible assets	15	(217,713)	(172,905)
+ Disposals of property, plant and equipment and intangible assets		10,030	6,259
- 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		(54,806)	(1,739)
+/- Effect of changes in Group structure – disposals		(16)	
+ Dividends received from companies accounted for by the equity method and non-consolidated undertakings		0	0
+/- Change in outstanding loans and advances		300	(133)
+ Investment grants received		0	0
+/- Other		0	0
= NET CASH USED IN INVESTING ACTIVITIES (E)		(262,205)	(168,518)
+ Proceeds from capital increases:			
• Paid by shareholders of the parent company		0	91,637
• Paid by minority shareholders of consolidated companies		4	0
+ Proceeds received on the exercise of stock options		3,089	(40)
-/+ Own-share transactions		10	0
- Dividends paid during the year:			
• Dividends paid to parent company shareholders		(2,166)	(9,354)
• Dividends paid to minority shareholders of consolidated companies		0	0
+ Proceeds from new borrowings	28	71,287	15,038
- Repayment of borrowings (including finance leases)	28	(8,325)	(16,115)
- Net interest paid (including on finance leases)	11	(1,188)	(54)
= NET CASH GENERATED FROM FINANCING ACTIVITIES (F)		62,711	81,112
+/- Effect of exchange-rate movements on cash and cash equivalents (G)		0	0
= NET CHANGE IN CASH AND CASH EQUIVALENTS (D + E + F + G)		26,323	12,420
Cash and cash equivalents at beginning of year	15	23,093	10,673
Cash and cash equivalents at end of year	15	49,416	23,093

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 Company's registered office is located at 8 rue de la Ville l'Evêque, 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 Kertel (specialized in prepaid telephone cards).

The Board of Directors approved the consolidated financial statements for the year ended December 31, 2005 on March 10, 2006 and authorized their publication on March 15, 2006. 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. They have been prepared under the historical cost convention.

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 Company'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 2005:

- IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities* (effective from September 1, 2004)
- IFRIC 2, *Members' Shares in Co-operative Entities and Similar Instruments* (effective from January 1, 2005)
- SIC 12 (Amendment), *Consolidation – Special Purpose Entities* (effective from January 1, 2005)
- IAS 39 (Amendment), *Transition and Initial Recognition of Financial Assets and Financial Liabilities* (effective from January 1, 2005).

Management assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded that they are not relevant to the Group.

Accounting options and exemptions selected by the Iliad Group

IFRS 1, *First-time Adoption of International Financial Reporting Standards* provides for a number of optional exemptions to retrospective application of the new standards. The Group has elected not to apply any of these exemptions and has therefore applied IFRS retrospectively at the transition date (see paragraph 2-1 of the Group's IFRS Transition Document which is set out in Note 38).

Some standards issued by the International Accounting Standards Board (IASB) permit alternative accounting treatments in relation to the recognition and measurement of certain assets and liabilities. The Iliad Group has elected:

- To continue to apply the first-in first-out (FIFO) method for the recognition of inventories.

- To apply the cost model for the measurement of property, plant and equipment and intangible assets and therefore not to revalue said assets at each balance sheet date.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after January 1, 2006 or later periods but which the Group has not early adopted, as follows:

- *IAS 19 (Amendment), Employee Benefits* (effective from January 1, 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses and adds new disclosure requirements. As this alternative approach and the new disclosure requirements do not concern the Group, the application of this amendment would have had no impact on the consolidated financial statements for 2004 and 2005. The Group will apply this amendment from annual periods beginning January 1, 2006.
- *IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions* (effective from January 1, 2006). This amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements subject to certain conditions. The amendment is not relevant to Iliad's operations as the Group did not have any material intragroup transactions that would qualify as a hedged item in the consolidated financial statements at December 31, 2005 or 2004.
- *IAS 39 (Amendment), The Fair Value Option* (effective from January 1, 2006). 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. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Group will apply this amendment from annual periods beginning January 1, 2006.
- *IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts* (effective from January 1, 2006). This amendment requires issued financial guarantees, other than those previously asserted by the Group to be insurance contracts, to be initially recognized at their 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* (effective from January 1, 2006). These amendments are not relevant to Iliad's operations as the Group does not carry out exploration for and evaluation of mineral resources.
- *IFRS 6 (Amendment), Exploration for and Evaluation of Mineral resources* (effective January 1, 2006). IFRS 6 is not relevant to the Group's operations.
- *IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures* (effective from January 1, 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning January 1, 2007.
- *IFRIC 4, Determining whether an Arrangement contains a Lease* (effective from January 1, 2006). 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) fulfilment 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. Management is currently assessing the impact of IFRIC 4 on the Group's operations.
- *IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from January 1, 2006). IFRS 5 is not relevant to the Group's operations.

- *IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* (effective from December 1, 2005). IFRS 6 is not relevant to the Group's operations.

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 of 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.

Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of at least 20% of the voting rights.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting from the date that the Group's significant influence is identified and deconsolidated when the significant influence ceases.

Joint ventures

Joint ventures are entities that are jointly controlled by the Group. They are accounted for in the consolidated financial statements using the proportionate method, from the date on which joint control is transferred to the Group. They are deconsolidated from the date that joint control ceases.

Eliminations on consolidation

Intragroup balances, transactions and unrealized gains on transactions between Group companies are eliminated in the consolidated financial statements. Unrealized losses resulting from intragroup transactions are also eliminated unless the transaction provides evidence of an impairment 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 and are deducted from the related investment. 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 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

The Group's functional currency is the euro. 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 closing rate prevailing at the balance sheet date. 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
- The results of discontinued operations and/or operations held for sale.

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 Group has presented EBITDA on a separate line. This item corresponds to profit from ordinary activities before amortization and depreciation (or provisions) recorded in relation to property, plant and equipment and intangible assets.

1.5. Summary of significant accounting policies

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 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".

EBITDA

This financial indicator corresponds to profit from ordinary activities before amortization and depreciation (or provisions) recorded in relation to property, plant and equipment and intangible assets.

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. They 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, when known. Where the estimated period of use is not known, impairment tests are carried out.
- 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 recorded on the balance sheet 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 amortized over the term of use of these fibers, 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:

- The assets acquired are recorded in the balance sheet at their value at the inception of the lease or at the fair value of minimum lease payments for contracts in progress when a subsidiary is consolidated for the first time. They are depreciated over their probable useful lives.
- The related obligation is recorded under debt, based on the lease terms.
- Lease payments are allocated between the repayment of the obligation and the financial expense.

Impairment of assets

Impairment tests are carried out at each balance sheet date for all assets other than inventories, deferred tax assets, and assets relating to employee benefits. For the purpose of assessing impairment, goodwill arising on business combinations is allocated to the cash-generating units which are expected to obtain the benefits of the synergies of the combination. Where impairment of an asset is identified, the recoverable amount is calculated for the asset or cash-generating unit to which the asset belongs.

The recoverable amount of intangible assets which are not available for use is systematically estimated at each balance sheet date.

An impairment loss is recognized when the carrying amount of the asset or cash-generating unit exceeds its recoverable amount. Impairment losses are recorded in the income statement and are allocated in priority against goodwill.

Determining recoverable amount:

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value-in-use calculations are based on discounted future cash flows, before tax and financing operations, using financial budgets approved by management covering a maximum of five years. The discount rate used is a pre-tax rate that reflects the risks specific to the asset concerned.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The recoverable amount of receivables and investments in held-to-maturity securities is calculated as the present value of the expected future cash flows, discounted at the original effective interest rate inherent in the asset.

Cash flows on short-term receivables are not discounted.

Reversals of impairment losses:

An impairment loss recognized in prior years for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. However, the increased carrying amount of an asset due to a reversal of an impairment loss may not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. An impairment loss recognized in relation to goodwill is not reversed.

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 in the balance sheet and its tax base, except for goodwill and fair value adjustments relating to unamortized intangible assets that cannot be disposed of separately from the acquired company;
- 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 include cash and short-term investments with a maturity of less than three months from the acquisition date. Short-term investments are measured at market value 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.

Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value, net of directly attributable transaction costs incurred. They are subsequently stated at amortized cost.

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, 2004 and 2005:

➤ Discount rate:	5%
➤ 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 bonus share issues to Group employees are measured at fair value at the date of grant.

Calculations of fair value 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 the 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.

The 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.

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, 2005 and in note 36 for the year ended December 31, 2004.

2.1. Changes in scope of consolidation in 2005

A table presenting changes in the scope of consolidation in 2005 is provided in note 37.

The changes during the year 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 has been fully consolidated in Iliad's 2005 financial statements. The acquisition of this company has opened up a new avenue of growth for the Group.

The key figures relating to the acquisition are summarized in the table below:

(in € thousands)	IFW
Acquisition price of shares (1)	58,266
% acquired (2)	100%
Net assets (3)	7,817
Adjusted net assets (4) (*)	4,000
Equity in adjusted net assets (5) = (2) x (4)	4,000
Goodwill (6) = (1) – (5)	54,266

(*) Currently under review

The impact of the acquisition on the Group's cash position was as follows:

(in € thousands)	
● 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. No additional payment was provided for at December 31, 2005, as the exercise of these clauses was at the seller's sole discretion.

In 2005, IFW reported an operating loss of €1,231,000, including €113,000 since 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 since November 15, 2005, the date of its acquisition by the Iliad Group.

- 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 a final price of €250,000.

2.2. Changes in scope of consolidation in 2004

The only changes in 2004 related to additional interests acquired in Free and Société.com, which were already fully consolidated in prior years.

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)	2005	2004
● Wages and salaries	21,210	15,299
● Payroll taxes	8,283	6,182
● Stock option expense	318	275
Total	29,811	21,756

Number of employees at year-end

Iliad Group employees can be analyzed as follows by category:

	At Dec. 31, 2005	At Dec. 31, 2004
● Management	111	95
● Other	1,017	657
Total	1,128	752

The increase in the number of employees is primarily due to recruitments for Iliad's call center.

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*.

Post-employment benefit obligations totaled €159,000 at December 31, 2005, compared with €122,000 at December 31, 2004.

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)	2005	2004
• Amortization of capitalized development costs	569	552
• Development costs recognized directly in the income statement	745	1,315
Total	1,314	1,867

NOTE 8: OTHER INCOME AND EXPENSES FROM OPERATIONS, NET

This item breaks down as follows:

(in € thousands)	2005	2004
• Other expenses:		
• Carrying amount of non-current assets sold	(3,688)	(7,358)
• Royalties	(14,921)	(6,844)
• Bad debts	(6,274)	(1,707)
• Other	(163)	(23)
• Other income:		
• Proceeds from sales of non-current assets	10,028	9,190
• Other	760	448
Total	(14,258)	(6,294)

Comments on 2005 data

The success of the “triple play” offering in 2005 led to a substantial increase in royalties expenses, particularly relating to television broadcasting.

Comments on 2004 data

“Royalties” primarily comprise expenses payable by the Group within the scope of its operations, including royalties relating to images and music, payments to the Universal Service Fund and costs relating to the use of various licenses.

NOTE 9: ADDITIONS TO DEPRECIATION, AMORTIZATION AND PROVISIONS

The following table shows the breakdown between the various components of depreciation, amortization and provisions:

Depreciation, amortization and provisions relating to non-current assets

(in € thousands)	2005	2004
• Depreciation and amortization expense		
• Intangible assets	872	807
• Property, plant and equipment	113,773	56,186
• Other assets	0	0
• Provisions for impairment in value of non-current assets		
• Goodwill	0	0
• Intangible assets	0	0
• Property, plant and equipment	1,982	159
• Other assets	0	0
Total	116,627	57,152

Additions to other provisions:

(in € thousands)	2005	2004
• Provisions for contingencies and charges	103	(2,359)
• Provisions for impairment in value of current assets	4,360	5,427
Total	4,463	3,068

Comments on 2005 data

The increase in depreciation and amortization relating to non-current assets reflects the major capital expenditure incurred by the Group over the past few years.

Comments on 2004 data

No specific comments are required in relation to 2004 data.

NOTE 10: OTHER OPERATING INCOME AND EXPENSE, NET

This item breaks down as follows:

(in € thousands)	2005	2004
• Adjustment of One.Tel's bankruptcy debts	0	2,556
Total	0	2,556

Comments on 2004 data

In 2004, a dispute was settled favorably for the Group in relation to an aged debt concerning the liabilities of One Tel incurred prior to its bankruptcy filing, and for which a debt repayment plan is in progress.

As this was a material and unusual amount, the Group decided to present it under “Other operating income and expense, net” in order to facilitate year-on-year comparisons.

NOTE 11: FINANCIAL INCOME AND EXPENSE

Financial income and expense can be analyzed as follows:

(in € thousands)	2005	2004
• Income from cash and cash equivalents	499	918
• Finance costs, gross	(1,686)	(972)
Finance costs, net	(1,187)	(54)
• Other financial income and expense		
• Translation adjustments	(1,660)	2,465
• Other	52	266
Net financial (expense)/income	(2,795)	2,677

Income from cash and cash equivalents corresponds to income from short-term investments.

Finance costs, gross comprises interest on borrowings and finance leases.

Other financial income and expense primarily represents translation adjustments.

NOTE 12: CORPORATE INCOME TAX

Analysis of the corporate income tax charge

The corporate income tax charge breaks down as follows:

(in € thousands)	2005	2004
• Current tax charge	32,578	11,741
• Deferred tax charge	3,793	8,440
Total tax charge	36,371	20,181

Tax group

The Iliad Group has set up a tax group, which in 2005 included all consolidated companies except Assunet, Total Call, IFW and Dedibox.

Tax proof

The table below reconciles:

- on the one hand, the Group's theoretical tax charge calculated by applying the income tax rate in effect for the year to consolidated pre-tax profit,

➤ on the other hand, the actual tax charge recorded in the consolidated income statement.

(in € thousands)	2005		2004	
	in € thousands	%	in € thousands	%
Consolidated pre-tax profit	105,269		60,899	
Theoretical tax rate for the parent company		34.93		35.43
Theoretical tax charge	36,770	34.93	21,576	35.43
• Net impact of permanent differences	74	0.07	13	0.02
• Impact of loss-making companies outside the tax group	120	0.11	(838)	(1.38)
• Impact of unrecognized tax assets	0	0	(55)	(0.09)
• Impact of tax credits	(478)	(0.45)	(255)	(0.42)
• Impact of changes in tax rates	(53)	(0.05)	(126)	(0.21)
• Other	(62)	(0.06)	(134)	(0.22)
Effective tax and tax rate	36,371	34.55	20,181	33.13

Deferred taxes

Movements in deferred taxes in 2005 can be analyzed as follows:

Type of movement	Value of DT assets/ (liabilities) at Jan. 1, 2005	+	–	Changes in Group structure	Currency translation	Other ¹	Value of DT assets/ (liabilities) at Dec. 31, 2005	
		Credits	(Charges)					
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	0	0	
Total	5,280	1,472	5,265	(1)	0	0	1,486	
DT assets at Jan. 1, 2005	5,280						DT assets at Dec. 31, 2005	2,232
DT liabilities at Jan. 1, 2005	0						DT liabilities at Dec. 31, 2005	746
Net DT assets at Jan. 1, 2005	5,280						Net DT assets at Dec. 31, 2005	1,486

Movements in deferred taxes in 2004 can be analyzed as follows:

Type of movement	Value of DT assets/ (liabilities) at Jan. 1, 2004	+	–	Changes in Group structure	Currency translation	Other ¹	Value of DT assets/ (liabilities) at Dec. 31, 2004
		Credits	(Charges)				
Recognition of deferred tax assets arising from tax loss carryforwards	11,777	0	9,411	0	0	1,148	3,514
Consolidation entries	(729)	2,429	703	0	0	0	997
Temporary differences	1,525	561	1,317	0	0	0	769
Other	0	0	0	0	0	0	0
Total	12,573	2,990	11,431	0	0	1,148	5,280
DT assets at Jan. 1, 2004	13,080			DT assets at Dec. 31, 2004			5,280
DT liabilities at Jan. 1, 2004	507			DT liabilities at Dec. 31, 2004			0
Net DT assets at Jan. 1, 2004	12,573			Net DT assets at Dec. 31, 2004			5,280

¹ Other movements reflect the recognition of deferred tax assets relating to Kertel's tax loss carryforwards in an amount of €1,148,000 (see Note 17).

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, 2005	At Dec. 31, 2004
• Temporary differences	0	0
• Tax loss carryforwards	1,819	180
Total	1,819	180

NOTE 13: RESULT OF DIVESTED AND DISCONTINUED OPERATIONS

On October 1, 2005, the Iliad Group sold its stake in Endeis Telecom. The net of tax result of divested and discontinued operations in 2005 can be analyzed as follows:

• Profit/(loss) for the period from discontinued operations	(165,000)
• Net proceeds from divested operations	543,000
Net tax result of divested and discontinued operations	378,000

Net proceeds from divested operations break down as follows:

• Pre-tax proceeds from divested operations	543,000
• Selling expenses	0
• Divestment-related tax	0
Net proceeds from divested operations	543,000

Profit/(loss) for the period from discontinued operations represents the loss recorded by Endeis Telecom between January 1, 2005 and September 30, 2005, which breaks down as follows.

(in € thousands)	9 months ended September 30, 2005	
	Amount for the period	Attributable to the Iliad Group
Revenues	4,936	2,468
Profit/(loss) from ordinary activities	(834)	(417)
Operating profit/(loss)	(502)	(251)
PROFIT/(LOSS) FOR THE PERIOD	(330)	(165)

NOTE 14: BASIC AND DILUTED EARNINGS PER SHARE**Basic earnings per share**

Number of shares used for calculation	2005	2004
• Number of shares at the year-end	54,151,550	53,452,230
• Weighted average number of shares	54,006,411	52,652,589

Diluted earnings per share

Number of shares used for calculation	2005	2004
• Weighted average number of shares outstanding (see above)	54,006,411	52,652,589
• Number of share equivalents:		
• Founders' share subscription warrants (BSPCEs)	141,780	699,320
• Stock options	460,452	446,794
Maximum weighted average number of shares after dilution	54,608,643	53,798,703

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 related to 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:

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
● Trade receivables, net of customer prepayments	23	53,696	8,529		(372)		61,853
● Other net 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			

2004	Note	Balance at Jan. 1, 2004	Net debits	Net credits	Changes in Group structure	Other	Balance at Dec. 31, 2004
● Net inventories	22	4,134	5,952				10,086
● Trade receivables, net of customer prepayments	22	38,011	15,685				53,696
● Other net receivables	23	30,051	18,731				48,782
● Supplier payables	29	74,022		22,312			96,334
● Other liabilities		35,765		12,128			47,893
TOTAL		(37,591)	40,368	34,440			(31,663)
Change in operating working capital requirement in 2004				(5,928)			

Other liabilities

This item can be analyzed as follows:

	Note	Dec. 31, 2005	Dec. 31, 2004
Total trade and other payables	29	221,177	211,196
• Suppliers of goods and services (incl. VAT)	29	(108,833)	(96,334)
• Suppliers of fixed assets (excl. VAT)		(56,660)	(67,098)
• Other items with no impact on working capital requirements		(49)	129
Recognized in cash flow statement		55,635	47,893

Acquisitions of non-current assets

Acquisitions of non-current assets can be analyzed as follows:

	Note	2005	2004
• Intangible assets	18	1,075	661
• Property, plant and equipment	20	206,200	211,347
• Suppliers of fixed assets (excl. VAT)			
– at beginning of year		67,098	27,995
– at year-end		(56,660)	(67,098)
Recognized in cash flow statement		217,713	172,905

Cash and cash equivalents

	Note	Cash and cash equivalents at Dec. 31, 2005	Cash and cash equivalents at Dec. 31, 2004
Cash	24	35,584	28,373
Marketable securities	24	15,505	2,112
Short-term borrowings	28	(1,673)	(7,392)
Total		49,416	23,093

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)	2005	2004
• Acquisitions of assets under finance leases	2,997	2,848
• 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 the Group's operations are in France, presenting data by geographic region (secondary reporting format) would not be significant.

Identifying business segments

The Iliad Group defines a business segment as products, services or business lines that are subject to the same risks and returns, different from those of other business segments. The Group's operations are made up of three business segments:

- The **Internet** segment, which includes Internet service provider operations (under Free and related brands) and hosting services (the Online and BookMyName brands).
- The **Telephony** segment, which includes fixed-line telephony (One.Tel and Iliad Telecom), prepaid phone cards (Kertel) and resale of minutes to operators (Kedra).
- **Other Services**, which include directory services (mainly the ANNU reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging) and e-commerce operations (Société.com and Assunet.com).

Analysis of the consolidated income statement by business segment

2005	Internet	Telephony	Other	Inter-segment	Total
Revenues					
External revenues	578,114	136,022	10,065		724,201
Inter-segment revenues	60,809	26,228	9,606	(96,643)	0
Total revenues	638,923	162,250	19,671	(96,643)	724,201
Earnings					
EBITDA	199,547	24,858	(92)	0	224,313
Depreciation and amortization . .	115,472	904	251	0	116,627
Profit/(loss) from ordinary activities	84,075	23,954	(343)	0	107,686
Number of employees at year-end	1,053	39	36	0	1,128
2004	Internet	Telephony	Other	Inter-segment	Total
Revenues					
External revenues	330,767	147,304	13,375		491,446
Inter-segment revenues	63,285	15,672	10,777	(89,734)	0
Total revenues	394,052	162,976	24,152	(89,734)	491,446
Earnings					
EBITDA	85,039	25,491	2,288	0	112,818
Depreciation and amortization . .	55,092	1,800	260	0	57,152
Profit from ordinary activities . .	29,947	23,691	2,028	0	55,666
Number of employees at year-end	667	47	38	0	752

Capital expenditure by business segment

2005	Internet	Telephony	Other	Inter-segment	Total
Intangible assets	998	57	20	0	1,075
Property, plant and equipment . .	217,385	912	71	0	218,368

2004	Internet	Telephony	Other	Inter-segment	Total
Intangible assets	654	3	4	0	661
Property, plant and equipment . .	174,057	897	138	0	175,092

Analysis of consolidated assets by business segment

At December 31, 2005	Internet	Telephony	Other	Total
Non-current assets (excluding deferred taxes) .	416,789	4,503	2,421	423,713
Current assets	101,082	31,743	25,013	157,838
Inventories	4,902	1,063	0	5,965
Trade and other receivables	67,257	29,795	3,403	100,455
Other short-term financial assets	329	0	0	329
Cash and cash equivalents	28,594	885	21,610	51,089

At December 31, 2004	Internet	Telephony	Other	Total
Non-current assets (excluding deferred taxes) .	270,963	4,469	2,789	278,221
Current assets	79,650	31,986	31,642	143,278
Inventories	9,164	922	0	10,086
Trade and other receivables	67,009	29,243	6,160	102,412
Other short-term financial assets	295	0	0	295
Cash and cash equivalents	3,182	1,821	25,482	30,485

Analysis of consolidated equity and liabilities by business segment

At December 31, 2005	Internet	Telephony	Other	Total
Non-current liabilities (excluding deferred taxes)	12,185	2,752	61,479	76,416
Long-term provisions	88	39	468	595
Long-term financial liabilities	4,997	15	61,011	66,023
Other non-current liabilities	7,100	2,698	0	9,798
Current liabilities (excluding deferred taxes) . .	182,793	32,422	20,479	235,694
Short-term provisions	375	361	2	738
Trade and other payables	175,240	31,935	4,204	211,379
Short-term financial liabilities	7,178	126	16,273	23,577

At December 31, 2004	Internet	Telephony	Other	Total
Non-current liabilities (excluding deferred taxes)	7,159	3,348	409	10,916
Long-term provisions	99	32	409	540
Long-term financial liabilities	5,245	0	0	5,245
Other non-current liabilities	1,815	3,316	0	5,131
Current liabilities (excluding deferred taxes) . .	180,203	27,981	22,944	231,128
Short-term provisions	508	432	12	952
Trade and other payables	169,843	25,969	10,253	206,065
Short-term financial liabilities	9,852	1,580	12,679	24,111

NOTE 17: GOODWILL

Goodwill breaks down as follows:

(in € thousands)	At December 31, 2005			At Dec. 31, 2004
	Gross	Impairment	Net	Net
FREE	2,676	0	2,676	1,739
KERTEL	2,721	0	2,721	2,721
FREEBOX	841	0	841	0
IFW(*)	54,266	0	54,266	
Total	60,504	0	60,504	4,460

The main movements can be analyzed as follows:

(in € thousands)	2005	2004
Net amount at Jan. 1	4,460	3,869
Increase following acquisitions:		
– KERTEL	0	(1,148)
– FREE	937	1,739
– FREEBOX	841	0
– IFW(*)	54,266	0
Net amount at Dec. 31	60,504	4,460

(*) currently being analyzed

Changes in 2005

➤ FREE

In 2004 and 2005, Free, a wholly-owned Iliad subsidiary, issued shares further to the exercise of founders' share subscription warrants granted in prior years to certain employees. As Iliad wished to retain exclusive ownership of Free, the Company purchased these newly issued shares from the beneficiaries of the warrants exercised.

Total goodwill of €1,739,000 and €937,000 was recorded in the consolidated balance sheets in relation to these share purchases in 2004 and 2005 respectively.

➤ FREEBOX

In 2005, the Group bought out several minority interests, recording €841,000 in related goodwill.

➤ IFW

The fair value of IFW's identifiable assets, liabilities and contingent liabilities – notably the Wimax 3.5 GHz license for France – 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.

Changes in 2004

➤ KERTEL

All deferred taxes relating to Kertel's tax loss carryforwards were recognized in 2004, due to the turnaround of Kertel's business. The amount of deferred taxes thus recognized amounted to €1,148,000.

This change of accounting estimate was made during the 12-month period allowed under French GAAP for value adjustments. As the initial amount of goodwill recorded was positive, the change led to a reduction in goodwill.

NOTE 18: OTHER INTANGIBLE ASSETS

Other intangible assets break down as follows:

(in € thousands)	At December 31, 2005			At December 31, 2004		
	Gross	Amortization	Net	Gross	Amortization	Net
Acquisitions						
– Development costs	77	8	69	0	0	0
– Other	1,001	678	323	830	452	378
Internally-generated intangible assets						
– Development costs	1,542	608	934	1,626	1,029	597
– Other	0	0	0	0	0	0
Total	2,620	1,294	1,326	2,456	1,481	975

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)	2005	2004
Net amount at Jan. 1	975	1,121
Acquisitions	176	18
Internally-generated intangible assets	899	643
Disposals	0	0
Impact of changes in Group structure	0	0
Amortization	(872)	(807)
Translation adjustments	0	0
Reclassifications	148	0
Net amount at Dec. 31	1,326	975

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 and Freebox was allocated to the Internet CGU, to which IFW goodwill will also be allocated once the analysis that is currently in process is completed. Total goodwill for this CGU amounted to €57,783,000.
- Goodwill relating to Kertel was allocated to the 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.

NOTE 20: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment can be analyzed as follows:

(in € thousands)	At December 31, 2005			At December 31, 2004		
	Gross	Depreciation	Net	Gross	Depreciation	Net
Land and buildings	963	299	664	963	268	695
Network usage rights	104,294	6,073	98,221	72,368	3,068	69,300
Service access fees	142,449	42,423	100,026	88,267	16,706	71,561
Network equipment ¹	218,614	69,563	149,051	159,292	40,365	118,927
Other	14,775	5,493	9,282	11,213	4,047	7,166
Total	481,095	123,851	357,244	332,103	64,454	267,649
1 of which finance leases . . .	12,446	7,664	4,782	9,449	5,253	4,196

The Iliad Group had not pledged any of its property, plant and equipment as security for borrowings at December 31, 2005.

Changes in net property, plant and equipment can be analyzed as follows:

(in € thousands)	At December 31, 2005	At December 31, 2004
Net amount at Jan. 1	267,649	117,724
Acquisitions (*)	209,197	214,195
Disposals	(3,688)	(7,925)
Impact of changes in Group structure	(11)	0
Depreciation	(115,755)	(56,345)
Translation adjustments	0	
Reclassifications	(148)	0
Net amount at Dec. 31	357,244	267,649
(*) excluding assets acquired under finance leases	206,200	211,347

In 2004 and 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 has 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 has 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 for option 1 and option 5.

At December 31, 2005, the Iliad Group had replaced all of the older-version Freebox DSLAMs.

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.

Comments on 2004 data

In 2004, the Iliad Group entered into 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,
- obtaining an option to extend the term of the IRU agreements entered into with the Neuf Telecom Group up to December 31, 2030.

The amortization periods of the IRUs were altered accordingly.

Also in 2004, the Group's R&D team designed a new version of the Freebox DSLAM including innovative technological features. The Group began installing these new Freebox DSLAMs at France Telecom sites as of July 1, 2004 and in order to provide consistent service quality to all of its subscribers, decided to gradually replace older-version Freebox DSLAMs over a period of 18 months, up to December 31, 2005.

As a result, accelerated depreciation is being applied to the older-version DSLAMs for an 18-month period from July 1, 2004. The depreciation period for the new-version Freebox DSLAMs has been set at three years.

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, 2005	At December 31, 2004
Land and buildings	0	0
Network usage rights	6,183	28,838
Service access fees	0	0
Network equipment	8,434	12,764
Other	0	0
Total	14,617	41,602

NOTE 21: OTHER FINANCIAL ASSETS

Other financial assets break down as follows:

(in € thousands)	At December 31, 2005 Net	At December 31, 2004 Net
Other long-term financial assets		
Loans	2,643	2,952
Other investment securities	598	691
Guarantee deposits	1,398	1,378
Other	0	50
Total other long-term financial assets	4,639	5,071
Other short-term financial assets		
Loans	310	295
Other	19	0
Total other short-term financial assets	329	295
Total other financial assets	4,968	5,366

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, 2005 Net	At December 31, 2004 Net
Financial assets at fair value through profit or loss	598	691
Held-for-trading investments	0	0
Held-to-maturity investments	0	0
Loans and receivables issued by the Group	4,351	4,625
Available-for-sale financial assets	19	50
Total other financial assets	4,968	5,366

Comments on 2005 data

No specific comments are required in relation to 2005 data.

Comments on 2004 data

In 2004, the Group granted a nine-year interest-bearing seller's credit to the purchaser of an office building.

Changes in net other financial assets can be analyzed as follows:

(in € thousands)	At December 31, 2005	At December 31, 2004
Net amount at Jan. 1	5,366	1,630
Acquisitions	61	3,379
Redemptions	(362)	(317)
Impact of changes in Group structure	(9)	0
Additions to provisions	(88)	674
Translation adjustments	0	0
Impact of changes in fair value	0	0
Net amount at Dec. 31	4,968	5,366

NOTE 22: INVENTORIES

Inventories break down as follows:

(in € thousands)	At December 31, 2005	At December 31, 2004
Raw materials	3,783	6,798
Work-in-progress	1,344	2,548
Finished products	974	1,128
Inventories – gross	6,101	10,474
Provisions	(136)	(388)
Inventories – net	5,965	10,086

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 AND OTHER NON-CURRENT ASSETS

These items break down as follows:

(in € thousands)	At December 31, 2005	At December 31, 2004
Other non-current assets	0	66
Total other non-current assets	0	66
Trade and other receivables		
Trade receivables	70,477	61,378
Advances and prepayments	347	3,357
Tax receivables (VAT)	27,121	34,268
Other receivables	4,603	3,407
Prepaid expenses	8,536	8,904
Total – gross	111,084	111,314
Provisions for trade receivables	(8,624)	(7,682)
Provisions for other receivables	(2,005)	(1,220)
Net trade and other receivables	100,455	102,412
Net trade receivables	61,853	53,696
Net other receivables	38,602	48,782

NOTE 24: CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be analyzed as follows:

(in € thousands)	At December 31, 2005		At December 31, 2004	
	Carrying amount	Fair value	Carrying amount	Fair value
Listed securities				
Net value	0	0	0	0
Money-market mutual funds				
Net value	15,505	15,505	2,112	2,112
Cash	35,584	35,584	28,373	28,373
TOTAL, net	51,089	51,089	30,485	30,485

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**

On January 30, 2004, the shares of the Iliad Group were listed on the *Premier Marché* of Euronext Paris.

The shares offered in this flotation were 5,828,000 new shares issued by Iliad and 1,400,000 shares sold by Goldman Sachs mutual funds. The price of these shares, which were made available as part of a guaranteed private placement to institutional investors and an IPO in France, was set on January 29, 2004, at €16.30 per share, for a total placement of some €118 million. The total capital increase amounted to €94,997,000, before IPO costs, which came to €3,360,000 (net of tax).

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 Iliad shares.

At December 31, 2005, Iliad's ownership structure was as follows:

Shareholder	Number of shares	%
Executive Management	41,076,592	75.85
Public	13,074,958	24.15
Total	54,151,550	100.00

Dividends paid and dividends recommended to shareholders at the Annual General Meeting

Dividends paid in 2005 for 2004 totaled €2,165,000. At the next Annual General Meeting, shareholders will be invited to approve a dividend payment of €10,830,000, representing €0.20 per share.

Profit and loss recognized in equity.

No profit or loss was recognized in equity in 2005 or 2004.

Reserves

(in € thousands)	At December 31, 2005	At December 31, 2004
Legal reserve	1,000	100
Long-term capital gains reserve	0	2,654
Other reserves	46,724	13,895
Retained earnings	33,231	27,347
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	68,898	40,718
Total	149,853	84,714

Apart from the legal reserve, there were no restrictions on the distribution of reserves included in equity at December 31, 2005.

NOTE 26: STOCK OPTION PLANS

The following table summarizes the main features of the various stock option plans approved in 2005 and prior years and outstanding at the year-end.

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 concerning equity-settled transactions 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.

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, 2004

Date of Shareholders' Meeting	Date of plan launch	Number of options exercisable	Number of beneficiaries	Exercise price	Number of options exercised in 2004	Options outstanding at Dec. 31, 2004
June 28, 2001	June 28, 2001	104,010	1	2.97		104,010
August 12, 2002	August 12, 2002	595,310	1	4.67		595,310
December 12, 2003	January 20, 2004	444,132	21	16.30		444,132
Total						1,143,452

The expense recorded in 2004 for options granted in January of that year totaled €275,000.

The Iliad Group has applied the requirements concerning equity-settled transactions 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.

The following table shows the exercise dates for stock option plans outstanding at December 31, 2004.

Date of plan launch	Exercise date
June 28, 2001	June 28, 2006
August 12, 2002	August 12, 2007
January 20, 2004	January 20, 2008

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 December 19, 2005	At December 19, 2005	At January 20, 2004
Quantity	270,758	270,757	487,769
Exercise price (in €)	48.44	48.44	16.30
Share 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 €275,000 in 2004 and €318,000 in 2005.

NOTE 27: PROVISIONS

Provisions break down as follows:

(in € thousands)	At December 31, 2005	At December 31, 2004
Long-term provisions		
Provisions for contingencies	0	30
Provisions for charges	595	510
Total long-term provisions	595	540
Short-term provisions		
Provisions for contingencies	737	952
Provisions for charges	1	0
Total short-term provisions	738	952
Total provisions	1,333	1,492

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, 2005	At December 31, 2004
Provisions for charges	596	510
Provisions for contingencies	737	982
Total provisions for contingencies and charges	1,333	1,492

Movements in provisions for contingencies and charges were as follows in 2005:

(in € thousands)	At Dec. 31, 2004	Increases 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			707
Provisions for restructuring costs	194		164				30
Other	510	92	5		(1)		596
Total	1,492	294	261	191	(1)		1,333

Movements in provisions for contingencies and charges were as follows in 2004:

(in € thousands)	At Jan. 1, 2004	Increase in 2004	Decreases in 2004 (utilizations)	Decreases in 2004 (surplus provisions)	Changes in Group structure	Changes in foreign exchange rates	At Dec. 31, 2004
Provisions for claims and litigation and general contingencies	1,657	416	22	1,263			788
Provisions for restructuring costs	1,208	0	814	200			194
Provision for contributions to the Universal Service Fund	2,550	0	1,217	1,333			0
Other	838	40	349	19			510
Total	6,253	456	2,402	2,815			1,492

The impact (net of charges incurred) of movements in provisions on operating profit was a negative €103,000 in 2005, compared with a positive €2,359,000 in 2004.

- **Provisions for claims and litigation and general contingencies**

These provisions are intended to cover the various risks incurred by Group companies.

- **Provisions for restructuring costs**

These provisions concern the impact of the decision taken by the Group in early 2003 to rationalize its facilities by bringing all employees together on one site. As some of the leases on the Group's other facilities have three-year non-cancelable periods and cannot be terminated immediately, a provision to cover the cost of these leases up to their termination was set up at the end of 2002 and adjusted in 2003, 2004 and 2005.

- **Provision for contributions to the Universal Service Fund**

In 2004 a reversal was recorded in relation to the provision for contributions to the Universal Service Fund further to the latest rulings and communications issued by the French Telecommunications Regulatory Authority. The reversal reflected the reclassification of these contributions under accrued expenses, as well as a reduction in the rates of the contributions.

NOTE 28: FINANCIAL LIABILITIES

Financial liabilities can be analyzed as follows:

(in € thousands)	At December 31, 2005	At December 31, 2004
Bank borrowings	63,707	3,397
Borrowings related to finance leases	2,290	1,848
Other bank borrowing facilities	0	0
Other	26	0
<i>Total long-term financial liabilities</i>	66,023	5,245
Bank borrowings	19,512	13,657
Borrowings related to finance leases	2,170	2,938
Other bank borrowing facilities	1,673	7,392
Other	222	124
<i>Total short-term financial liabilities</i>	23,577	24,111
Total	89,600	29,356

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 2004 and 2005:

(in € thousands)	2005	2004
Borrowings at Jan. 1	29,356	20,877
New borrowings (*)	74,284	17,886
Repayments of borrowings	(8,325)	(16,115)
Change in other bank borrowing facilities	(5,719)	6,708
Impact of changes in Group structure	0	0
Other	4	0
Total borrowings at Dec. 31	89,600	29,356
(*) excluding assets acquired under finance leases	71,287	15,038

Guarantees given

The Iliad Group has not given any specific guarantees in return for its current borrowing facilities with banks.

Description of the Group's main bank borrowing facilities outstanding at December 31, 2005

When the Group acquired IFW in November 2005, it entered into agreements relating to the following:

- A five-year revolving credit line facility representing €35 million.
- A four-year medium-term credit facility representing €25 million.

The interest on these credit lines is based on EURIBOR plus a margin. The rates applied are not adjustable.

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, 2005	At December 31, 2004
Fixed rate borrowings	4,486	12,403
Variable rate borrowings	85,114	16,953
Total borrowings	89,600	29,356

Breakdown by maturity

The following table presents borrowings by nature and by maturity at December 31, 2005:

(in € thousands)	Within 1 year	In 1 to 2 years	In 2 to 3 years	In 3 to 4 years	In 4 to 5 years	Beyond 5 years	Total
Bank borrowings	19,512	16,190	16,190	15,441	15,441	445	83,219
Borrowings related to finance leases	2,170	1,148	779	363	0	0	4,460
Other bank borrowing facilities	1,673	0	0	0	0	0	1,673
Other	222	0	0	0	0	26	248
Total	23,577	17,338	16,969	15,804	15,441	471	89,600

Description of the Group's main finance leases outstanding at December 31, 2005

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, 2005 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	2,324	2,466	0	4,790
Present value	2,324	2,273	0	4,597

Present value is determined by applying a 5% discount rate.

NOTE 29: TRADE AND OTHER PAYABLES AND OTHER NON-CURRENT LIABILITIES

These items break down as follows:

(in € thousands)	At December 31, 2005	At December 31, 2004
Other non-current liabilities		
Trade payables	2,837	4,198
Other payables and deferred income	6,961	933
Total other non-current liabilities	9,798	5,131
Trade and other payables		
Trade payables	171,891	169,211
Advances and prepayments	15	35
Accrued taxes and payroll costs	28,824	21,326
Other liabilities	910	5,672
Deferred income	9,739	9,821
Total trade and other payables	211,379	206,065
Total	221,177	211,196

Amounts payable in more than one year include the liabilities of One.Tel prior to its filing for bankruptcy, for which a debt repayment plan is in progress.

Total trade payables recorded under “Trade and other payables” and “Other non-current liabilities” can be analyzed as follows:

(in € thousands)	At December 31, 2005	At December 31, 2004
Suppliers of goods and services	108,833	96,334
Suppliers of fixed assets	65,895	77,075
Total	174,728	173,409

NOTE 30: NON-CANCELABLE LEASE COMMITMENTS

Lease expenses recognized in the income statement break down as follows:

(in € thousands)	2005	2004
• Minimum future lease payments	3,597	2,145
• Contingent rents	131	185
• Sub-leases	3,615	3,525
Total	7,343	5,855

The table below analyzes the Group's commitments under non-cancelable leases at December 31, 2005 by type of asset and by maturity.

(in € thousands)							
Type of leased asset	Withi 1 year	In 1 to 2 years	In 2 to 3 years	In 3 to 4 years	In 4 to 5 years	Beyond 5 years	Total
Real estate	4,869	4,569	4,484	2,492	621	1,242	18,277
Vehicles	278	160	31	0	0	0	469
Equipment	1,044	574	196	0	0	0	1,814
Other	1,415	793	700	667	412	1,789	5,776
Total	7,606	6,096	5,411	3,159	1,033	3,031	26,336

None of the non-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 2005 and 2004 breaks down as follows:

(in € thousands)	2005	2004
● Total compensation	770	624
● Short-term benefits	0	0
● Post-employment benefits	0	0
● Other long-term benefits	0	0
● Termination benefits	0	0
● Share-based payment	19	0
Total	789	624

During 2005, the Iliad Group acquired 36 Freebox shares from Rani Assaf for €240,000.

Transactions with joint venturers in which the Iliad Group is a venturer

- Joint ventures concerned: Endeis Telecom, which was 50%-owned by the Iliad Group until October 1, 2005, when the Group sold its entire interest in this company.

- The table below describes the types and amounts of transactions carried out in 2005 with Endeis Telecom.

Type of transaction	2005 (in € thousands)
Transactions billed by the Iliad Group to Endeis Telecom	
• Outsourcing of administrative tasks	200
• Call center services	141
• Rental payments for premises	77
• Interconnect costs	2,091
• Preselection costs	480
Transactions billed by Endeis Telecom to the Iliad Group	
• Interconnect costs	1,129

- Outstanding balances at the year end:

At December 31, 2005, the impact of Endeis Telecom on the Group's receivables and payables was as follows:

➤	Trade receivables	€2,362,000
➤	Trade payables	€412,000

These trade receivables and payables are due in less than three months.

No provisions were recorded at December 31, 2005 relating to receivables due from Endeis Telecom, and there were no movements in such provisions during the year.

NOTE 32: EXPOSURE TO FOREIGN-EXCHANGE AND INTEREST-RATE RISKS

Foreign-exchange risk

(in € thousands)	At December 31, 2005			Total 2005
	US \$	£ sterling	Other currencies	
Monetary assets	54	0	0	54
Monetary liabilities	(9,855)	(56)	0	(9,911)
Risk exposure – gross	(9,801)	(56)	0	(9,857)

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, 2005, the Group had entered into contracts maturing in 2006 relating to the following:

- US\$6 million under dollar purchase options
- US\$10 million under dollar sale options.

No gains or losses relating to these contracts were recorded in 2005.

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: COMMITMENTS AND CONTINGENCIES

Commitments given

The following table itemizes the guarantees given by Iliad to third parties:

Beneficiary of guarantee	Amount of guarantee (in € thousands)	Purpose of guarantee
SITA (Suez Environnement)	1,700	Guarantee relating to premises at Rue de la Ville l'Evêque
Neuf Telecom	4,620	Commitment to minimum purchase volumes (minutes and terminations) between July 1, 2004 and December 31, 2006 corresponding to revenues of €4,620,000 excluding VAT
Neuf Telecom	1	Investments relating to network extensions
ARCEP	2	Investments to be made by IFW

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 Telecom Group up to December 31, 2030.

These agreements represent 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.

Commitments received

At December 31, 2005, the Group had several confirmed credit lines totaling a maximum of €120 million, all expiring in more than one year. At December 31, 2005 the Group had drawn down €77 million of the €120 million available at that date.

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.

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. However, Centrica had waived the annual fee until August 31, 2004.

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, 2005 are sufficient to ensure that there would be no material impact on the Group's consolidated financial position in the event of unfavorable outcomes.

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.

NOTE 34: SUBSEQUENT EVENTS

No material events have occurred since the preparation of the consolidated financial statements for the year ended December 31, 2005.

NOTE 35: 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
FREE 8 rue de la Ville l'Evêque 75008 PARIS	421 938 861	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
CENTRAPEL 8 rue de la Ville l'Evêque 75008 PARIS	434 130 860	Paris	99.98%	99.98%	99.98%	99.98%	Full
FREEBOX 8 rue de la Ville l'Evêque 75008 PARIS	433 910 616	Paris	95.43%	95.00%	95.43%	95.00%	Full
KEDRA 8 rue de la Ville l'Evêque 75008 PARIS	439 597 857	Paris	99.98%	99.98%	99.98%	99.98%	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
ON LINE 8 rue de la Ville l'Evêque 75008 PARIS	433 115 904	Paris	100.00%	100.00%	100.00%	100.00%	Full
KERTEL 8 rue de la Ville l'Evêque 75008 PARIS	422 135 459	Paris	100.00%	100.00%	100.00%	100.00%	Full
IH 8 rue de la Ville l'Evêque 75008 PARIS	441 532 173	Paris	99.98%	99.98%	99.98%	99.98%	Full
TOUTCOM 24 rue Emile Menier 75016 PARIS	387 601 636	Paris	98.00%	98.00%	98.00%	98.00%	Full
TOTAL CALL Technoparc – Route de Nouceur Sidi Maar Casablanca – Morocco	/	Morocco	100.00%	0	100.00%	0	Full
DEDIBOX 8 rue de la Ville l'Evêque 75008 PARIS	484 961 206	Paris	90.00%	0	90.00%	0	Full
IFW 8 rue de la Ville l'Evêque 75008 PARIS	400 089 942	Paris	100.00%	0	100.00%	0	Full

NOTE 36: LIST OF CONSOLIDATED COMPANIES AT DECEMBER 31, 2004

	Registration number	Head office	Percentage control Dec. 31, 2004	Percentage control Dec. 31, 2003	Percentage ownership Dec. 31, 2004	Percentage ownership Dec. 31, 2003	Consolidation method in 2004
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
ENDEIS TELECOM 8 rue de la Ville l'Evêque 75008 PARIS	428 969 141	Paris	50.00%	50.00%	50.00%	50.00%	Proportionate
FREE 8 rue de la Ville l'Evêque 75008 PARIS	421 938 861	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%	95.20%	99.99%	95.20%	Full
CENTRAPEL 8 rue de la Ville l'Evêque 75008 PARIS	434 130 860	Paris	99.98%	99.98%	99.98%	99.98%	Full
FREEBOX 8 rue de la Ville l'Evêque 75008 PARIS	433 910 616	Paris	95.00%	95.00%	95.00%	95.00%	Full
KEDRA 8 rue de la Ville l'Evêque 75008 PARIS	439 597 857	Paris	99.98%	99.98%	99.98%	99.98%	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
ON LINE 8 rue de la Ville l'Evêque 75008 PARIS	433 115 904	Paris	100.00%	100.00%	100.00%	100.00%	Full
KERTEL 8 rue de la Ville l'Evêque 75008 PARIS	422 135 459	Paris	100.00%	100.00%	100.00%	100.00%	Full
IH 8 rue de la Ville l'Evêque 75008 PARIS	441 532 173	Paris	99.98%	99.98%	99.98%	99.98%	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 2005

Consolidated companies

	Percentage control at Dec. 31, 2004	Consolidation method at Dec. 31, 2004	Acquisition date	Percentage control at Dec. 31, 2005	Consolidation method at Dec. 31, 2005
FREEBOX	95.00%	Full	Dec. 1, 2000	95.43%	Full
TOTAL CALL	/	/	March 14, 2005	100.00%	Full
DEDIBOX	/	/	Nov. 21, 2005	90.00%	Full
IFWM	/	/	Nov. 14, 2005	100.00%	Full

Deconsolidated companies:

	Percentage control at Dec. 31, 2004	Consolidation method at Dec. 31, 2004	Deconsolidation date	Percentage control at Dec. 31, 2005	Consolidation method at Dec. 31, 2005
ENDEIS TELECOM	50.00%	Proportionate	Oct. 1, 2005	NC	NC

NOTE 38: TRANSITION TO IFRS

TRANSITION TO IFRS
IFRS CONSOLIDATED INCOME STATEMENT

(in € thousands)	2004
Revenues	491,446
Other income from ordinary activities	0
Purchases used in production	(281,354)
Payroll costs	(21,756)
External charges	(65,550)
Taxes other than on income	(3,117)
Additions to provisions	(3,068)
Change in work-in-progress and finished products inventories	2,511
Other income and expenses from operations, net	(6,294)
Earnings before interest, tax, depreciation and amortization (EBITDA)	112,818
Depreciation and amortization	(57,152)
Profit from ordinary activities	55,666
Other operating income and expense, net	2,556
Operating profit	58,222
Income from cash and cash equivalents	918
Finance costs, gross	(972)
<i>Finance costs, net</i>	(54)
Other financial income and expense, net	2,731
Corporate income tax	(20,181)
Income from companies accounted for by the equity method	0
Profit for the period before results of discontinued operations/operations held for sale . .	40,718
Profit for the period, net of taxes, from discontinued operations/operations held for sale .	0
PROFIT FOR THE PERIOD	40,718
Attributable to equity holders of the parent	40,717
Minority interests	1
Basic earnings per share for continuing operations	0.76
Diluted earnings per share for continuing operations	0.75
Basic earnings per share for discontinued operations	/
Diluted earnings per share for discontinued operations	/
Basic earnings per share	0.76
Diluted earnings per share	0.75

TRANSITION TO IFRS
IFRS CONSOLIDATED BALANCE SHEET (ASSETS)

(in € thousands)	At December 31, 2004
Goodwill	4,460
Intangible assets	975
Property, plant and equipment	267,649
Investment property	0
Biological assets	0
Investments in associates	0
Other long-term financial assets	5,071
Deferred income tax assets	5,280
Other non-current assets	66
TOTAL NON-CURRENT ASSETS	283,501
Inventories	10,086
Taxes recoverable	0
Trade and other receivables	102,412
Other short-term financial assets	295
Cash and cash equivalents	30,485
TOTAL CURRENT ASSETS	143,278
ASSETS HELD FOR SALE	0
TOTAL ASSETS	426,779

TRANSITION TO IFRS
IFRS CONSOLIDATED BALANCE SHEET (EQUITY AND LIABILITIES)

(in € thousands)	At December 31, 2004
Share capital	10,000
Retained earnings	58,622
Additional paid-in capital	83,763
Other reserves	26,092
Revaluation reserve	0
Cumulative translation adjustment	0
TOTAL EQUITY	178,477
<i>. Attributable to equity holders of the parent</i>	<i>178,476</i>
<i>. Minority interests</i>	<i>1</i>
Long-term provisions	540
Long-term financial liabilities	5,245
Deferred income tax liabilities	0
Other non-current liabilities	5,131
NON-CURRENT LIABILITIES	10,916
Short-term provisions	952
Taxes payable	6,258
Trade and other payables	206,065
Short-term financial liabilities	24,111
CURRENT LIABILITIES	237,386
LIABILITIES HELD FOR SALE	0
TOTAL EQUITY AND LIABILITIES	426,779

1 BACKGROUND

Preparation of IFRS comparative financial data for 2004

In compliance with European Commission regulation 1606/2002 of July 19, 2002 on the application of international accounting standards, the Iliad Group has prepared its consolidated financial statements for 2005 in accordance with the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related interpretations as adopted by the European Union at December 31, 2005.

The 2005 IFRS consolidated financial statements include comparative 2004 data restated in accordance with the same standards.

In preparation for the publication of the comparative data included in the 2005 IFRS financial statements, and in accordance with the recommendation issued by the *Autorité des Marchés Financiers* (French securities regulator) on financial reporting during the transition period, the Iliad Group prepared preliminary information about the estimated financial effects of the transition to IFRS on:

- The balance sheet at the transition date (January 1, 2004), which includes in equity the final impacts of the transition at the time of publishing the 2005 consolidated financial statements.
- The Group's financial position at December 31, 2004 and its performance for the year then ended.

The 2004 financial information concerning the expected impact of the transition to IFRS was prepared by applying to 2004 data the IFRSs/IASs and interpretations that the Iliad Group applied when preparing the 2005 IFRS financial statements. The financial information described in paragraph 2 below has therefore been prepared on the basis of:

- The IFRSs/IASs and related interpretations whose application is compulsory at December 31, 2005, based on current information.
- The options chosen and exemptions applied which the Group has applied to its consolidated financial statements for 2005, prepared for the first time in accordance with IFRS.

During 2005, the Group continued to work on setting up methods and tools specific to IFRS. The results of this work did not lead to any changes to the opening balance sheet at January 1, 2004.

Organization of the transition project

Once the Group's IPO was completed in January 2004, a working group was set up to manage the IAS/IFRS transition project.

This team conducted an analysis of the various standards and identified the main differences in accounting methods liable to have an impact on the Group's consolidated financial statements.

The working group subsequently drew up a report on these impacts, which was validated by the Group Finance Department and submitted to the external auditors for their review.

Based on this report, the opening IFRS balance sheet at January 1, 2004 and the comparative information for the year ended December 31, 2004 were prepared during the first half of 2005.

2 IMPACTS OF FIRST-TIME ADOPTION OF IFRS

This note provides details on the accounting policies selected for preparing the preliminary IFRS opening balance sheet at January 1, 2004. It also sets out the main differences between IFRS and French Generally Accepted Accounting Principles (French GAAP) previously applied by the Group, and the preliminary effects of transition to IFRS on the balance sheets at January 1, 2004 and December 31, 2004 as well as on the 2004 income statement.

The comparative IFRS information for 2004 was prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The Group applied the IFRSs/IASs that were effective at

December 31, 2005, as published by the International Accounting Standards Board (IASB) at December 31, 2004 and endorsed by the European Union.

The application of IAS 32, IAS 39 and IFRS 4, optional for 2004, does not have a material impact on the consolidated financial statements of the Iliad Group.

Accounting options and exemptions selected by the Iliad Group

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, provides for a number of mandatory and optional exemptions to retrospective application of the new standards. In accordance with this standard, the Iliad Group has elected to apply the following accounting treatments on first-time adoption:

Business combinations

The Iliad Group has elected not to restate in accordance with IFRS 3 business combinations which were carried out prior to January 1, 2004.

Fair value or revaluation as deemed cost

The Iliad Group has elected not to measure at their fair value property, plant and equipment at the opening IFRS balance sheet date (January 1, 2004) and use that fair value as their deemed cost at that date.

The Group did not carry out any revaluations of property, plant and equipment under French GAAP.

Conversion of the accounts of foreign operations

The Iliad Group does not own any foreign subsidiaries and is therefore not impacted by the option available under IFRS 1 relating to translation differences.

Stock options and other share-based payments

The Iliad Group has applied the requirements concerning equity-settled transactions 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.

Impacts on equity and 2004 results

The following table provides a reconciliation between opening equity at January 1, 2004 and equity at December 31, 2004. It also sets out profit for 2004 under IFRS and French GAAP (previously referred to as net income), showing the financial impact of the adjustments applied.

(in € thousands)	Opening equity at Jan. 1, 2004	Equity at Dec. 31, 2004 (including 2004 profit)	2004 profit
French GAAP	55,227	178,285	40,832
Consolidation of Toutcom	69	0	(69)
Provisions for pension and other post-employment benefits	(83)	0	0
Deferred taxes on provisions for pension and other post employment benefits	27	0	0
Goodwill amortization	0	254	254
Reclassification of own shares held	0	(62)	(24)
Stock options	0	0	(275)
IFRS	55,240	178,477	40,718

Impacts on the 2004 income statement

INCOME STATEMENT (in € thousands)	2004 French GAAP re-formatted into IAS/IFRS format	Para.	IAS / IFRS adjustments	2004 Restated Under IAS/IFRS
Revenues	491,446		0	491,446
Other income from ordinary activities	0		0	0
Purchases used in production	(281,354)		0	(281,354)
Payroll costs	(21,481)	2.6.6	(275)	(21,756)
External charges	(65,548)		(2)	(65,550)
Taxes other than on income	(3,117)		0	(3,117)
Additions to provisions	(3,025)	2.6.1	(43)	(3,068)
Change in work-in-progress and finished products inventories	2,511		0	2,511
Other income and expenses from operations, net	(6,294)			(6,294)
Earnings before interest, tax, depreciation and amortization (EBITDA)	113,138		(320)	112,818
Depreciation and amortization	(57,406)	2.6.3	254	(57,152)
Profit from ordinary activities	55,732		(66)	55,666
Other operating income and expense, net . .	2,556		0	2,556
Operating profit	58,288		(66)	58,222
Income from cash and cash equivalents . . .	942	2.6.7	(24)	918
Finance costs	(972)		0	(972)
Other financial income and expense, net . . .	2,755	2.6.1	(24)	2,731
Net financial income	2,725		(48)	2,677
Corporate income tax	(20,181)		0	(20,181)
Income from companies accounted for by the equity method	0		0	0
Profit for the period before results of discontinued operations/operations held for sale	40,832		(114)	40,718
Profit for the period, net of taxes, from discontinued operations/operations held for sale	0		0	0
PROFIT FOR THE PERIOD	40,832		(114)	40,718
Attributable to equity holders of the parent .	40,831		(114)	40,717
Minority interests	1		0	1
Basic earnings per share for continuing operations	0.76			
Diluted earnings per share for continuing operations	0.75			
Basic earnings per share for discontinued operations	/			
Diluted earnings per share for discontinued operations	/			
Basic earnings per share	0.76			
Diluted earnings per share	0.75			

IMPACTS ON THE BALANCE SHEET AT JANUARY 1, 2004

Reconciliation between French GAAP and IFRS balance sheets at January 1, 2004: ASSETS

FRENCH GAAP (in € thousands)	NET before IFRS adjustments	Reclassifications	Restatements	NET after IFRS adjustments	Para.
Fixed assets					
Goodwill	3,869	/	/	3,869	
Intangible assets	45,528	(44,407)	/	1,121	2.6.8
Property, plant and equipment	73,317	44,407	/	117,724	2.6.8
Long-term investments	1,630	/	/	1,630	
Total fixed assets	124,344	/	/	124,344	
Current assets					
Inventories and work-in-progress	4,134			4,134	
Trade accounts and notes receivable	38,017		(6)	38,011	
Other receivables and accruals	43,051		79	43,130	2.6.1
Marketable securities	2,571			2,571	
Cash and cash equivalents	8,786			8,786	
Total current assets	96,559	/	73	96,632	
TOTAL ASSETS	220,903	/	73	220,976	

Reconciliation between French GAAP and IFRS balance sheets at January 1, 2004: EQUITY AND LIABILITIES

FRENCH GAAP (in € thousands)	NET before IFRS adjustments	Reclassifications	Restatements	NET after IFRS adjustments	Para.
Shareholders' equity					
Capital stock	1,000			1,000	
Additional paid-in capital	1,126			1,126	
Retained earnings	53,101		13	53,114	
Shareholders' equity	55,227	/	13	55,240	
Minority interests	0	/	/	0	
Provisions for contingencies and charges	6,745		15	6,760	2.6.1 & 2
Liabilities					
Borrowings	20,877			20,877	
Trade accounts and notes payable	106,700		45	106,745	2.6.1
Other payables and accruals	31,354			31,354	
Total provisions and liabilities	165,676		60	165,736	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	220,903		73	220,976	

Impacts on the balance sheet at December 31, 2004

Dec. 31, 2004				
		FRENCH GAAP re-formatted into IAS/IFRS format		
ASSETS (in € thousands)			IAS/IFRS adjustments	Dec. 31, 2004 Restated under IAS/IFRS
		Para.		
Goodwill	4,206	2.6.3	254	4,460
Intangible assets	127,383	2.6.8	(126,408)	975
Property, plant and equipment	141,241	2.6.8	126,408	267,649
Other long-term financial assets	5,079	2.6.1	(8)	5,071
Deferred income tax assets	5,280		0	5,280
Other non-current assets	66		0	66
TOTAL NON-CURRENT ASSETS	283,255		246	283,501
Inventories	10,086		0	10,086
Taxes recoverable	0		0	0
Trade accounts and notes receivable	102,358	2.6.1	54	102,412
Other short-term financial assets	295		0	295
Cash and cash equivalents	30,547	2.6.7	(62)	30,485
TOTAL CURRENT ASSETS	143,286		(8)	143,278
ASSETS HELD FOR SALE	0		0	0
TOTAL ASSETS	426,541		238	426,779

EQUITY AND LIABILITIES (in € thousands)	Dec. 31, 2004 French GAAP reformatted into IAS/IFRS format
Share capital	10,000
Retained earnings and other reserves	84,522
Additional paid-in capital	83,763
TOTAL EQUITY	178,285
• <i>Attributable to equity holders of the parent</i>	<i>178,285</i>
• <i>Minority interests</i>	<i>0</i>
Long-term provisions	540
Long-term financial liabilities	5,245
Deferred income tax liabilities	0
Other non-current liabilities	5,131
NON-CURRENT LIABILITIES	10,916
Short-term provisions	952
Taxes payable	6,258
Trade accounts and notes payable	206,021
Short-term financial liabilities	24,109
CURRENT LIABILITIES	237,340
LIABILITIES HELD FOR SALE	0
TOTAL EQUITY AND LIABILITIES	426,541

Para.	IAS/IFRS adjustments	Dec. 31, 2004 Restated under IAS/IFRS
	0	10,000
	192	84,714
	0	83,763
	192	178,477
	<i>0</i>	<i>178,476</i>
	<i>0</i>	<i>1</i>
	0	540
	0	5,245
	0	0
	0	5,131
	0	10,916
	0	952
	0	6,258
2.6.1	44	206,065
	2	24,111
	46	237,386
	0	0
	238	426,779

Description of the main IFRS restatements

2.1.1 Scope of consolidation

Toutcom has been fully consolidated under IFRS, whereas it was not consolidated under French GAAP. This difference is due to the fact that the Iliad Group previously intended to wind up Toutcom, but no longer plans to do so. The first-time consolidation of this company led to a €69,000 increase in equity at January 1, 2004.

2.1.2 Provisions for pensions and other post-employment benefits

The methods described in IAS 19, *Employee Benefits*, for measuring and recognizing pension and other post-employment benefit obligations are similar to those applied for 2004 under French GAAP with retrospective effect from January 1, 2004. The methods used in the French GAAP accounts complied with recommendation 2003-R 01 issued by the French National Accounting Board (*Conseil national de la comptabilité*, or CNC) and the CNC's press release of July 22, 2004 describing procedures for first-time adoption.

The €56,000 overall impact of this change in accounting method was deducted from equity, corresponding to an €83,000 increase in provisions for contingencies and charges and a €27,000 deferred tax impact.

2.1.3 Amortization and impairment of goodwill

As mentioned in paragraph 2-1 above, the Iliad Group has elected not to restate business combinations carried out prior to January 1, 2004.

In addition, in accordance with IFRS 3, *Business Combinations*, as of January 1, 2004 goodwill may no longer be amortized. This gave rise to a positive €254,000 impact on the income statement.

As there is no indication that the goodwill recognized by the Group is impaired, no related impairment loss has been recorded in the opening balance sheet at January 1, 2004 or in the 2004 financial statements.

2.1.4 Deferred taxes

The sole deferred tax impact on the opening IFRS balance sheet at January 1, 2004 concerned the above-mentioned €27,000 worth of deferred tax assets arising on the recording of provisions in relation to pensions and other post-employment benefits.

Application of IFRS did not have any impact on the deferred taxes recognized in the balance sheet at December 31, 2004.

2.1.5 Development costs

Development costs incurred by Freebox's research and development teams were already capitalized in the French GAAP consolidated financial statements. These costs were therefore not impacted by the transition to IAS/IFRS.

Free also has a number of research and development employees.

The majority of development costs that meet the recognition criteria set out in IAS 38 were incurred between 1999 and 2001. As the assets recognized in relation to these costs had been fully amortized over the period during which the Group consumed the related expected future economic benefits, their capitalization had no impact on opening equity.

During 2002 and 2004, Free's research and development teams spent the majority of their time upgrading existing services. Such costs do not meet the criteria for recognizing an intangible asset under IAS 38.

2.1.6 Stock options and employee share issues

Under French GAAP, stock options were not expensed when granted to employees. IFRS 2, however, requires enterprises to record an expense for stock options and other share-based payments granted to employees as consideration for services received.

In accordance with the exemption permitted under IFRS 1, the Iliad Group has elected not to apply IFRS 2 to stock options granted prior to November 7, 2002 (see paragraph 2-1). No stock options were granted between November 7, 2002 and January 1, 2004. Therefore, application of IFRS 2 has no impact on the opening IFRS balance sheet.

The Iliad Group granted employee stock options in January 2004, leading to a €275,000 expense in the 2004 IFRS income statement, with a corresponding adjustment to equity.

2.1.7 Own shares

In the French GAAP accounts, own shares held were recorded on the assets side of the consolidated balance sheet under “Marketable securities” when they were held specifically to stabilize the share price or for allocation to employees.

IAS 32 requires own shares to be deducted from equity and any gains or losses arising on own-share transactions to be presented as a change in equity.

This change in accounting method did not affect the opening IFRS balance sheet, as the Iliad Group did not hold any of its own shares at December 31, 2003.

Own shares held at December 31, 2004 have been reclassified in the IFRS balance sheet as a deduction from equity, corresponding to €62,000.

Gains generated in 2004 on own-share transactions (amounting to €24,000) have also been reclassified as a change in equity, with a corresponding decrease in profit for the period.

2.1.8 Main balance-sheet reclassifications

The Group's balance-sheet items have been reclassified in order to comply with IFRS presentation rules.

The main reclassifications applied in the opening IFRS balance sheet at January 1, 2004 were as follows:

- The balance of “Indefeasible rights of use” (IRU), classified under intangible assets in the French GAAP accounts, was reclassified under property, plant and equipment, in an amount of €24,312,000.
- The balance of “Service access fees”, classified under intangible assets in the French GAAP accounts, was reclassified under property, plant and equipment, in an amount of €20,095,000.

The main reclassifications applied in the balance sheet at December 31, 2004 were as follows:

- The balance of “Indefeasible rights of use” (IRU), classified under intangible assets in the French GAAP accounts, was reclassified under property, plant and equipment, in an amount of €71,301,000.
- The balance of “Service access fees”, classified under intangible assets in the French GAAP accounts, was reclassified under property, plant and equipment, in an amount of €57,107,000.

Deferred income tax assets and liabilities are now presented as non-current items. At December 31, 2004, deferred income tax assets totaled €5,280,000. The Group had no deferred income tax liabilities at that date.

Long-term provisions and liabilities due in more than one year have been reclassified as non-current assets. These primarily relate to:

- Debt payable in more than one year (€5,245,000).
- Other liabilities (€5,131,000). These mainly correspond to the liabilities of One. Tel prior to its insolvency, for which a debt repayment plan is in progress.

2.1.9 Main income-statement reclassifications

In addition to the restatements detailed above, income-statement items have been reclassified in order to comply with IFRS presentation rules. The main reclassifications for 2004 concern:

- Exceptional items recorded under French GAAP in the amount of €5,168,000. The majority of these items have been reclassified under the following headings:
 - Purchases (€807,000)
 - Payroll costs (€83,000)
 - Other income from operations (€2,733,000)
 - Other operating income (€2,556,000)
- Capitalized production costs, amounting to €81,383,000, which have been reclassified as a deduction from their related expense as follows:
 - Purchases used in production, for €80,890,000
 - Payroll costs, for €493,000
- Expense transfers, totaling €258,000 which have been reclassified as a deduction from their related expense, as follows:
 - External charges (€53,000)
 - Payroll costs (€173,000)
 - Taxes other than on income (€32,000).

The deferred tax charge for 2004 was increased by €275,000 as a result of reclassifying the effect of changes in the corporate income surtax rate in France. The related expense was classified under exceptional items in the French GAAP accounts.

Impacts on the cash flow statement for the year ended December 31, 2004

(in € thousands)	2004
Profit for the period (including minority interests)	40,718
+/- Depreciation, amortization and provisions (excluding provisions against current assets) . . .	51,118
-/+ Unrealized gains and losses on changes in fair value	0
+/- Income and expenses related to stock options and other share-based payments	275
-/+ Other income and expenses, net	(15)
-/+ Gains and losses on disposals of assets	(649)
-/+ Gains and losses from dilution	0
+/- Income from companies accounted for by the equity method	0
- Dividends (investments in non-consolidated undertakings)	0
Cash flows from operations after finance costs, net, and income tax	91,447
+ Finance costs, net	54
+/- Income tax expense (including deferred taxes)	20,514
Cash flows from operations before finance costs, net, and income tax (A)	112,015
- <i>Income tax paid (B)</i>	(6,261)
+/- Change in operating working capital requirement (including employee benefit obligations) (C) .	(5,928)
= NET CASH GENERATED FROM OPERATING ACTIVITIES (D) = (A + B + C)	99,826
- Acquisitions of property, plant and equipment and intangible assets	(172,905)
+ Disposals of property, plant and equipment and intangible assets	6,259
- Acquisitions of investments in non-consolidated undertakings	0
+ Disposals of investments in non-consolidated undertakings	0
+/- Effect of changes in Group structure	(1,739)
+ Dividends received from companies accounted for by the equity method and non-consolidated undertakings	0
+/- Change in outstanding loans and advances	(133)
+ Investment grants received	0
+/- Other	0
= NET CASH USED IN INVESTING ACTIVITIES (E)	(168,518)
+ Proceeds from capital increases	
• Paid by shareholders of the parent company	91,637
• Paid by minority shareholders of consolidated companies	0
+ Proceeds received on the exercise of stock options	0
-/+ Own-share transactions	(40)
- Dividends paid during the year	
• Dividends paid to parent company shareholders	(9,354)
• Dividends paid to minority shareholders of consolidated companies	0
+ Proceeds from new borrowings	15,038
- Repayment of borrowings (including finance leases)	(16,115)
- Net interest paid (including on finance leases)	(54)
= NET CASH GENERATED FROM FINANCING ACTIVITIES (F)	81,112
+/- Effect of exchange-rate movements on cash and cash equivalents (G)	0
= NET CHANGE IN CASH AND CASH EQUIVALENTS (D + E + F + G)	12,420
Cash and cash equivalents at beginning of year	10,673
Cash and cash equivalents at end of year	23,093

ILIAD SA

**STATUTORY AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS**

(Year ended December 31, 2005)

PricewaterhouseCoopers Audit
63, rue de Villiers
92208 Neuilly-sur-Seine Cedex
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Boissière Expertise Audit
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**STATUTORY AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS**

(Year ended December 31, 2005)

This is a free translation into English of the Statutory Auditors' report on the consolidated financial statements issued in the French language and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report on the consolidated financial statements includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the consolidated financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report on the consolidated financial statements should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

ILIAD SA

8, rue de La Ville L'Evêque
75008 PARIS

To the shareholders,

In compliance with the assignment entrusted to us by your Shareholders' Meeting, we have audited the accompanying consolidated financial statements of Iliad SA for the year ended December 31, 2005.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit. These consolidated financial statements have been prepared for the first time in accordance with IFRS as adopted by the European Union. They include comparative information restated in accordance with the same standards in respect of financial year 2004.

I – Opinion on the consolidated financial statements

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

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of Iliad SA and its subsidiaries as of December 31, 2005, and of the results of its operations for the year then ended, in accordance with IFRS as adopted by the European Union.

II – Justification of our assessments

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

Note 3 to the consolidated financial statements describes the significant estimates and judgments applied by management. Our work consisted of assessing the data and assumptions on which these estimates and judgments were made, and examining, on a test basis, the calculations performed by the Company. We compared accounting estimates of prior periods with the actual results and reviewed approval procedures of these estimates by management. We also obtained assurance that the notes to the consolidated financial statements disclosure appropriate information on the assumptions and options applied by the Company. As part of our work, we assessed whether these estimates were reasonable.

Note 2.1 and Note 17 relating to goodwill states that the fair value of identifiable assets, liabilities and contingent liabilities, notably the Wimax 3.5 Ghz license for France, arising from the acquisition of IFW, was in the process of being analyzed at the balance sheet date. As this relates to an acquisition that took place on November 15, 2005, management estimates that this analysis will be completed within the 12 months following the acquisition. Our procedures consisted in reviewing the approach used by management to determine the recoverable value of goodwill according to the method described in Note 1-5.

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

III – Specific verification

We have also reviewed the information given in the Group's management report. We have no comments to make as to its fair presentation and its conformity with the consolidated financial statements.

Neuilly-sur-Seine and Paris, April 8, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit

Boissière Expertise Audit

Xavier Cauchois

Tita A. Zeïtoun

20.2 PARENT COMPANY FINANCIAL STATEMENTS FOR 2005, 2004 AND 2003

In accordance with Article 28 of European Commission Regulation (EC) number 809/2004, the following information is incorporated by reference in this registration document:

- The simplified financial statements of Iliad SA and the report of the Statutory Auditors on the parent company financial statements for the year ended December 31, 2003 as shown on pages 142 *et seq.* of the registration document filed on May 10, 2004 under number R. 04-082.
- The simplified financial statements of Iliad SA and the report of the Statutory Auditors on the parent company financial statements for the year ended December 31, 2004 as shown on pages 135 *et seq.* of the registration document filed on May 24, 2005 under number R. 05-072.

CONTENTS OF FINANCIAL STATEMENTS

BALANCE SHEET – ASSETS	177
BALANCE SHEET – LIABILITIES AND SHAREHOLDERS' EQUITY	178
INCOME STATEMENT	179
INCOME STATEMENT (CONT'D)	180
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	181
NOTES TO THE FINANCIAL STATEMENTS	182
1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	182
1.1 – SIGNIFICANT EVENTS OF THE YEAR	182
1.2 – GENERAL ACCOUNTING PRINCIPLES	182
1.3 – EXCEPTIONS	182
1.4 – MAIN ACCOUNTING POLICIES	182
1.4.1 – Property, plant and equipment and intangible assets	182
1.4.2 – Investments in subsidiaries and affiliates, loans and advances to subsidiaries and affiliates, and other investment securities	183
1.4.3 – Accounts and notes receivable	183
1.4.4 – Foreign currency transactions	183
1.4.5 – Provisions for contingencies and charges	183
1.4.6 – Difference between operating and exceptional items	183
1.4.7 – Use of estimates	183
2 – NOTES TO THE BALANCE SHEET AT DECEMBER 31, 2005	184
2.1 – INTANGIBLE ASSETS	184
2.1.1 – Movements in 2005	184
2.1.2 – Trademarks	184
2.2 – PROPERTY, PLANT AND EQUIPMENT	184
2.2.1 – Movements in 2005	184
2.2.2 – Analysis of property, plant and equipment	184
2.3 – LONG-TERM INVESTMENTS	185
2.3.1 – Movements in 2005	185
2.3.2 – Investments in subsidiaries and affiliates	185
2.3.3 – Loans and advances to subsidiaries and affiliates	186
2.3.4 – List of subsidiaries and affiliates	186
2.3.5 – Related-party transactions	188
2.4 – DEPRECIATION AND AMORTIZATION	188
2.5 – OTHER ASSETS	188
2.6 – CAPITAL STOCK AND CHANGES IN CAPITAL	189
2.6.1 – Capital stock	189
2.6.2 – Form of the shares	189
2.6.3 – Changes in Iliad's capital	190
2.6.4 – Ownership structure	191
2.6.5 – Stock option and similar plans	191
2.7 – PROVISIONS FOR CONTINGENCIES AND CHARGES	192
2.8 – OTHER LIABILITIES	192

3 – 2005 REVIEW OF OPERATIONS	192
3.1 – REVENUES	192
3.2 – NUMBER OF EMPLOYEES	193
3.3 – EXCEPTIONAL ITEMS	193
3.4 – NET FINANCIAL INCOME	193
3.5 – MANAGEMENT COMPENSATION	193
4 – FINANCIAL INFORMATION	193
4.1 – FINANCE LEASES	193
4.2 – FINANCIAL COMMITMENTS	194
4.2.1 – Collateralized debt	195
4.3 – POST-EMPLOYMENT BENEFIT OBLIGATIONS	195
5 – OTHER INFORMATION	196
5.1 – CONSOLIDATION	196
5.2 – TAX-RELATED INFORMATION	196
5.2.1 – Tax group	196
5.2.2 – Unrecognized deferred taxes	197
5.2.3 – Corporate income tax relating to exceptional items	197
5.3 – INFORMATION ON THE SEGREGATION OF ACCOUNTING PERIODS	197
5.3.1 – Accrued income	197
5.3.2 – Accrued expenses	198
5.3.3 – Prepaid expenses	198
5.4 – SUBSEQUENT EVENTS	198

BALANCE SHEET-ASSETS

(in € thousands)	Gross	Depr, amort. and provisions	Net at Dec. 31, 2005	Net at Dec. 31, 2004
INTANGIBLE ASSETS				
Concessions, patents and trademarks	154	100	54	74
Other	46	32	14	0
PROPERTY, PLANT AND EQUIPMENT				
Land	119	0	119	119
Buildings	356	220	136	153
Fixtures and fittings	824	546	278	347
Technical equipment	7	6	1	2
Computer equipment	432	317	115	163
Furniture	128	48	80	98
LONG-TERM INVESTMENTS				
Investments in subsidiaries and affiliates	94,231	2,285	91,946	32,525
Loans and advances to subsidiaries and affiliates	206,053	47	206,006	139,162
Other investment securities	1,765	1,167	598	691
Other	1,011	0	1,011	1,014
TOTAL FIXED ASSETS	305,126	4,768	300,358	174,348
Trade accounts and notes receivable	3,932	254	3,678	5,580
Employee-related receivables	1	0	1	0
Recoverable sales taxes	477	0	477	495
Other receivables	1,823	1,220	603	215
Marketable securities	15,409	680	14,729	1,629
Cash and cash equivalents	6,206		6,206	23,863
Prepaid expenses	168		168	990
TOTAL CURRENT ASSETS	28,016	2,154	25,862	32,772
ACCRUALS				
Conversion losses	10		10	1
TOTAL ASSETS	333,152	6,922	326,230	207,121

BALANCE SHEET – LIABILITIES AND SHAREHOLDERS' EQUITY

(in € thousands)	At Dec. 31, 2005	At Dec. 31, 2004
Capital stock	12,000	10,000
Additional paid-in capital	86,721	83,763
Legal reserve	1,000	100
Untaxed reserves	0	2,654
Other reserves	731	0
Retained earnings	33,231	27,347
Interim dividends	0	(4,009)
<i>Net income for the year</i>	27,948	12,959
SHAREHOLDERS' EQUITY	161,631	132,814
Provisions for contingencies	10	1
TOTAL PROVISIONS	10	1
Bank borrowings	77,222	10,000
Bank overdrafts	44	3,612
Other	393	393
Current accounts with subsidiaries	59,187	47,019
Trade accounts and notes payable	2,681	3,331
Employee-related payables	142	119
Accrued payroll and other employee-related taxes	221	191
Accrued corporate income tax	22,522	6,246
Accrued sales taxes	642	1,386
Other accrued taxes	217	440
Other liabilities	1,318	1,569
TOTAL LIABILITIES	164,589	74,306
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	326,230	207,121

INCOME STATEMENT

(in € thousands)	2005	2004
Production sold in France	20,086	23,817
TOTAL REVENUES	20,086	23,817
Reversals of depreciation, amortization and provisions, expense transfers . . .	104	626
Other revenue	58	1
TOTAL OPERATING REVENUES	20,248	24,444
Rebilled purchases	6,205	7,916
Other purchases and external charges	11,916	10,941
Taxes other than on income	70	235
Wages and salaries	1,887	1,590
Payroll taxes	809	662
Depreciation and amortization of fixed assets	254	279
Additions to provisions for current assets	61	72
Additions to provisions for contingencies and charges	0	0
Other expenses	303	307
TOTAL OPERATING EXPENSES	21,505	22,002
OPERATING INCOME/(EXPENSE)	(1,257)	2,442
Interest and other financial income	33,253	10,869
Reversals of provisions	54	6,459
Net gains on disposals of marketable securities	170	776
TOTAL FINANCIAL INCOME	33,477	18,104
Interest and other financial expense	3,325	4,323
Additions to provisions	98	1,500
Net losses on disposals of marketable securities	1	206
TOTAL FINANCIAL EXPENSE	3,424	6,029
NET FINANCIAL INCOME	30,053	12,072
OPERATING INCOME BEFORE EXCEPTIONAL ITEMS AND TAX .	28,796	14,517

INCOME STATEMENT (cont'd)

(in € thousands)	2005	2004
Exceptional income from revenue transactions	0	248
Exceptional income from capital transactions	250	0
Reversals of provisions	0	28
TOTAL EXCEPTIONAL INCOME	250	276
Exceptional expense on revenue transactions	0	19
Exceptional expense on capital transactions	19	0
TOTAL EXCEPTIONAL EXPENSE	19	19
NET EXCEPTIONAL INCOME	231	257
Corporate income tax	1,079	1,815
TOTAL INCOME	53,975	42,824
TOTAL EXPENSE	26,027	29,865
NET INCOME	27,948	12,959

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in € thousands)	Capital stock	Additional paid-in capital	Retained earnings and reserves	Net income for the year	Total shareholders' equity
Shareholders' equity at December 31, 2003	1,000	1,126	29,658	5,788	37,572
Movements in 2004					
– Issuance of shares	9,000	82,637			91,637
– Appropriation of 2003 net income			5,788	(5,788)	0
– Dividends paid			(9,354)		(9,354)
Net income for the year				12,959	12,959
Shareholders' equity at December 31, 2004	10,000	83,763	26,092	12,959	132,814
Movements in 2005					
– Issuance of shares	2,000	2,958	(1,869)		3,089
– Appropriation of 2004 net income			12,959	(12,959)	0
– Dividends paid			(2,166)		(2,166)
Net income for the year				27,948	27,948
Other			(54)		(54)
Shareholders' equity at December 31, 2005	12,000	86,721	34,962	27,948	161,631

NOTES TO THE FINANCIAL STATEMENTS

The Company financial statements and notes thereto have been prepared based on the following data, within the meaning of Article 17 of the French decree dated November 29, 1983:

- Year-end: **December 31, 2005**
- Accounting period: **12 months**
- Previous accounting period: **12 months**
- Total assets at December 31, 2005: **€326,230,000**
- 2005 revenues: **€20,086,000**
- Number of employees at December 31, 2005: **31**

In application of Article 10 of the French Commercial Code (*Code de Commerce*), the attached notes are presented in the standard format. Certain additional material data have also been provided.

Note: Unless otherwise specified, all amounts in the following notes are stated in thousands of euros.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 – Significant events of the year

In November 2005, the Company purchased Altitude Télécom, enabling the Iliad Group to open up a new avenue of growth.

Also during the year, the Company's capital was raised to €12 million.

1.2 – General accounting principles

The financial statements have been prepared on a going concern basis, in accordance with French generally accepted accounting principles, including the principles of prudence and segregation of accounting periods, applied consistently from one accounting period to the next.

Application of CRC standards 02-10 and 04-06 relating to assets did not have a material impact on the Company's financial statements.

1.3 – Exceptions

No exceptions to French generally accepted accounting principles were applied in the preparation of these financial statements.

1.4 – Main accounting policies

The main accounting policies applied by the Company are as follows:

1.4.1 – Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are stated at the acquisition cost, including transaction expenses, or at production cost.

Depreciation and amortization are calculated by the straight-line method, as follows:

Software applications	1 year
Trademarks	10 years
Buildings	20 or 30 years
Fixtures and fittings	10 years
Plant and equipment	5 years
Furniture	5 years
Computer equipment	4 years

1.4.2 – Investments in subsidiaries and affiliates, loans and advances to subsidiaries and affiliates, and other investment securities

Investments in subsidiaries and affiliates, loans and advances to subsidiaries and affiliates, and other investment securities are stated at the lower of cost and fair value, excluding incidental expenses. Fair value is determined based on the net assets of the company concerned and its projected future earnings.

1.4.3 – Accounts and notes receivable

Accounts receivable are stated at nominal value.

A provision is recorded for doubtful accounts based on the estimated risk of non-recovery.

1.4.4 – Foreign currency transactions

Income and expenses in foreign currencies are converted at the exchange rate prevailing on the date of the transaction.

Balance sheet items are converted at the year-end rate.

1.4.5 – Provisions for contingencies and charges

When Iliad's obligations to third parties known at the balance sheet date are certain or likely to cause an outflow of resources, without at least equivalent consideration, a provision is recorded when the amount can be estimated with sufficient reliability.

1.4.6 – Difference between operating and exceptional items

Exceptional income and expense include both exceptional items relating to ordinary activities and extraordinary items.

Exceptional items relating to ordinary activities correspond to items that are unusual in terms of their size or impact or which arise from events that occur rarely.

1.4.7 – Use of estimates

The preparation of the financial statements in accordance with accounting principles generally accepted in France involves the use of estimates and assumptions which may have an impact on the reported amounts in the financial statements and accompanying notes. Actual amounts may differ from these estimates.

2 – NOTES TO THE BALANCE SHEET AT DECEMBER 31, 2005

2.1 – Intangible assets

2.1.1 – Movements in 2005

Movements in intangible assets in 2005 can be analyzed as follows:

	At Jan. 1, 2005	Acquisitions	Disposals	At Dec. 31, 2005
Software	25	21	0	46
Trademarks	154	0	0	154
TOTAL	179	21	0	200

2.1.2 – Trademarks

The Company has filed several trademarks related to its corporate name and businesses.

2.2 – Property, plant and equipment

2.2.1 – Movements in 2005

Movements in property, plant and equipment in 2005 can be analyzed as follows:

	At Jan. 1, 2005	Acquisitions 2005	Disposals 2005	At Dec. 31, 2005
Land	119	0	0	119
Buildings	356	0	0	356
Fixtures and fittings	789	35	0	824
Technical equipment	7	0	0	7
Computer equipment	400	32	0	432
Furniture	126	2	0	128
TOTAL	1,797	69	0	1,866

2.2.2 – Analysis of property, plant and equipment

- *Land and buildings*

The Company owns a building at Rue de Crimée in Paris.

- *Computer equipment*

This item corresponds to purchases of computer equipment.

2.3 – Long-term investments

2.3.1 – Movements in 2005

	At Jan. 1, 2005	Acquisitions 2005	Disposals 2005	At Dec. 31, 2005
Investments in subsidiaries and affiliates . .	36,580	59,435	19	95,996
Loans and advances to subsidiaries and affiliates	137,498	66,790	0	204,288
Other investment securities	1,765	0	0	1,765
Guarantee deposits	1,014	2	5	1,011
TOTAL	176,857	126,227	24	303,060

2.3.2 – Investments in subsidiaries and affiliates

The main movements during the year were as follows:

● IFW

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. The acquisition of this company has opened up a new avenue of growth for the Iliad Group.

The purchase price of the shares was €57,130,000. The related transaction costs, amounting to €1,136,000 were recorded in the 2005 income statement.

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. No additional payment was provided for at December 31, 2005, as the exercise of these clauses was at the seller's sole discretion.

● FREE

In 2005, Free – a wholly-owned subsidiary of Iliad – issued shares to employees on exercise of founders' share subscription warrants. As it wished to retain full ownership of this subsidiary, Iliad acquired the newly issued shares from said employees, for €1,423,000.

● FREEBOX

During the year, Iliad purchased certain minority interests in Freebox, raising its stake in this company from 95% to 95.43%.

● ENDEIS TELECOM

In October 2005, Iliad sold its entire 50% stake in Endeis Telecom.

2.3.3 – Loans and advances to subsidiaries and affiliates

As specified at the time of the IPO, a substantial portion of the proceeds from the flotation was used to finance investments in unbundling operations carried out by Free and Freebox.

These investments continued in the year ended December 31, 2005.

2.3.4 – List of subsidiaries and affiliates

See table on next page.

(in € thousands)	Capital stock	Retained earnings and other reserves	% ownership	2005 net income/(loss)	Gross value of shares held	Net value of shares held	Loans and advances granted by the Company	Commitments given	2005 revenues	Dividends received during the year
ASSUNET SA	38	(516)	89.88	42	34	0	47	/	443	0
CENTRAPEL SA	38	(598)	99.98	436	38	38	5,763	/	24,457	0
DEDIBOX SA	37	0	90.00	(45)	33	33	1	/	/	0
FREE BOX SAS	38	1,059	95.43	710	876	876	26,931	1,000	83,433	0
FREE SAS	3,033	41,630	100.00	49,007	30,855	30,855	165,564	61,209	634,588	21,483
IFW SA	2,584	6,351	100.00	(4,585)	57,130	57,130	/	/	923	0
IH SA	39	46	99.98	(1)	39	39	848	/	973	0
KEDRA SA	39	4	99.98	1,573	39	39	6,276	/	49,745	2,446
KERTEL	45	(40)	100.00	1,648	800	800	/	/	53,325	0
ON LINE SA	85	64	100.00	1,100	85	85	/	/	2,689	1,935
ONE TEL SAS	2,511	32,518	100.00	16,292	0	0	/	/	56,820	0
SASAM SARL	1	49	96.66	(31)	195	52	/	/	0	0
SNDM SARL	2	(382)	100.00	(53)	297	0	/	/	2	0
SOCIETE SA	76	27	99.99	640	3,537	2,000	/	/	1,711	0
TOTAL CALL	9	0	100.00	(238)	9	9	622	237	255	0
TOUTCOM SARL	8	0	98.00	(2)	275	0	/	/	0	0

2.3.5 – Related-party transactions

	Income	Expense
Loans and advances to subsidiaries and affiliates	206,053	
Trade accounts and notes receivable	1,851	
Other receivables	229	
Business premise guarantees received		371
Miscellaneous borrowings		59,185
Trade accounts and notes payable		984
Other liabilities		1,316
Financial expense	2,453	
Financial income		32,840

2.4 – Depreciation and amortization

Movements in depreciation and amortization are broken down in the following table.

	Depreciation and amortization at Jan. 1, 2005	Increases	Decreases	Depreciation and amortization at Dec. 31, 2005
Other intangible assets				
SUB-TOTAL I	105	27	0	132
Buildings	203	17	0	220
Plant and equipment	5	1	0	6
Fixtures and fittings	442	110	6	546
Furniture, office and computer equipment	265	100	0	365
SUB-TOTAL II	915	228	6	1,137
TOTAL I + II	1,020	255	6	1,269

2.5 – Other assets

No further information is required in relation to any other assets.

The following table shows a breakdown of receivables by maturity.

	Gross amount	Due within one year	Due beyond one year
FIXED ASSETS			
• Loans and advances to subsidiaries and affiliates	206,053	206,053	
• Other long-term investments	1,011		1,011
CURRENT ASETS			
• Trade receivables	3,631	3,631	
• Doubtful accounts	301	301	
• Employee-related receivables	1	1	
• Value-added tax	477	477	
• Other receivables	1,823	1,823	
• Prepaid expenses	168	168	
TOTAL	213,465	212,454	1,011

2.6 – Capital stock and changes in capital

2.6.1 – Capital stock

The Company's capital stock at December 31, 2005 amounted to €12,000,000, divided into 54,151,550 fully paid-up shares.

2.6.2 – Form of the shares

All Iliad shares are issued in registered form.

There are no preferred shares.

2.6.3 – Changes in Iliad's capital

2.6.3.1 – Summary table

Changes in Iliad's capital are as follows:

Date	Operation	Amount of operation (in € thousands)	Issue premiums	Shares issued or cancelled	Total capital (in € thousands)
Jan. 1, 2004	Balance at January 1, 2004		/	47,624,230	1,000
Feb. 10, 2004		122	94,874	5,828,000	1,122
Feb. 19, 2004	Issuance of shares for the IPO				
April 8, 2005	Capital increase by capitalizing issue premiums	8,878	/	/	10,000
July 11, 2005	Issuance of shares further to exercise of founders' share warrants	131	2,958	699,320	10,131
	Capital increase by capitalizing reserves	1,869	/	/	12,000
			TOTAL	54,151,550	12,000

On December 12, 2003, the Shareholders' Meeting:

- Authorized the increase of Iliad's capital by issuing shares and/or share equivalents either with or without pre-emptive subscription rights. This authorization was granted for a period of twenty-six months, with a ceiling of €400,000 for each issue.
- Authorized the increase of Iliad's capital by issuing shares to certain categories of persons, without pre-emptive subscription rights. This authorization was granted for a twenty-four month period, with a ceiling of €200,000.
- Gave a sixty-month authorization to increase Iliad's capital by capitalizing reserves, earnings or additional paid-in capital.
- Gave a twenty-six month authorization to increase Iliad's capital by a maximum of €50,000 by issuing shares, without pre-emptive subscription rights, to members of a savings plan set up by the Company or Group.
- Authorized for a five-year period the issuance of bonds representing an aggregate total of €100 million.
- Gave full powers to the Board of Directors to determine the timing and conditions of the aforementioned issuances.

2.6.3.2 – Changes in capital stock

Using the authorizations granted at the Shareholders' Meeting held on December 12, 2003, the Board of Directors carried out the following in 2004 and 2005:

- January 20, 2004

Issuance of 5,828,000 equity warrants (with a waiver of preferential subscription rights for existing shareholders) to Société Générale acting as the Lead Manager and Book runner for Iliad's IPO. Each warrant is exercisable for one share.

- February 10, 2004

Further to the IPO, issuance of 5,828,000 Iliad shares, corresponding to:

- a capital increase of €122,374.68
- an issue premium of €94,874,025.32

The IPO costs, which amounted to €3,360,000, were offset against this issue premium.

- February 19, 2004

Capital increase of €8,877,625.32 through the capitalization of a portion of the share issue premium.

- April 8, 2005

Issuance of 699,320 Iliad shares, following the exercise by beneficiaries of the founders' share warrants granted in 2001 and 2002, leading to:

- A capital increase of €130,830.84
- An issue premium of €2,958,176.56

- July 11, 2005

Capital increase of €1,869,169.16 through capitalizing reserves without issuing securities.

2.6.4 – Ownership structure

At December 31, 2005, one shareholder (Xavier Niel) owned over two-thirds of the Company's capital.

2.6.5 – Stock option and similar plans

The following table summarizes the main features of the various stock option and similar plans approved in prior years and outstanding at the year-end.

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

2.7 – Provisions for contingencies and charges

Movements in provisions for contingencies and charges in 2005 can be analyzed as follows:

	At Jan. 1, 2005	Additions in 2005	Reversals in 2005	At Dec. 31, 2005
Provisions for foreign exchange losses	1	9	0	10
TOTAL	1	9	0	10
o/w utilizations			0	

2.8 – Other liabilities

None of the Company's debts are significantly aged or unusual.

The table below analyzes the Company's liabilities by maturity.

	Gross	Due within 1 year	Due in 1 to 5 years	Due beyond 5 years
• Bank borrowings				
• due within one year at inception of loan . .	222	222		
• due beyond one year at inception of loan . .	77,000	16,000	61,000	
• Other borrowings	44	44		
• Guarantee deposits received	393		393	
• Trade accounts and notes payable	2,681	2,681		
• Employee-related payables	142	142		
• Accrued payroll and other employee-related taxes	221	221		
• Other accrued taxes				
• Corporate income tax	22,522	22,522		
• VAT	642	642		
• Other	217	217		
• Current accounts with subsidiaries	59,187	59,187		
• Other liabilities	1,318	1,318		
TOTAL	164,589	103,196	61,393	

3 – 2005 REVIEW OF OPERATIONS**3.1 – Revenues**

2005 revenues can be analyzed as follows by segment:

• Minitel services	€7,825,000
• Iliad Telecom services	€2,378,000
• Intercompany re-invoicing	€9,690,000
• Other	€193,000
TOTAL	€20,086,000

All of the Company's revenues are generated in France.

3.2 – Number of employees

At December 31, 2005, Iliad had 31 employees, broken down as follows by category:

	Men	Women	Total
• Management	17	9	26
• Other	1	4	5
TOTAL	18	13	31

3.3 – Exceptional items

Net exceptional income came to €231,000 in 2005, corresponding to the capital gain realized on the sale of the Company's shares in Endeis Telecom.

3.4 – Net financial income

Net financial income came to €30,053,000 in 2005, breaking down as follows:

	(in € thousands)
• Net interest on subsidiaries' current accounts	4,522
• Income from securities	26,278
• Overdraft charges and other financial expenses	(872)
• Net gains on disposals of marketable securities	169
• Additions to provisions	(98)
• Reversals of surplus provisions	54
	30,053
Additions to provisions correspond to:	
• Other investment securities	88
• Financial risks and charges	10
	98

3.5 – Management compensation

Information concerning individual remuneration of members of the Company's management bodies is provided in the Management Report.

4 – FINANCIAL INFORMATION

4.1 – Finance leases

The Company has entered into finance leases in relation to various equipment required for its business development.

The main characteristics of these leases are as follows:

Value at inception of lease	299
Depreciation	
Cumulative depreciation	118
Charge for the year	97
TOTAL	215
Lease payments made	
Cumulative payments made	137
Payments for the year	116
TOTAL	253
Future minimum lease payments	
Within 1 year	91
1 to 5 years	3
Beyond 5 years	0
TOTAL	94
Residual value	
Within 1 year	3
1 to 5 years	2
Amount charged to the income statement for the year	116

4.2 – Financial commitments

Guarantees given to third parties

Iliad has given a guarantee to SITA (Suez Environnement) in the amount of €1,700,000, relating to premises at Rue de la Ville l'Evêque.

Guarantees given by Iliad on behalf of Group companies:

Company concerned	Beneficiary of the guarantee	Amount of guarantee (in € thousands)	Purpose of guarantee
FREE	Banks	8,000	Loan guarantees
FREE	DELL NEWCOURT	1,116	Leases relating to IT equipment
FREE	ING LEASE	1,252	Financing for the purchase of equipment under four finance leases
FREE	Cisco Systems Capital	6,221	Financing for the purchase of equipment under fourteen finance and equipment leases
FREE	Banks	40,000	Collateral security in relation to loan agreements signed with two banks
FREE	9Télécom	4,620	Commitment to minimum purchase volumes (minutes and terminations) between July 1, 2004 and December 31, 2006 corresponding to revenues of €4,620,000
FREEBOX	MEMEC France SAS	/	Guarantee for financial commitments made by Freebox
FREEBOX	MICRON EUROPE LTD	1,000	Guarantee for financial commitments made by Freebox in relation to the provision of electronic components
IH	Rugelec	/	Guarantee for financial commitments made by IH in relation to a memorandum of understanding signed on December 11, 2003
ONE TEL	Télé 7 jours	/	Guarantee for financial commitments made by One Tel
TOTAL CALL . .	CEGETEL	237	Guarantee for financial commitments made by Total Call up until November 29, 2006

4.2.1 – Collateralized debt

None of the property belonging to the Company has been used as collateral for any debt.

4.3 – Post-employment benefit obligations

Actuarial valuations of post-employment benefit obligations are made using the projected unit credit method, with employee rights recorded on an accruals basis.

For each active participant, the benefit likely to be paid is estimated based on the rules defined in the applicable collective-bargaining agreement and/or company-level agreement, using personal data projected to the standard age for payment of the benefit. The Company's total obligations toward each participant (total actuarial value of future benefits) are then calculated by multiplying the estimated benefit by an actuarial factor, which takes into account the following:

- Assumptions concerning the employee's probability of either leaving the Company 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 portion of the Company's obligation allocated to years prior to the valuation date (projected benefit obligation). The projected benefit obligation corresponds to the amount of the Company's obligations existing at the balance sheet date.
- The portion of the Company's liability relating to the year following the valuation date (service cost). This corresponds to the probable increase in obligations due to the additional year's service that the participant will have provided to the Company at the end of that year.

The individual results of the valuation are then aggregated to obtain Company-level results.

The Company's obligation in relation to post-employment benefits amounted to €16,000 at December 31, 2005. This obligation was not recognized in the 2005 financial statements.

5 – OTHER INFORMATION

5.1 – Consolidation

Iliad SA is responsible for preparing the consolidated financial statements in its capacity as parent company of the Group.

5.2 – Tax-related information

5.2.1 – Tax group

Iliad has set up a tax group which included the following companies in 2005:

- | | |
|----------------|----------------|
| ● SA ILIAD | ● SA SOCIETE |
| ● SARL SNDN | ● SA CENTRAPEL |
| ● SARL SASAM | ● SAS FREE BOX |
| ● SARL TOUTCOM | ● SA FREE |
| ● SA KEDRA | ● SA ONLINE |
| ● SA ONE TEL | ● SA KERTEL |
| ● SA IH | |

The following rules apply within the tax group:

- Each company in the tax group, including the parent company, records in its accounts the amount of tax that it would have paid on a stand-alone basis.
- Any tax savings relating to tax losses made by members of the tax group are held at the level of the parent company and therefore do not have any impact on net income. For as long as they remain members of the tax group, subsidiaries may offset their tax losses generated during their membership of the tax group against future taxable income. Iliad records these tax savings on the liabilities side of its balance sheet under "Other liabilities". They totaled €1,316,000 at December 31, 2005.
- Any tax charges or savings relating to adjustments to total earnings, as well as any tax credits for loss-making companies, are recorded at the level of Iliad SA.
- No payments in relation to these matters may be due by Iliad when a company leaves the tax group.

5.2.2 – Unrecognized deferred taxes

Items subject to adjustments for the purpose of calculating taxable income will have the following expected impact on taxes in future years:

Type of timing differences	Amount (in € thousands)
Deferred tax liabilities	/
TOTAL	/
Total unrecognized deferred tax liabilities	/
Deferred tax assets	
Government housing levy	3
“Solidarity” tax contribution	12
TOTAL	15
Total unrecognized deferred tax assets	15
Tax loss carryforwards of the Company	None
TAX GROUP	
Tax loss carryforwards	None
Long-term capital losses	1,176

5.2.3 – Corporate income tax relating to exceptional items

Corporate income tax payable for 2005 amounted to €1,079,000 (including surtaxes), breaking down as follows:

Corporate income tax relating to ordinary activities: €1,079,000

Corporate income tax relating to exceptional items: €0

5.3 – Information on the segregation of accounting periods

5.3.1 – Accrued income

Accrued income included in balance sheet items can be broken down as follows:

Balance sheet item	Amount
Trade accounts and notes receivable	1,717
Other receivables	64
TOTAL	1,781

5.3.2 – Accrued expenses

Accrued expenses included in balance sheet items can be broken down as follows:

Balance sheet item	Amount
Bank borrowings	237
Trade accounts and notes payable	343
Accrued taxes and payroll costs	413
TOTAL	993

5.3.3 – Prepaid expenses

Prepaid expenses totaled €168,000 at December 31, 2005, all of which corresponded to operating items.

5.4 – Subsequent events

No material events have occurred since the balance sheet date.

ILIAD SA

**STATUTORY AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS**

(Year ended December 31, 2005)

PricewaterhouseCoopers Audit
63, rue de Villiers
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**STATUTORY AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
(Year ended December 31, 2005)**

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

ILIAD SA

8, rue de La Ville L'Evêque
75008 PARIS

To the shareholders,

In compliance with the assignment entrusted to us by your Shareholders' Meeting, we hereby report to you for the year ended December 31, 2005 on:

- the audit of the accompanying financial statements of Iliad SA,
- the justification of our assessments,
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I – Opinion on the financial statements

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

In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities as of December 31, 2005 and of the results of its operations for the year then ended, in accordance with the accounting rules and principles applicable in France.

II – Justification of our assessments

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

Note 1.4.2 to the financial statements explains the accounting rules and methods used to measure investments in subsidiaries and affiliates, and loans and advances to subsidiaries and affiliates. As part of our assessment of the accounting rules and principles applied by your Company, we verified the appropriateness of these accounting methods and of the calculation of provisions for impairment in value.

The assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the formation of the unqualified opinion expressed in the first part of this report.

III – Specific verification and information

We have also performed the specific verifications required by law in accordance with professional standards applicable in France.

We have no matters to report regarding the fair presentation and the conformity with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

In accordance with the law, we verified that information relating to acquisitions of investments and controlling interests, and the identity of holders of capital and voting rights was disclosed in the management report.

Neuilly-sur-Seine and Paris, April 8, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit

Boissière Expertise Audit

Xavier Cauchois

Tita A. Zeïtoun

STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS

Iliad

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75008 Paris

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92208 Neuilly-sur-Seine cedex

STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS

This is a free translation into English of the Statutory Auditors' special report issued in the French language and is provided solely for the convenience of English speaking readers.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Iliad SA
8, rue de la Ville l'Evêque
75008 Paris

To the shareholders,

In our capacity as Statutory Auditors of your Company, we hereby present our report on regulated agreements.

I – AGREEMENTS AUTHORISED IN 2005

In accordance with article L. 225-38 of the French Commercial Code (*Code de commerce*), we have been advised of the following agreements which were authorized by the Board of Directors.

Our responsibility does not include identifying any undisclosed agreements. We are required to report to shareholders, based on the information provided, about the main terms and conditions of the agreements that have been disclosed to us, without commenting on their relevance or substance. Under the provisions of article 92 of the March 23, 1967 decree, it is the responsibility of shareholders to determine whether the agreements are appropriate and should be approved.

We carried out our work in accordance with the professional standards applicable in France. These standards require that we perform procedures to verify that the information given to us agrees with the underlying documents.

1 – AGREEMENT ENTERED INTO WITH FREEBOX

Directors concerned: Xavier Niel, Cyril Poidatz, Michaël Boukobza, Olivier Rosenfeld.

On September 2, 2005, the Board of Directors authorized the Company to provide a guarantee in respect of its subsidiary Freebox's financial commitments towards Micron Europe Limited.

2 – AGREEMENT ENTERED INTO WITH XAVIER NIEL – Director

On February 9, 2005, the Board of Directors authorized a current account advance agreement between your Company and Xavier Niel. No interest was paid on the amounts in Xavier Niel's current account and the account was cleared out at the year-end.

3 – AGREEMENT ENTERED INTO WITH TOUTCOM

Director concerned: Cyril Poidatz.

On October 26, 2005, the Board of Directors authorized the Company to provide Toutcom with commercial premises to be used as its registered address, at no consideration.

4 – AGREEMENT ENTERED INTO WITH SNDM

Director concerned: Xavier Niel.

On October 26, 2005, the Board of Directors authorized the Company to provide SNDM with commercial premises to be used as its registered address, at no consideration.

5 – AGREEMENT ENTERED INTO WITH TOTAL CALL

Director concerned: Cyril Poidatz.

On February 9, 2005, the Board of Directors authorized the Company to enter into a cash pooling agreement with Total Call.

At December 31, 2005, the balance of Total Call's current account advance amounted €622,440. Interest of €10,950 was invoiced by the Company to Total Call on this account during the year.

6 – AGREEMENT ENTERED INTO WITH RANI ASSAF – Senior Vice President

Under the authorization given by the Board of Directors on February 9, 2005, to repurchase, if required, shares held by minority shareholders of your subsidiary Freebox, the Company acquired shares from Rani Assaf for an amount of €240,000.

7 – AGREEMENT ENTERED INTO WITH ONE.TEL

Director concerned: Cyril Poidatz.

On December 26, 2006, the Board of Directors authorized a waiver of debt amounting to €51,754 owed to the Company by its subsidiary One.Tel, following the repurchase by Iliad of loans included in One.Tel's debt repayment plan.

II – AGREEMENTS ENTERED INTO IN PRIOR YEARS WHICH REMAINED IN FORCE DURING THE YEAR

In application of the decree of March 23, 1967, we were advised of the following agreements entered into in prior years which remained in force during 2005.

1 – AGREEMENT ENTERED INTO WITH KEDRA SA

On December 12, 2001, the Supervisory Board authorized the Company to enter into a cash pooling agreement with Kedra.

At December 31, 2005, the balance of Kedra's current account advance amounted to €6,275,778. Interest of €279,442 was invoiced by the Company to Kedra on this account during the year.

2 – AGREEMENT ENTERED INTO WITH FREEBOX SA

On December 12, 2001, the Supervisory Board authorized the Company to enter into a cash pooling agreement with Freebox.

At December 31, 2005, the balance of Freebox's current account advance amounted to €26,931,170. Interest of €1,492,775 was invoiced by the Company to Freebox on this account during the year.

3 – AGREEMENT ENTERED INTO WITH CENTRAPEL SA

On December 12, 2001, the Supervisory Board authorized the Company to enter into a cash pooling agreement with Centrapel.

At December 31, 2005, the balance of Centrapel's current account advance amounted to €5,762,784. Interest of €279,471 was invoiced by the Company to Centrapel on this account during the year.

4 – AGREEMENT ENTERED INTO WITH SOCIETE SA

On July 12, 2000, the Board of Directors authorized the Company to enter into a cash pooling agreement with Société.

At December 31, 2005, the Company had a current account advance of €456,825 from Société. Interest invoiced by Société to the Company on this account during the year amounted to €19,839.

5 – AGREEMENT ENTERED INTO WITH ASSUNET SA

On July 12, 2000, the Board of Directors authorized the Company to enter into a cash pooling agreement with Assunet.

At December 31, 2005, the balance of Assunet's current account advance amounted to €47,160. Interest of €4,048 was invoiced by the Company to Assunet on this account during the year.

6 – AGREEMENT ENTERED INTO WITH KERTEL SA

On December 17, 2003, the Board of Directors authorized the Company to enter into a cash pooling agreement with Kertel.

At December 31, 2005, the Company had a current account advance of €6,029,171 from Kertel. Interest invoiced by Kertel to the Company on this account during the year amounted to €256,082.

7 – AGREEMENT ENTERED INTO WITH TOUTCOM SARL

No use was made during the year of the cash pooling agreement entered into with Toutcom.

8 – AGREEMENT ENTERED INTO WITH FREE SAS

The cash pooling agreement entered into with Free remained in force during the year.

At December 31, 2005, the balance of Free's current account advance amounted to €165,564,211. Interest of €4,686,188 was invoiced by the Company to Free on this account during the year.

The contract signed by the Company and Free concerning the promotion by Iliad of the French directory service www.annu.com, remained in force during the year. As consideration for the right granted by Free SAS to the Company to manage an offer of a multiple-criteria telephone directory search on the www.free.fr and www.home.free.fr portals, Free invoiced Iliad for €700,000 in 2005.

9 – AGREEMENT ENTERED INTO WITH ONE.TEL SAS

On December 12, 2002, the Supervisory Board authorized the Company to enter into a cash pooling agreement with One.Tel.

At December 31, 2005, the Company had a current account advance of €51,421,432 from One.Tel. Interest invoiced by One.Tel to the Company on this account during the year amounted to €1,891,426.

10 – AGREEMENT ENTERED INTO WITH ONLINE SAS

On December 12, 2002, the Supervisory Board authorized the Company to enter into a cash pooling agreement with Online.

At December 31, 2005, the Company had a current account advance of €810,334 from Online. Interest invoiced by Online to the Company on this account during the year amounted to €90,636.

11 – AGREEMENT ENTERED INTO WITH IH SA

On December 12, 2002, the Supervisory Board authorized the Company to enter into a cash pooling agreement with IH.

At December 31, 2005, the balance of IH's current account advance amounted to €848,084. Interest of €46,691 was invoiced by the Company to IH on this account during the year.

Paris, Neuilly, April 8, 2006

The Statutory Auditors

Boissière Expertise Audit

Tita A. Zeïtoun

PricewaterhouseCoopers Audit

Xavier Cauchois

20.3 LEGAL AND ARBITRATION PROCEEDINGS

On November 25, 2005, the Paris Commercial Court ordered France Telecom to pay Free €6,000,000 in damages. In accordance with the terms of the order, this ruling has been enforced, but France Telecom has lodged an appeal.

An application has been lodged by another operator for the French Council of State to overturn the ARCEP's decision relating to IFW's 3.5 GHz frequency license. IFW has drawn up a statement of case defending its position and the case is currently pending.

During the past twelve months, there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the issuer is aware) which may have, or have had in the recent past a significant impact on the Group's financial position or profitability.

20.4 SIGNIFICANT CHANGES IN THE GROUP'S FINANCIAL OR TRADING POSITION

No significant changes in the Group's financial or trading position have occurred since December 31, 2005.

CHAPTER 21

ADDITIONAL INFORMATION

21.1 SHARE CAPITAL

21.1.1 Amount of share capital

At the date of this registration document, the Company's share capital amounted to €12,000,000, divided into 54,151,550 shares, all issued, fully paid up and of the same class. The par value of the shares is not set in the Company's bylaws.

21.1.2 Shares not representing capital

At the date of this registration document, the Company has not issued any shares not representing capital.

21.1.3 Share buyback programs

The ninth resolution of the May 27, 2005 Shareholders' Meeting authorized the Board of Directors, with authority to delegate under the terms provided by law, to acquire shares representing up to 4% of the Company's capital. This authorization was granted for a period of eighteen months and remains in effect until November 26, 2006.

Pursuant to this authorization, the Company prepared an information memorandum approved by the AMF on May 4, 2005 under No. 05-356, and subsequently launched a share buyback program. The maximum purchase price under this program is €50 per share.

The objectives of the share buyback program, in decreasing order of priority, were as follows:

- To maintain a liquid secondary market for the Company's shares through an investment firm under a liquidity contract that complies with the code of ethics of the French Association of Investment Firms (AFEI), which is recognized by the AMF.
- To allocate shares to employees and corporate officers of the Company and Group subsidiaries, in accordance with the applicable legislation, including by awarding shares without consideration, as permitted by Articles L.225-197-1 *et seq.* of the French Commercial Code, or by granting stock options in accordance with Articles L. 225-179 *et seq.* of the French Commercial Code, or in relation to profit-sharing schemes.
- To purchase shares for allocation to employees and corporate officers of the Company on exercise of stock options, in accordance with the applicable legislation.
- To purchase shares to be held and subsequently remitted in exchange or payment for external growth transactions.
- To attribute shares on redemption, conversion, exercise or exchange of share equivalents.

On May 15, 2006, the Company carried out the following transactions in connection with the share buyback program:

	Purchases	Sales
Number of shares	811,229	812,528
Average transaction price (<i>in €</i>)	36,6603	37,9036
Total (<i>in €</i>)	28,951,177	29,127,560

As a result of the above purchases and sales, the Company's portfolio of treasury shares at December 31, 2005 was as follows:

Percentage directly or indirectly held by the Company	0.08%
Number of shares cancelled in the past 24 months	0
Number of securities held in the portfolio	4,150
Book value of the portfolio (<i>in €</i>)	184,339,66
Market value of the portfolio (<i>in €</i>) ¹	217,045

At the Annual Shareholders' Meeting to be held on May 29, 2006, the Board of Directors will recommend to the Company's shareholders that they renew the authorization to implement a share buyback program in accordance with the General Regulations of the AMF, which particularly reflect European Commission Regulation No. 2273/2003 of December 22, 2003 implementing European Directive 2003/6/EC of January 28, 2003.

21.1.4 Potential share capital

21.1.4.1 Stock options

In accordance with Articles L.225-177 *et seq.* of the French Commercial Code, the Extraordinary Shareholders' Meeting held on December 12, 2003 authorized the Board of Directors to grant on one or more occasions senior managers or other employees of the Company, or related companies within the meaning of Article L.225-180 of the French Commercial Code, options to purchase new or existing shares in the Company.

The total number of stock options granted, taking into account options granted under previous authorizations, may not be exercisable for shares representing over 2% of the Company's capital at the grant date. This authorization was given for a period of thirty-eight months from the date of the Shareholders' Meeting, i.e. until February 11, 2007.

The exercise price of the options granted under this authorization may not represent less than 80% of the average of the prices quoted for the Company's shares over the 20 trading days preceding the grant date. No stock option may be granted less than 20 trading days following the ex-dividend date or the issue of a preferential right to subscribe for new shares issued by the Company. In addition, the exercise price for options to purchase existing shares may not represent less than 80% of the average price paid for shares held by the Company pursuant to Article L.225-208 of the French Commercial Code or any share buyback program in effect.

At its meetings on January 20 and 29, 2004 the Board of Directors decided to use the above authorization in order to set up a stock option plan and grant 485,769 stock options to 22 employees of the Group, with each option entitling its holder to purchase one new share at a unit price of €16.30.

The Board of Directors used the same authorization at its December 20, 2005 meeting to set up a new stock option plan and grant 541,515 stock options to 84 employees and corporate officers of the Group, with each option entitling its holder to purchase one new share at a unit price of €48.44.

¹ Based on the closing Iliad share price on December 30, 2005 – i.e. €52.30.

The table below sets out the main characteristics of the stock options granted by the Company and which were outstanding at March 31, 2006.

Date of Shareholders' Meeting	December 12, 2003
<i>First stock option plan</i>	
Date of Board meeting	January 20, 2004
Total number of options granted by the Board of Directors	485,769
o/w to members of the Board of Directors	0
Total number of beneficiaries	22
Exercise price per share (in €)	16.30
Exercise date of the options	January 20, 2008
Expiry date of the options	January 19, 2014
Number of options exercised	0
Number of options forfeited	62,456
Total number of exercisable options	0
New number of beneficiaries	20
Total number of new shares to be issued on exercise of the options	423,313
Maximum dilutive impact of the options	0.78%
<i>Second stock option plan</i>	
Date of Board meeting	December 20, 2005
Total number of options granted by the Board of Directors	541,515 ²²
o/w to members of the Board of Directors	243,684
Total number of beneficiaries	84
Exercise price per share (in €)	48.44
Exercise dates of the options	December 20, 2009
	December 20, 2010
Expiry date of the options	December 19, 2015
Number of options exercised	0
Number of options forfeited	0
Total number of exercisable options	0
Total number of new shares to be issued on exercise of the options	541,515
Maximum dilutive impact of outstanding options	1%

At March 31, 2006:

- 20 Group employees held 423,313²³ options entitling them to purchase 423,313 new Iliad shares at a unit price of €16.30.
- 84 Group employees held 541,515 options entitling them to purchase 541,515 new Iliad shares at a unit price of €48.44.

22 o/w 270,758 are exercisable at December 20, 2009 and 270,757 are exercisable at December 20, 2010.

23 Taking into account 62,456 forfeited options.

21.1.4.2 Information about the potential dilutive impact on the Company's capital following operations relating to the Company's potential dilutive instruments during the past three fiscal years

Except for the stock options described in Section 21.1.4.1 above, there are no securities that are convertible, redeemable, exchangeable or otherwise exercisable for the Company's shares or voting rights.

Type of dilutive instrument	Date of grant	Exercise price (in €)	Expiry date of exercise period ²⁴	Number of new shares to be issued on exercise of options	Dilutive impact (%)
Stock options	January 20, 2004	16.30	January 19, 2014	423,313	0.78%
Stock options	December 20, 2005	48.44	December 19, 2015	541,515	1%
Total				964,828	1.78%

21.1.5 Information about the terms of any acquisition rights or any obligations over authorized but unissued capital or an undertaking to increase the share capital

Not applicable.

21.1.6 Information about the share capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option and details of such options (including those persons to whom such options relate)

There are no options or conditional or unconditional agreements providing for the share capital of any member of the Group to be placed under option.

²⁴ Unless the beneficiary leaves the Company.

21.1.7 Changes in the Company's share capital over the past five years

Date of Shareholders' Meeting	Transaction	Number of shares issued	Nominal amount of capital increase or reduction (in €)	Share premium (in €)	Total share premiums (in €)	Total par value of share capital (in €)	Total shares outstanding	Par value of shares (in €)
06/28/2001	Capital increase through capitalization of reserves	0	518,638.72	0	25,350.32	10,989,588.80	6,868,493	1.60
	Stock split and decrease in par value	103,027,395	0	0	25,350.32	10,989,588.80	109,895,888	0.10
03/13/2002	Capital reduction	(103,027,395)	(9,989,588.80)	9,989,588.80	10,962,034.12	1,000,000	6,868,493	0.15
	Capital increase through capitalization of premiums	0	306,627.67	(306,627.67)	1,126,687.10	1,000,000	4,762,423	0.21
12/12/2003	Stock split and decrease in par value	42,861,807	0	0	1,126,687.10	1,000,000	47,624,230	0.02
01/29/2004	Capital increase through cash contributions	5,000,000	104,988.57	78,034,413.23	79,161,200.33	1,104,988.57	52,624,230	0.02
02/03/2004	Capital increase through exercise of equity warrants	828,000	17,386.11	13,479,841.89	92,641,042.22	1,122,374.68	53,452,230	0.02
02/19/2004	Capital increase through capitalization of premiums	0	8,877,625.32	(8,877,625.32)	83,763,416.90	10,000,000	53,452,230	0.19
04/08/2005	Capital increase through exercise of founders' warrants	699,320	130,830.84	2,958,176.56	86,721,953.46	10,130,830.84	54,151,550	0.19
07/11/2005	Capital increase through capitalization of reserves	0	1,869,169.16			12,000,000	54,151,550	0.22

21.1.8 Authorized unissued share capital

At the Extraordinary Meeting of May 27, 2005 the shareholders authorized the Board of Directors to increase the Company's capital as follows:

Authorizations given to the Board of Directors' by the Extraordinary Shareholders' Meeting	Nominal amount (in €)		Expiry date	Change in ceilings and/or expiry dates of authorizations submitted for approval at the Shareholders' Meeting of May 29, 2006		
	Authorized amount (ceiling)	Used		Validity period	Ceiling (in €)	
To issue shares and/or share equivalents with pre-emptive subscription rights for existing shareholders	4,000,000	0	07/26/2007	26 months from the date of the Shareholders' Meeting	4,000,000	
To issue shares to employees who are members of a corporate savings plan				26 months from the date of the Shareholders' Meeting	100,000	
To award stock options				38 months from the date of the Shareholders' Meeting	240,000	
To issue shares and/or share equivalents without pre-emptive subscription rights for existing shareholders	4,000,000	0	07/26/2007	26 months from the date of the Shareholders' Meeting	4,000,000	
To issue shares and/or share equivalents to certain categories of persons without pre-emptive subscription rights for existing shareholders	200,000	0	12/12/2005	N/A	N/A	
To increase the Company's capital through capitalization of reserves, earnings or premiums	75,000,000	10,746,794.5	12/12/2008	N/A	N/A	

21.2 BYLAWS

21.2.1 Corporate purpose (Article 2 of the bylaws)

The Company's purpose is to directly or indirectly conduct the following activities in France or any other country:

- to study, implement, maintain, operate, manage and/or market all systems, equipment, networks or services in the fields of telecommunications, the Internet, data processing, telematics and communications, including the installation and operation of electronic communications networks;
- to publish and broadcast all services, programs and information, in particular, to publish and provide telephone and telematics services to the public and broadcast audiovisual communications services by any technical means, including through the press, radio, audio-visual media, video or remote transmission, on magnetic or other media;
- to acquire by any means and manage investments in the capital of any French or foreign company, regardless of its form and purpose, by purchase, subscription of shares or otherwise;

- to acquire, by any means, bonds, founders' shares or other securities issued by such companies;
- to provide any services relating to commercial, financial, accounting and administrative activities;
- to directly or indirectly invest, through contributions from partnerships or otherwise, in any companies having one or more activities directly or indirectly related to the Company's corporate purpose;
- to invest in any business or company with one or more activities which may be directly or indirectly related to the Company's corporate purpose or to any similar or associated purpose, in particular by creating new companies, or through contributions, mergers, joint ventures, partnerships or consortia;
- and more generally, to conduct any industrial, commercial or financial transactions, or any transactions involving either real estate or securities directly or indirectly related to the Company's corporate purpose or any similar or associated purpose.

21.2.2 Management of the Company

21.2.2.1 Board of Directors

The Company is governed by a Board of Directors.

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

21.2.2.2 Senior Management

As required by law, the Company is managed either by the Chairman of the Board of Directors, who then has the title of Chairman and Chief Executive Officer, or by another person appointed by the Board of Directors with the title of Chief Executive Officer.

The Board of Directors selects one of these two options for managing the Company. The selected management structure must subsequently remain in place for a period of no less than one year.

21.2.3 Rights and obligations attached to shares

21.2.3.1 Appropriation of net income (Article 31 of the bylaws)

The Company's income statement shows its net income or loss for the fiscal year after deducting depreciation, amortization and provisions.

At least 5% of net income for the year, less any losses carried forward from prior years, is allocated to the legal reserve until such time as that reserve represents one-tenth of the Company's share capital. Further transfers are made on the same basis if the legal reserve falls to below one-tenth of the Company's share capital for any reason.

Distributable income represents net income for the year, less losses carried forward from prior years, and any amount to be appropriated to reserves pursuant to applicable law or the Company's bylaws, plus any retained earnings. The Shareholders' Meeting may appropriate all or part of this amount to any optional reserves or to retained earnings.

The Shareholders' Meeting may also decide to distribute funds drawn from available reserves, expressly indicating the reserve account from which the distributed amounts are to be taken. However, dividends are deducted in priority from distributable income.

Except in the case of a capital reduction, no distribution may be made to shareholders if the Company's shareholders' equity represents or would represent after the planned distribution less than the sum of its share capital plus any reserves which, under applicable laws or the Company's bylaws, are not available for distribution.

The revaluation reserve may not be distributed, but all or part of it may be incorporated into the Company's share capital.

Any losses are carried forward to be offset against net income in future years.

21.2.3.2 Legal form of securities issued by the Company

The securities issued by the Company may be held in the form of registered or bearer securities at the holder's choice. Their existence is evidenced by their registration in securities accounts held in the name of the holder for that purpose under the terms and conditions set out by law either by the Company or its appointed custodian in the case of registered securities or by an intermediary authorized for that purpose in the case of bearer securities.

21.2.4 Changes in the rights of shareholders

As there are no specific provisions in the Company's bylaws relating to this issue, any changes in the voting rights attached to shares are subject to the provisions of the applicable laws governing French joint-stock corporations.

21.2.5 Shareholders' Meetings

The collective decisions of the Company's shareholders are made in Shareholders' Meetings, which are classified as ordinary or extraordinary according to the types of decisions they are called to make.

Shareholders' Meetings duly convened and constituted represent all of the Company's shareholders. Their decisions are binding on all shareholders, including those absent, dissenting or disqualified.

21.2.5.1 Notice of meetings (Article 24 of the bylaws)

Shareholders' Meetings are called by the Board of Directors or, if necessary, by the Statutory Auditors or any person authorized by law.

The meetings take place at the Company's registered office or any other location indicated in the notice of meeting. They may be held by videoconference or any other means of telecommunications technology, including the Internet, which permits identification of the shareholders under the terms and conditions prescribed by the applicable laws and regulations.

21.2.5.2 Agenda (Article 25 of the bylaws)

The agenda for Shareholders' Meetings is determined by the party calling the meeting.

However, one or more shareholders or the works council may request that proposed resolutions be included in the agenda under the terms and conditions prescribed by the applicable laws and regulations.

The Shareholders' Meeting may not consider matters that do not form part of the agenda. Nevertheless, in any circumstances it may remove from office, or replace, one or more directors.

The agenda for a Shareholders' Meeting may not be amended on second call.

21.2.5.3 Access to and representation at Shareholders' Meetings (Article 26 of the bylaws)

Any shareholder may participate in Shareholders' Meetings in person or by proxy, regardless of the number of shares owned, subject to proof of the shareholder's identification and ownership of the shares in the form of:

- shares registered in the shareholder's name; or
- for holders of bearer shares, a certificate issued by the bank or broker that manages their securities account stating that the shares will not be sold in the period up to the date of the Meeting.

The documentation must be provided at least five days prior to the meeting. However, the Board of Directors may shorten or eliminate this timeframe provided that such change applies to all shareholders.

Shareholders of the Company residing outside France may be registered and represented at Shareholders' Meetings by any intermediary that has opened a registered share account on their behalf and has full discretionary authority to manage their shares, provided that the intermediary discloses, when its account is opened with the Company or with

the bank or broker that keeps the Company's securities account, that it is acting as an intermediary holding shares on behalf of a third party, in accordance with the applicable laws and regulations.

Any shareholder who cannot attend a meeting in person may choose one of the following three options:

- to be represented by another shareholder or his or her spouse;
- to vote by mail using a form which may be obtained by following instructions provided in the notice of meeting; or
- to send a proxy to the Company without indicating a representative. In this case, the Chairman of the meeting will vote in favor of resolutions presented or approved by the Board of Directors and against all other proposed resolutions. In order to vote otherwise, the shareholder must appoint a representative who agrees to vote as instructed by the shareholder.

21.2.5.4 Meeting officers (Bureau) (Article 27 of the bylaws)

Shareholders' Meetings are chaired by the Chairman of the Board of Directors or, in his absence, by a director appointed by the Board for that purpose. Where the meeting is called by the Statutory Auditors or a court-appointed representative, the meeting is chaired by the party calling the meeting. Where necessary, the meeting elects the chair.

The role of election inspector (*scrutateur*) is filled by the two shareholders present who hold the largest number of votes, either in their own right or as proxies, and agree to serve in this capacity. Those two meeting officers appoint a secretary, who need not be a shareholder.

The meeting officers are responsible for verifying, certifying and signing the attendance register, overseeing deliberations, resolving matters that arise during the meeting, monitoring and ensuring the propriety of the voting process, and overseeing preparation of the minutes.

21.2.5.5 Quorum and voting in Shareholders' Meetings (Article 28 of the bylaws)

Subject to the double voting rights described in Section 18.2 of this registration document, in Ordinary and Extraordinary Shareholders' Meetings, each shareholder has a number of votes equal to the number of shares owned or represented.

The quorum is calculated based on the total number of shares making up the Company's share capital, less any shares stripped of voting rights, in accordance with the applicable laws and the Company's bylaws.

An Ordinary Shareholders' Meeting cannot validly deliberate on first call unless the shareholders present, represented or voting by mail hold at least one-quarter of the voting rights. No quorum is required on second call. The Shareholders' Meeting adopts decisions by a majority of the votes cast by shareholders present, represented or voting by mail.

An Extraordinary Shareholders' Meeting cannot validly deliberate unless the shareholders present, represented or voting by mail hold at least one-third of the voting rights on first call and one quarter on second call. If a quorum is not reached on second call, the second Shareholders' Meeting may be postponed to a date later than the initial scheduled date, not to exceed two months. The Extraordinary Shareholders' Meeting adopts decisions by a two-thirds majority of the votes cast by the shareholders present, represented or voting by mail. In the event of a capital increase through capitalization of reserves, earnings or premiums, the quorum and majority voting rules for Ordinary Shareholders' Meetings apply.

Shareholders who participate in a meeting by videoconference or other means of telecommunications technology that allows shareholders to be identified and complies with the terms and conditions prescribed by the applicable regulations are deemed present for the purpose of calculating the quorum and voting majority.

21.2.6 Articles of the bylaws likely to have an impact on a change in control

Not applicable.

21.2.7 Disclosure thresholds (Article 12 of the bylaws)

Any individual or legal entity, acting alone or in concert, that comes to hold or control, directly or indirectly, a number of shares representing 1% or more of the Company's capital or voting rights must disclose to the Company, within five trading days of the date the threshold was crossed, the total number of shares and voting rights held, as well as the number of securities convertible, redeemable, exchangeable or otherwise exercisable for shares. The disclosure must be made by registered mail with return receipt requested, or by any equivalent method outside France in the case of non-resident shareholders. The same disclosure formalities must be carried out whenever the portion of capital or voting rights held increases or decreases by any multiple of 1%.

In the event of failure to comply with these disclosure requirements, the shares in excess of the relevant threshold will be stripped of voting rights for all Shareholders' Meetings held within the two-year period from the date when the omission is remedied, at the request of one or more shareholders holding at least 1% of the Company's capital or voting rights, as evidenced in the minutes of the Shareholders' Meeting.

21.2.8 Specific provisions governing changes in the Company's share capital

As there are no specific provisions in the Company's bylaws relating to this issue, any changes in the Company's share capital are subject to the applicable laws and regulations.

21.2.9 Form of shares and identification of shareholders (Article 9 of the bylaws)

Except as provided by law, fully paid shares can take the form of registered or bearer shares, at the option of the shareholder. However, they must be held in registered form until they are fully paid.

The Company is entitled to request at any time, under the terms and conditions provided for by the applicable laws and regulations, that the securities clearing house provide it with the name, address, nationality, date of birth (or, in the case of corporate shareholders, the year of incorporation), of holders of bearer shares and other securities redeemable, exchangeable, convertible or otherwise exercisable for shares carrying rights to vote at Shareholders' Meetings, as well as the number of shares held by each party and any restrictions applicable to the securities.

After reviewing the information provided by the clearing house, if the Company believes that individuals or legal entities featured on the list may be holding securities on behalf of third parties, it is entitled to request the clearing house, or the listed parties themselves, under the same terms and conditions, whether they are holding the securities on their own account or on behalf of a third party, and if so, to provide the Company with information identifying those third parties. If the identity of the owner(s) of the relevant shares is not disclosed, any vote or proxy issued by the registered intermediary will not be recognized.

21.2.10 Fiscal year

The Company's fiscal year begins on January 1 and ends on December 31 of each calendar year.

21.2.11 Payment of dividends (Article 32 of the bylaws)

The method of paying dividends is determined by vote at Shareholders' Meetings or, when necessary, by the Board of Directors.

However, cash dividends must be paid no later than nine months following the close of the fiscal year unless an extension is authorized by court of law.

The Shareholders' Meeting may, under the conditions determined by law, offer each shareholder the option of receiving all or part of the final dividend or any interim dividend in the form of new shares of the Company.

21.3 DIVIDENDS

21.3.1 Dividends paid in the past five fiscal years

During the past five fiscal years, the Company paid dividends for fiscal years 2001, 2002, 2003 and 2004.

The Shareholders' Meeting of June 25, 2002 resolved to pay a total dividend of €4,000,435 (€0.84 per share), representing approximately 45.34% of net earnings for 2001.

The Shareholders' Meeting of May 6, 2003 resolved to pay a total dividend of €4,286,181 (€0.90 per share), representing approximately 16.45% of net earnings for 2002.

The Shareholders' Meeting of May 28, 2004 resolved to pay a total dividend of €5,345,223 (€0.10 per share), representing approximately 92.35% of net earnings for 2003.

The Board of Directors' meeting of December 6, 2004 approved the payment of an interim dividend corresponding to €4,008,917 (€0.075 per share), representing approximately 41.45% of net earnings for the first three quarters of fiscal 2004.

The Shareholders' Meeting of May 27, 2005 resolved to pay a total dividend of €6,174,979.25 (€0.115 per share) for each of the shares making up the Company's share capital at that date, and carrying rights to the 2005 dividend. This dividend was settled by way of a €4,008,917.25 interim dividend on December 6, 2004, with the balance of €2,166,062 paid on June 8, 2005.

21.3.2 Dividend payment policy

The Board of Directors determines the dividend payment policy based on a review of the Company's earnings and financial position and other factors. At the Shareholders' Meeting to be held on May 29, 2006, the Board will recommend the payment of a €0.20 dividend per share. The Company's objective for 2006 is to ensure that its dividend payment policy is consistent with its expansion strategy. This objective does not involve any commitment on the Company's part, which may decide to reduce its dividend payment, or not make any dividend payment, depending on its financial results, capital expenditure requirements, and level of debt.

21.3.3 Statute of limitations for dividends

Dividends that have not been claimed within five years are time-barred and are remitted to the French State.

21.4 THE MARKET FOR ILIAD SHARES

Iliad's shares have been traded on Eurolist by Euronext™ (segment A) since January 30, 2004.

21.4.1 General information

Number of shares listed at December 31, 2005	54,151,550
Closing price at December 31, 2005 (in €)	52.30
52-week high, 2005 (in €)	52.35
52-week low, 2005 (in €)	24.89
Market capitalization at December 31, 2005 (in € millions)	2,832
2005 average daily volume	101,329
ISIN code	FR0004035913
Stock exchange indices	Next 150 and SBF 120, SBF 250

21.4.2 Changes in the Iliad share price since January 1, 2005

	Price per share (in €)		Total trades (in € thousands)	Volume of shares traded
	Low	High		
2005				
January	26.60	29.20	39,874	1,433,923
February	26.01	31.60	85,875	2,996,741
March	27.03	29.10	54,138	1,914,092
April	24.89	29.37	41,045	1,474,654
May	25	30.30	56,709	2,003,985
June	29.64	32.44	51,485	1,646,030
July	30.40	35.15	49,091	1,487,764
August	33.21	35.82	68,238	1,971,260
September	34.55	47.11	186,721	4,511,332
October	39.04	47.49	144,183	3,324,590
November	42.78	48.70	85,696	1,880,893
December	48.28	52.35	70,719	1,396,317
2006*				
January	51.30	59.80	190,562	3,394,504
February	52.05	60.30	147,294	2,656,924
March	54.10	71.30	202,744	3,240,609

(*) Price per share corresponding to the highest and lowest price on the same trading day

21.4.3 Transfer Agent

Securities services (management of the Company's share register) and financial services (dividend payments) are provided for Iliad by Société Générale (SBAN/BCT/CLE, 32 Rue du Champ de Tir, BP 81236, 44312, Nantes Cedex 3).

21.5 LIQUIDITY CONTRACT

A liquidity contract was drawn up with Oddo & Cie Entreprise d'Investissement and Oddo Pinatton Corporate on February 16, 2004 to ensure the liquidity of Iliad shares and protect the Company's share price against volatility. This contract, which complies with the French Association of Investment Firms' code of ethics, was renewed on (i) January 1, 2005 for a term of twelve months, and (ii) January 1, 2006, also for a term of twelve months.

The following transactions were carried out in connection with the liquidity contract in 2005:

	Purchases			Sales		
	Number of shares	Unweighted average price (in €)	Amount (in €)	Number of shares	Unweighted average price (in €)	Amount (in €)
2005						
January	62,943.00	27.45	1,723,720.04	59,516.00	27.42	59,516.00
February	107,404.00	28.59	3,097,041.53	106,506.00	28.63	3,064,413.81
March	84,315.00	28.19	2,377,758.35	83,622.00	28.25	2,363,663.59
April	39,294.00	28.17	1,097,341.27	38,228.00	28.07	1,070,590.22
May	31,653.00	28.07	883,339.33	32,099.00	28.18	902,575.03
June	39,337.00	31.39	1,236,448.17	38,905.00	31.40	1,220,917.77
July	27,281.00	32.77	881,305.96	30,870.00	32.99	1,001,801.44
August	76,533.00	34.82	2,646,661.74	72,918.00	34.80	2,524,179.23
September	131,817.00	41.54	5,439,177.17	136,701.00	41.23	5,610,868.70
October	87,750.00	43.88	3,837,577.02	88,517.00	43.90	3,875,518.93
November	82,262.00	45.22	3,721,585.73	81,179.00	45.39	3,684,694.43
December	40,640.00	49.27	2,000,983.05	40,587.00	49.36	2,004,905.30
Total	811,229	34.95	28,942,939	809,648	34.97	27,383,644

CHAPTER 22

MATERIAL CONTRACTS

The most recent material contracts entered into by Iliad concern the setting up of credit lines (see Section 4.3.3 and Note 28 to the 2005 consolidated financial statements), as well as the purchase of shares in Altitude Telecom (see Note 2 to the 2005 consolidated financial statements).

Apart from the above-mentioned contracts, Iliad has not entered into any material contracts other than those relating to its routine operations.

CHAPTER 23

THIRD PARTY INFORMATION, STATEMENTS BY EXPERTS AND DECLARATIONS OF ANY INTERESTS

Not applicable.

CHAPTER 24

CONSULTATION OF LEGAL DOCUMENTS

The Company's bylaws, this registration document and other corporate documents made available to shareholders as required by law can be consulted at the Company's head office.

Copies of this registration document can be obtained free of charge from the Company's head office (8 rue de la Ville l'Evêque – 75008 Paris (France) – Tel: +33 1 73 50 20 00) and may also be viewed on the Company's website (www.iliad.fr) as well as on the website of the AMF (www.amf-france.org).

CHAPTER 25

INFORMATION ON SHAREHOLDINGS

The Company only has shareholdings in Group companies. These shareholdings are described in Section 7 (“Organizational Structure”) and their financial impact is described in the notes to the consolidated financial statements included in Section 20 of this registration document (“Financial information concerning the Company’s assets and liabilities, financial position and profits and losses”).

GLOSSARY OF TECHNICAL TERMS

The glossary below is provided as a supplement and as an aid to understanding this registration document. Some of the definitions below therefore give only a summary of the technical processes described, without providing details as to the functioning of such processes.

Add/Drop Multiplexer (ADM): equipment on a telecommunications network used for inserting or extracting packets of data.

ADM (Add/Drop Multiplexer): see Add/Drop Multiplexer.

ADSL (Asymmetrical Digital Subscriber Line): ADSL is an xDSL technology used for high-speed transmission of data, particularly when using a subscriber's conventional telephone line consisting of a pair of copper wires. By using two modems, one installed on the subscriber's premises and the other in a DSLAM located in the main distribution frame, ADSL technology is able to increase network bandwidth considerably and obtain transmission speeds up to 160 times faster than with a conventional analog modem. The principle behind ADSL is that part of the bandwidth is reserved for transporting voice traffic (low frequencies) while another part is used for transporting data (high frequencies) either in the direction of the network backbone (upload) or in the direction of the subscriber (download). The technology is asymmetrical in the sense that the upload bit rate (data sent by the user) is lower than the download rate (data received by the user). For the correct restoration of voice traffic (using the low frequency spectrum), splitters located at each end of the line eliminate those parts of the signal which are not needed.

The bandwidth of the line is divided as follows:

0 – 5 kHz	analog telephone line,
30 kHz – 130 kHz	narrowband channel in the direction of the network (upload)
30 kHz – 1.1 MHz	broadband channel in the direction of the subscriber (download)

FDM (Frequency Division Multiplexing) is used to separate the various data traffic flows. An echo cancellation system is used for spectrum recovery on the upload and download channels.

AFNIC (*Association française pour le nommage Internet en coopération* – www.afnic.fr): the AFNIC is a non-profit organization whose principal function is to establish and implement a naming system for the.fr (France) and.re (the island of Reunion) domains. It has drawn up naming charters which sets out its rules for registering domain names in these areas. Members of the AFNIC include service providers who have been accredited as registrars of domain names in the French domain name areas.

ARCEP (*Autorité de Régulation des Communications Electroniques et des Postes*): the ARCEP is an independent administrative authority. It was established on January 5, 1997 and, together with the Minister for Telecommunications, has overall responsibility for regulating the telecommunications sector in France.

ATM (Asynchronous Transfer Mode): this network technology is used for the simultaneous transmission of data, voice and video. It is based on the transmission of signals in short, fixed-length packets. The transmission of these packets is said to be asynchronous because they are transported over different routes and do not necessarily arrive at their destination in the same chronological order as they were sent.

Backbone: network consisting of a number of very high bandwidth links to which other, smaller networks are connected (including metropolitan networks).

Bandwidth: the transmission capacity of a transmission line. It determines the quantity of information (in bits per second) which can be transmitted simultaneously.

Bit: contraction of “binary digit”. It is the smallest unit of information processed by a computer. In a binary system, one bit takes the value 0 or 1. Information recorded in digital form is coded in the form of bits. One character (letter or figure) is generally coded as 8 bits (1 byte).

Bit rate: amount of information passing through a communication channel over a given period of time. The bit rate is measured in bits per second or in multiples thereof (kbits per second = kilobits per second, Mbits per second = megabits per second, Gbits per second = gigabits per second, Tbits per second = terabits per second). The upload bit

rate corresponds to the transmission of data from the subscriber to the network and the download bit rate corresponds to information transmitted from the network to the subscriber.

Broadband: The concept of broadband is a relative concept, depending on the status of transmission technology at any given time. At present broadband is generally accepted as corresponding to a bit rate of at least 512 kbits per second. See also “bit rate”.

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

Byte: a set of eight bits. Bytes and their multiples (kilobyte (kB), megabyte (MB), gigabyte (GB), Terabyte (TB), etc.) are used to measure the size of electronic files. When such measurements are given in multiples of bytes, it is generally accepted that a kilobyte is equal to 2^{10} , or 1,024, bytes (and not 1,000 bytes), and that a megabyte is equal to 2^{20} bytes (and not 1,000,000 bytes).

Call termination: This operation consists of the routing of calls to subscribers on a particular network. In principle, call termination requires either that the call be made from the network on which the called party is a subscriber or from a network interconnected with such network.

CNIL (*Commission nationale de l’informatique et des libertés* – www.cnil.fr): The CNIL (National Commission for Information Technology and Freedom) is an independent administrative authority established by Law No. 78-17 of January 6, 1978, known as the “information technology and freedom” (*informatique et libertés*) law. Its principal role is the protection of privacy and of personal or public freedom, and it is responsible for ensuring compliance with the information technology and freedom law.

Co-location facilities or space: a room located in France Telecom sites containing equipment belonging to third party operators used for local loop unbundling. The room is built by France Telecom which then reinvoices the cost of construction to the operators located in the room. The third party operators then rent whatever space they need (one or more racks each occupying a floor area of 600 mm × 600 mm) for their unbundling activities.

Cookie: information recorded by a server in a text file located on the client’s computer and which can be read by this same server (and by this server alone) at a later time.

Copper pair: type of cable used for the transmission of electrical signals, consisting of one or more pairs of metal conductors. The two wires forming the pair are braided in order to minimize potential interference between two conductors. By extension, the copper pair also refers to the local loop link between a subscriber and the local concentrator. See also “local loop”.

CSA (*Conseil supérieur de l’audiovisuel* – www.csa.fr): The CSA is an independent administrative authority established by the Law of January 17, 1989. Its principal role is to guarantee the freedom of audiovisual communications in France in accordance with the provisions of the Law of September 30, 1986, as amended.

Dark optical fiber: raw optical fiber without the equipment which allows it to be used.

Dedicated facilities or space: a room in a France Telecom site containing equipment belonging to a third party operator used for unbundling. Third party operators rent the space (one or more racks each occupying a floor area of 600 mm × 600 mm) necessary for their unbundling activities. See also “co-location facilities”.

Dial-up (also called narrowband): historically this corresponds to the bit rate of a conventional telephone line using the voice frequency spectrum. By way of example, an Internet connection using a conventional telephone line is established at a maximum download rate of 56 kbits per second. See also “bit rate”.

Digital: coding in binary form (0 or 1) of information to be processed by a computer.

Digital local exchange (LX): switch on the France Telecom telephone network to which subscribers are connected by means of local concentrators. The France Telecom network is organized in a hierarchical fashion, with the digital local exchange being the lowest level in the hierarchy of exchanges installed on the network.

Digital main switching unit (MSU): France Telecom's interconnect point, occupying the highest level in the hierarchy of switches in a trunk exchange area. See also "trunk exchange area".

DNS (Domain Name System): the DNS is a database which registers Internet resources (computer, router, etc.) in the form of a domain name and allocates them a unique IP address. The Internet protocol converts the domain name to the corresponding IP address. Without the DNS, users would have to remember websites or email addresses in the form of the domain's IP address. See also "domain name".

Domain name: a domain name is the unique identifier of an IP address. The DNS (see "DNS – Domain Name System") matches the domain name to the IP address. A domain name consists of a string of characters (from "a" to "z" or "0" to "9", plus "–") corresponding to the name of a trademark, association, company, individual, etc., plus a suffix known as the TLD (see "TLD – Top Level Domain"), such as fr, de, net, or com.

Domain name registration: domain name registration consists of hosting domain names on a computer with an IP address on behalf of the domain name owners, who are in turn entered in the register relating to their TLD. See also "TLD".

DSL (Digital Subscriber Line): See xDSL.

DSLAM (Digital Subscriber Line Access Multiplexer): equipment installed in the telephone exchange closest to the subscriber which is part of the equipment used to transform a conventional telephone line into an xDSL line. DSLAMs connect several xDSL lines and are connected to the modem on the subscriber's premises via the local loop.

DWDM (Dense Wavelength Division Multiplexing): technology permitting the transmission of a large number of frequencies on the same fiber strand, thereby significantly increasing the bandwidth capacity of the optical fiber.

Eligibility: A telephone line is said to be "eligible" for ADSL when the technical characteristics of the line in terms of signal loss are such that xDSL type technologies can be used. The length and diameter of the copper pairs (local loop) are the main parameters determining eligibility.

Firewall: hardware or software device which controls access to all the computers on a network from a single point of entry. The main function of the firewall is to filter the information packets transmitted between the protected network and outside networks. In addition, a firewall can be used to perform advanced security functions such as virus detection, IP address masking on the protected network or the establishment of encryption tunnels associated with an authentication process.

Full unbundling: Full unbundling consists of allowing a third party operator to control the entire local loop (both low and high frequencies).

IEEE 802.11a and 802.11b standards: radio-telecommunications standards established by the IEEE (Institute of Electrical and Electronic Engineers) describing the characteristics of wireless networks using the 5 GHz and 2.4 GHz frequency bands, respectively. (See also "RLAN – Radio Local Area Network" and "WLAN – Wireless Local Area Network").

Interconnection: the term interconnection refers to the reciprocal services provided by two operators of networks open to the public, permitting all of their users to communicate freely with one another, no matter the type of network or services they use. The term also refers to the provision to a public telephone service provider of access to a public network operator's network. The objective of interconnection is to allow a given operator's subscribers to make telephone calls to the subscribers of all other interconnected operators. Interconnection between the incumbent operator (France Telecom) and third party operators is governed by the provisions of the French Post and Telecommunications Code and is regulated by the ARCEP.

Internet Service Provider (ISP): organization or company providing its customers with access to the Internet.

IP address: the IP address allows a router using TCP/IP protocol to identify the unique network interface of a machine connected to the Internet. In order to be accessible or to send information over the Internet, a machine must have a public IP address, *i.e.* an address that is known on the Internet. ICANN has overall responsibility for managing IP addressing on a worldwide basis, but delegates responsibility for certain areas to regional and local

organizations. An IP address is a sequence of 32 binary digits (see also “bit”) grouped into four bytes in the form A.B.C.D where A, B, C and D are numbers between 0 and 255 (this structure corresponds to version 4 of the IP protocol, or IPv4). The problem of limited addressing resources highlighted by the growth of the Internet has led to the development of a new version of the IP protocol (IPv6), based on 128 binary elements, which will gradually be brought into use.

IP (Internet Protocol): telecommunications protocol used on the networks supporting the Internet which divides the information to be transmitted into packets, addresses the various packets, transports them independently of one another and, finally, recreates the initial message once the packets reach their destination. This protocol uses a technique known as packet switching. On the Internet, it is associated with a data transmission control protocol (TCP), hence the term TCP/IP protocol.

IRU (Indefeasible Right of Use): special type of agreement, specific to the telecommunications sector, for the provision of optical fibers (or transmission capacity) over a long period.

L.33-1 license: this license, referring to former Article L.33-1 of the French Post and Telecommunications Code, is the authorization held by an operator of a telecommunications network open to the public.

L.34-1 license: this license, referring to former Article L.34-1 of the French Post and Telecommunications Code, is the authorization held by an undertaking providing a public telephone service.

Linux: Linux is a multi-task and multi-user UNIX (Uniplexed Information and Computer Service) operating system. It is a so-called “open” software system, *i.e.*, it is freely available in source code form and modifiable under the terms of a GNU General Public License.

Local concentrator: active telecommunications equipment connected to both the digital local exchange and the copper pairs constituting the local loop. This is the primary active equipment in the France Telecom network. The function of the local concentrator is to group several subscriber lines into one cable.

Local loop: physical circuit of the telephone network which connects the termination point of the network on the subscriber’s premises (*i.e.*, the subscriber’s telephone socket) and the local loop operator’s main distribution frame (*i.e.* generally France Telecom’s local telephone exchange) which contains a digital switch. The local loop is composed of a pair of braided copper wires.

Main distribution frame (MDF): device which establishes a temporary connection between a copper pair (local loop) and any active equipment on the operator’s network. It is a vital point of flexibility in the operation of a telecommunications network.

Modem (modulator-demodulator): device transforming analog signals into digital signals and vice versa. This equipment is necessary for connecting to the Internet (where the data exchanged are digital data).

MPEG-2: video signal compression standard, used mainly for DVDs.

Multicast: routing system minimizing the number of data flows from a server to various customers by multiplying the data flows only when they are as close as possible to the destination terminals (the subscribers’ copper pairs).

Multiplexing: technique permitting several communication flows to pass through the same channel/transmission bearer. Multiplexing can work in different ways: frequency multiplexing uses different frequencies for the various communications, while time division multiplexing allocates a period of time (known as a slot) to each communication.

Narrowband: see “dial-up”

Net adds: represents the difference between total ADSL subscribers at the end of two different periods.

Optical fiber: transmission medium which routes digital data in the form of modulated pulses of light. It consists of an extremely thin glass cylinder (the core strand) surrounded by a concentric layer of glass (the sheath). The potential bandwidth that can be passed through an optical fiber in conjunction with the corresponding active equipment is enormous.

Partial unbundling: partial unbundling involves providing an operator with access to the France Telecom local loop and allowing the operator to use the high (non-voice) frequencies of the frequency spectrum on the copper pair. France Telecom continues to use the local loop in order to provide conventional telephone service to the public (using the low frequencies of the local loop). Customers continue to pay the telephone line rental to France Telecom.

Peering: type of interconnection agreement between two IP backbone networks (called peer networks) for the exchange of Internet traffic destined for their respective networks free of charge. These reciprocal exchanges take place at exchange nodes called peering points.

Ping: Ping is an acronym for Packet Internet Groper, and is a component of the Internet connection protocol which verifies the connections established on the Internet between one or more remote hosts and measures the time the data packets require to be transmitted to one computer connected to the Internet and back again. The lower the ping value (*i.e.*, the nearer to zero) the better the network connection.

POP (Point of Presence): operator's physical site from which the operator can use an interconnection link to connect to the interconnect point of another operator (whether another POP or, in the case of France Telecom, a digital main switching unit or a digital local exchange). The POP is located on the operator's network backbone. See also "digital main switching point".

Portability: possibility for a subscriber to keep his or her telephone number when changing operators and/or geographical location.

Preselection: carrier selection mechanism allowing a subscriber automatically to route all eligible calls (local, national, international, and calls to mobile phones) so that they are carried by the operator of the subscriber's choice, without having to dial a special prefix.

Primary digital block (E1): basic unit of measurement of the capacity of interconnection links to the France Telecom network (telephone traffic and dial-up Internet traffic). It corresponds to a grouping of several communications on the same physical support structure (31 simultaneous communications, *i.e.* a capacity of 2 Mbits per second).

PSTN (Public switched telephone network): conventional telephone network which uses switching (a non-permanent link established by line seizure and then dialing). Each call established on the PSTN ties up network resources.

Reference Interconnect Offer: document describing the technical and pricing terms of France Telecom's interconnect offer (or the interconnect offer of any other operator designated as having significant market power pursuant to Article L.36-7 of the French Post and Telecommunications Code). It allows third party operators to know what interconnection services are available and sets out the prices and the technical terms of these services.

Reverse look-up directory: service allowing users to retrieve the name and address of the owner of a telephone line on the basis of a search of the telephone number.

RLAN (Radio Local Area Network): wireless network. RLANs generally conform to IEEE 802.11 standards.

SDH (Synchronous Digital Hierarchy): multiplexing technique providing for the secure transmission of different types of information. This technique is used for the transmission of data on conventional telephone networks.

SMS (Short Message Services): short alphanumeric text messages.

Source code: list of instructions in a computer program in a language capable of being understood by human beings.

Spamming: the bulk mailing of unsolicited electronic messages. These types of messages are generally sent to email lists obtained illegally (for example, through the use of a search engine on public websites or through the sale of email address files without the permission of the owners of such addresses).

Switch: equipment which routes calls to their destinations by establishing a temporary link between two circuits on a telecommunications network (or occasionally by routing information organized into packets). Switches are

organized in a hierarchical fashion, *i.e.*, the higher the position they occupy in the hierarchy, the more subscribers they serve.

TLD (Top Level Domain): the top level domain name classification, corresponding to a geographical area or a sector of activity, such as.com,.org or.fr.

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

Triple Play: a technical service capable of managing bandwidth-intensive voice, data and audiovisual content simultaneously and over long distances.

Trunk exchange (TX): telephone network switch linking together the digital local exchanges. The France Telecom network is organized in a hierarchical fashion, with the trunk exchange being the highest level in the hierarchy of national exchanges. Through the digital local exchanges, the trunk exchange serves all subscribers in a given geographical area called a trunk exchange area. See also “trunk exchange area”.

Trunk exchange area: the geographical area covered by a trunk exchange. France Telecom’s switched network in mainland France is divided into 18 trunk exchange areas, defined by France Telecom in its Reference Interconnect Offer and generally corresponding to the administrative regional divisions of France. See also “Trunk exchange (TX)”.

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

Unbundling: operation involving the separation of a range of telecommunications services into several distinct units. Unbundling of the local loop (or unbundled access to France Telecom’s local network) consists of separating the access services provided over the local loop, mainly by separating the high frequencies from the low frequencies of the access network which constitutes the local loop, allowing new operators to use the local network of the incumbent operator in order to provide services directly to their subscribers.

Universal service: the main element of the public telecommunications service as defined by law, with the purpose of providing high quality telephone services to the general public at an affordable price.

Urban area: in the architecture of the France Telecom network, Ile-de-France is divided into two trunk exchange areas. The urban area corresponds to the former *département* of Seine (Paris, Hauts-de-Seine, Seine-Saint-Denis, Val de Marne) and the peripheral area covers the Seine-et-Marne, Essonne, Yvelines and Val d’Oise *départements*.

VoDSL (Voice over DSL): transmission of voice traffic (in packets) using ADSL technology, *i.e.*, using the high frequencies of the local loop, as compared to conventional telephony which uses the low frequencies of the local loop.

WLAN (Wireless Local Area Network): a network using radio telecommunications (wireless network). RLANs (see “RLAN – Radio Local Area Network”) are a specific type of WLAN.

xDSL (x Digital Subscriber Line): the family of technologies used to transmit digital data over the copper pair (local loop) at high speeds (such as ADSL, SDSL, VDSL, etc.) See also ASDL.

APPENDIX

RESOLUTIONS PRESENTED TO THE ANNUAL SHAREHOLDERS’ MEETING OF MAY 29, 2006

In accordance with Article L 225-98 of the French Commercial Code (Code de Commerce), in order to be validly adopted, the following nine resolutions to be put to the vote of the Ordinary Shareholders’ Meeting must be approved by the majority of shareholders present or represented.

FIRST RESOLUTION

APPROVAL OF THE COMPANY FINANCIAL STATEMENTS

The Shareholders’ Meeting, having read the Board of Directors’ report, the management report and the Statutory Auditors’ report on the Company financial statements for the year ended December 31, 2005, approves the 2005 Company financial statements, as presented, as well as the transactions reflected in these financial statements and referred to in these reports.

Consequently, the Shareholders’ Meeting places on record that the Company’s net income for the year ended December 31, 2005 amounted to €27,947,936.

SECOND RESOLUTION

APPROPRIATION OF NET INCOME AND APPROVAL OF THE RECOMMENDED DIVIDEND

The Shareholders’ Meeting, having read the management report, resolves to appropriate net income as follows:

Net income for the year	€27,947,936
Losses carried forward from previous years	€0
Balance	€27,947,936
Amount transferred to the legal reserve	€200,000
Balance	€27,747,936
Dividend payment representing €0.20 per share	€10,830,310
Balance to be transferred to retained earnings	€16,918,626
Retained earnings after appropriation of 2005 net income	€50,148,418

The 2005 dividend will be payable as from July 12, 2006.

The dividend payable on each of the shares making up the Company’s capital and carrying rights to the 2005 dividend will amount to €0.20.

Dividends paid during the past three years were as follows:

			2004	
	2002	2003	Interim dividend	Balance
Number of shares making up the Company’s share capital¹	4,762,423	53,452,230	53,452,230	54,151,550
Total amount of net dividends paid . . .	4,286,181	5,345,223	4,008,917.25	2,166,062
Net dividend paid per share	0.9	0.1	0.075	0.04
“Avoir fiscal” tax credit	0.45	0.05	0.0375	N/A
Total revenue	1.35	0.15	0.1125	N/A
Portion eligible for tax allowance	N/A	N/A	N/A	²

1 Number of shares issued at the dividend payment date.

2 In accordance with paragraph 2 of section 3 of Article 158 of the French General Tax Code, the total amount of the 2004 dividend was eligible for the 50% tax allowance available to individuals domiciled in France for tax purposes.

THIRD RESOLUTION

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Shareholders' Meeting, having read the Board of Directors' report, the management report and the Statutory Auditors report on the consolidated financial statements for the year ended December 31, 2005, approves the 2005 consolidated financial statements, as presented, which show profit for the year of €68.9 million.

FOURTH RESOLUTION

APPROVAL OF THE REPORT ON AGREEMENTS GOVERNED BY ARTICLE L 225-38 OF THE FRENCH COMMERCIAL CODE

The Shareholders' Meeting, having read the Board of Directors' report and the Statutory Auditors' special report on agreements governed by Article L. 225-38 of the Commercial Code, notes that several agreements falling within the scope of application of said article were entered into during the year ended December 31, 2005, and that several agreements authorized and entered into in previous years remained in force in 2005.

FIFTH RESOLUTION

DIRECTORS' ATTENDANCE FEES

The Shareholders' Meeting, having read the Board of Directors' report, resolves to set at €60,000 the annual amount of attendance fees for the current year, to be allocated among the Company's independent directors.

SIXTH RESOLUTION

RATIFICATION OF THE APPOINTMENT OF DOMINIQUE ROUX AS AN INDEPENDENT DIRECTOR

The Shareholders' Meeting, having read the Board of Directors' report, ratifies the Board of Directors' February 8, 2006 appointment of Dominique Roux as a director to replace AXA Private Equity whose resignation took effect on December 23, 2005.

Dominique Roux's term of office will run for the remainder of AXA Private Equity's term, expiring at the close of the 2009 Annual Shareholders' Meeting to be called to approve the financial statements for the year ending December 31, 2008.

SEVENTH RESOLUTION

RENEWAL OF THE TERM OF OFFICE OF ONE OF THE COMPANY'S JOINT STATUTORY AUDITORS

The Shareholders' Meeting, having read the Board of Directors' report, resolves to renew the term of office as joint Statutory Auditors of PricewaterhouseCoopers Audit, whose registered office is located at 63, rue de Villiers, 92208 Neuilly sur Seine Cedex, France. PricewaterhouseCoopers Audit is represented by Xavier Cauchois.

PricewaterhouseCoopers Audit's term of office will run for a period of six years, expiring at the close of the 2012 Annual Shareholders' Meeting to be called to approve the financial statements for the year ending December 31, 2011.

Xavier Cauchois, acting as the legal representative of PricewaterhouseCoopers Audit, has stated that he approves PricewaterhouseCoopers' appointment as one of the Company's joint Statutory Auditors.

EIGHTH RESOLUTION

APPOINTMENT OF AN ALTERNATE JOINT STATUTORY AUDITOR TO REPLACE PIERRE COLL WHOSE TERM OF OFFICE HAS EXPIRED

The Shareholders' Meeting, having read the Board of Directors' report, resolves to appoint as alternate joint Statutory Auditor, Etienne Boris, a French national, born on February 20, 1956 at Boulogne Billancourt, in the Hauts-de-Seine *département* in France, and whose business address is 63 rue de Villiers, 92208 Neuilly-sur-Seine. Etienne Boris will replace Pierre Coll whose term of office expires at the close of this Meeting.

Etienne Boris' term of office will run for a period of six years, expiring at the close of the 2012 Annual Shareholders' Meeting to be called to approve the financial statements for the year ending December 31, 2011.

Etienne Boris has stated that he agrees to be appointed as an alternate joint Statutory Auditor.

NINTH RESOLUTION

AUTHORIZATION GRANTED TO THE BOARD OF DIRECTORS TO BUY BACK THE COMPANY'S SHARES

The Shareholders' Meeting, having read the Board of Directors' report and the Statutory Auditors' special report, authorizes the Board of Directors and, by delegation, any other duly authorized person, to purchase the Company's shares, subject to a ceiling of 4% of the Company's share capital (representing, for information purposes, 2,164,462 shares at March 28, 2006, taking into account the number of treasury shares already held), and subject to the terms and conditions set down in Articles L. 225-209 and L. 225-217 of the Commercial Code.

The shares may be purchased for the following purposes, by declining order of priority:

- Market making for the Company's shares under a liquidity contract that complies with the code of ethics of the French Association of Investment Firms (AFEI) which is approved by the French securities regulator (AMF).
- To allocate shares to employees and corporate officers of the Company and the Group's subsidiaries in accordance with the law, including under share grant plans pursuant to Articles L. 225-197-1 *et seq* of the Commercial Code, and under stock option plans, pursuant to Articles L. 225-179 *et seq* of the Commercial Code, or in relation to employee profit-sharing plans.
- To allocate shares on the exercise of stock options granted to the Company's employees and corporate officers in accordance with the law.
- To be held and subsequently remitted in exchange for stock in another Company or as consideration, in connection with external growth transactions.
- To attribute shares on redemption, conversion, exercise or exchange of share equivalents.

The maximum purchase price per share is set at €200 and the maximum theoretical amount that may be invested in the program totals €433.2 million.

Shares may be purchased, sold or transferred on one or several occasions by any appropriate method, on the market or over-the-counter, including through block purchases or sales, and through the use of derivatives (excluding the purchase of call options) and warrants, at any time, including while a public tender offer is in progress, subject to the applicable regulations.

This authorization is granted for a period of eighteen months from the date of this Meeting.

The shareholders further authorize the Board of Directors to adjust the above maximum price to take into account the impact on the share price of a change in the par value of the share, a share issue paid up by capitalizing reserves, a bonus share issue, a reverse stock-split, a distribution of reserves or any other assets, a return of capital or any other corporate action.

The Shareholders' Meeting gives full powers to the Board of Directors and, by delegation, to any duly authorized person in accordance with the law, to use this authorization and to decide the terms and conditions of the buybacks, to place buy and sell orders, to enter into any and all agreements, to carry out any and all filing and other formalities with the relevant regulatory bodies, and generally do whatever is necessary.

The Board of Directors shall report to the Annual Shareholders' Meeting on all transactions carried out under this authorization. It shall also disclose to the *Autorité des Marchés Financiers* all share purchases, sales and transfers carried out.

In accordance with paragraph 3 of Article L 225-96 of the Commercial Code, in order to be validly adopted, the following five resolutions to be put to the vote of the Extraordinary Shareholders' Meeting must be approved by a two-thirds majority of shareholders present or represented.

TENTH RESOLUTION

AUTHORIZATION GIVEN TO THE BOARD OF DIRECTORS TO INCREASE THE COMPANY'S CAPITAL BY ISSUING SHARES TO EMPLOYEES WHO ARE MEMBERS OF AN EMPLOYEE STOCK OWNERSHIP PLAN

Having read the Board of Directors' report and the Statutory Auditors' special report, the Shareholders' Meeting:

- Authorizes the Board of Directors, at the Board's discretion and if it deems it appropriate, to increase the Company's share capital on one or more occasions by issuing shares and/or share equivalents to employees of the Company and French and foreign related companies within the meaning of Article L. 444-3 of the French Labor Code and Article L. 233-16 of the Commercial Code, who are members of an employee stock ownership plan ("*Plan d'Epargne d'Entreprise*" or "*Plan Partenarial d'Epargne Salariale Volontaire*"), or by capitalizing reserves, earnings or premiums, or by granting shares free of consideration to said members of such a plan.
- Waives the pre-emptive subscription rights of existing shareholders concerning any shares and/or share equivalents that may be issued under this authorization.
- Sets the term of this authorization at twenty-six months, as from the date of this Meeting.
- Sets at €100,000 the maximum nominal amount of the capital increase(s) that may be carried out under this authorization.
- Resolves that the applicable discount under this authorization may not be more than 20%, based on the average of the prices quoted for the Company's shares on Eurolist of Euronext Paris S.A. over the twenty trading days preceding the decision setting the opening date for the offer period.

The Shareholders' Meeting expressly authorizes the Board of Directors to reduce this discount if it deems appropriate. The Board may also replace all or part of the discount by granting shares or share equivalents free of consideration, in accordance with the provisions set out below.

- Grants full powers to the Board of Directors or, by delegation, to the Chief Executive Officer, in accordance with the law, to:
- determine – in accordance with the law – the companies of which the current and former employees are entitled to subscribe to the shares issued;
- determine whether the issues may be subscribed directly by beneficiaries or through collective investment vehicles;
- fix the dates and the amounts of the issues, determine the terms and conditions of issue and the form of the securities, and generally, to take any and all appropriate measures and enter into any and all agreements to ensure the success of the proposed issues, all in accordance with the applicable laws and regulations;
- place on record the share issues and amend the bylaws to reflect the new share capital; and
- generally, to enter into any and all agreements, take all appropriate steps and carry out all necessary formalities.

In addition, the Shareholders' Meeting gives full powers to the Board of Directors, at its discretion, to charge the share issuance costs against the related premiums and deduct from the premium the amount necessary to increase the legal reserve to one-tenth of the new capital after each issue.

ELEVENTH RESOLUTION

AUTHORIZATION GIVEN TO THE BOARD OF DIRECTORS TO GRANT STOCK OPTIONS

Having read the Board of Directors' report and the Statutory Auditors' special report, in accordance with Articles L. 225-177 *et seq.* of the Commercial Code, the Shareholders' Meeting authorizes the Board of Directors to grant options to purchase new or existing Iliad shares to all or some of the employees or corporate officers of the Company and related entities – as defined in Article L.225-180 of the Commercial Code. However, no options may be granted to any employee or corporate officer who holds over 10% of the Company's capital.

This authorization may be used on one or more occasions for a period of thirty-eight months commencing on the date of this Meeting.

The total number of stock options granted may not be exercisable for a number of shares representing over 4% of the Company's capital at the grant date, taking into account the number of options already granted, but not including the impact of any adjustments made in accordance with the applicable regulations. The options granted shall be exercised within a period of ten years as from the grant date.

Shares acquired on the exercise of options to purchase existing shares granted in accordance with this resolution shall be purchased in advance by the Company, either pursuant to Article L. 225-208 of the Commercial Code, or, where appropriate, under the share buyback program authorized in the ninth resolution of this Meeting in accordance with Article L. 225-209 of the Commercial Code, or any share buyback program subsequently approved.

The exercise price of the options granted in accordance with this resolution shall be set by the Board of Directors subject to the following conditions:

- The exercise price may not be lower than 80% of the average of the prices quoted for the Company's shares during the twenty trading days prior to the grant date of the options concerned. No options may be granted less than twenty trading days after the ex-dividend date or the issue of a preferential right to subscribe for new shares issued by the Company.
- The exercise price for options to purchase existing shares may not be lower than 80% of the average purchase price of the shares acquired by the Company pursuant to Article L. 225-208 of the Commercial Code, or, where appropriate, under the share buyback program authorized in the ninth resolution of this Meeting in accordance with Article L. 225-209 of the Commercial Code, or any share buyback program subsequently approved.

The Shareholders' Meeting notes that in granting this authorization, shareholders explicitly waive their pre-emptive subscription rights in relation to the shares to be issued upon exercise of the options.

The Shareholders' Meeting grants full powers to the Board of Directors to:

- Determine the terms and conditions applicable to the allocation and exercise of the options, including to limit, restrict or prohibit the exercise of the options or the sale of the shares obtained on their exercise for certain periods or after certain events.
- Draw up the list or categories of grantees, set the conditions under which the rights of option holders shall be preserved, notably by adjusting the option exercise price and/or the number of shares per option, in order to reflect the impact of any financial operations carried out by the Company.
- More generally, to enter into any and all agreements, draw up any and all documents, carry out any and all filing and other formalities and take any and all other action required to give effect to this authorization. Said powers may be delegated to any person duly authorized in accordance with the law.

TWELFTH RESOLUTION

AUTHORIZATION GRANTED TO THE BOARD OF DIRECTORS TO ISSUE – WITH PRE-EMPTIVE SUBSCRIPTION RIGHTS FOR EXISTING SHAREHOLDERS – SHARES AND/OR SECURITIES CONVERTIBLE, EXCHANGEABLE, REDEEMABLE OR OTHERWISE EXERCISABLE FOR SHARES IN ILIAD OR ANY COMPANY CONTROLLED BY ILIAD OR WHICH CONTROLS ILIAD, OR FOR DEBT SECURITIES

Having read the Board of Directors' report and the Statutory Auditors' special report, in accordance with the legal and regulatory provisions governing commercial companies, including Articles L.225-129-2, L.225-132, L.228-91,

L.228-92 and L.228-93 of the Commercial Code, and after noting that the Company's capital is fully paid up, the Shareholders' Meeting:

1. Authorizes the Board of Directors to increase the Company's capital by issuing the securities set out below – with pre-emptive subscription rights for existing shareholders – in France or abroad, on one or more occasions, and to set the amount and timing of said issue(s):
 - (a) Shares (excluding preferred shares).
 - (b) Securities convertible, exchangeable, redeemable or otherwise exercisable for shares in the Company, or for debt securities.
 - (c) Securities convertible, exchangeable, redeemable or otherwise exercisable for shares in (i) a company that directly or indirectly holds over half of the Company's share capital or (ii) a company in which the Company directly or indirectly holds over half of the share capital, subject to authorization by an Extraordinary Shareholders' Meeting of the companies concerned.
 - (d) Securities convertible, exchangeable, redeemable or otherwise exercisable for shares in the Company following the issuance of such securities by (i) a company in which the Company directly or indirectly holds over half of the share capital or (ii) by a company that directly or indirectly holds over half of the Company's share capital, subject to authorization by an Extraordinary Shareholders' Meeting of the companies concerned.
2. Authorizes the Board of Directors to issue the securities – other than the shares set out in paragraph 1 above – in euros or in any other legal currency or in any other currency unit established by reference to a basket of currencies.
3. Sets the maximum term of this authorization at twenty-six months as from the date of this Meeting.
4. Notes that this authorization shall automatically entail the waiver of shareholders' pre-emptive rights to subscribe for the shares to be issued on conversion, exchange, redemption or exercise of any share equivalents issued in accordance with this resolution.
5. Sets the following ceilings for the issues to be carried out by the Board of Directors under this authorization:
 - (a) The maximum nominal value of any capital increase(s) carried out directly or indirectly under this authorization, either immediately or on conversion, exchange redemption or exercise of share equivalents is set at €4,000,000. This ceiling shall include the value of any capital increase(s) carried out in accordance with the authorization granted under the thirteenth resolution of this Meeting set out below.
 - (b) This ceiling shall not, however, include the par value of any additional shares to be issued to protect the rights of existing holders of share equivalents as required by the law and regulations in force or in accordance with any applicable contractual provisions.
6. In relation to this authorization:
 - (a) Notes that the Board or Directors may also give shareholders a pre-emptive right to subscribe for any securities not taken up by other shareholders.
 - (b) Notes that if an issue is not taken up in full by shareholders exercising their pre-emptive subscription rights as described above, the Board of Directors may take one or other of the following courses of action, in accordance with the law and in the order of its choice:
 - Limit the amount of the capital increase to the subscriptions received provided that at least three-quarters of the issue is taken up.
 - Freely allocate all or some of the unsubscribed securities.
 - Offer all or some of the unsubscribed securities for subscription by the public, either in France or abroad.

7. Resolves that the shares and/or share equivalents issued in accordance with this authorization may be granted to existing shareholders free of consideration. In such a case, the Board of Directors may decide that rights to fractions of securities shall be non-transferable and the corresponding securities shall be sold.
8. Resolves that the Board of Directors may suspend the rights attached to the shares and/or share equivalents issued under this authorization for a period not to exceed three months, and, shall take any requisite measures and make any necessary adjustments to ensure that the rights of existing holders of share equivalents are protected, in accordance with the law and any applicable contractual provisions.
9. Gives full powers to the Board of Directors – including the power to delegate to the Chief Executive Officer, or with his agreement to one or more Senior Vice-Presidents – to carry out or suspend any issues referred to in this authorization.
10. Notes that this authorization cancels and replaces, with immediate effect, the unused portion of all earlier authorizations given to the Board of Directors to issue – with pre-emptive subscription rights for existing shareholders – shares and/or securities convertible, exchangeable, redeemable or otherwise exercisable for shares, or for debt securities.
11. Notes that if the Board of Directors uses this authorization, it shall report thereon to the following Annual Shareholders' Meeting, in accordance with the applicable law and regulations.

THIRTEENTH RESOLUTION

AUTHORIZATION GRANTED TO THE BOARD OF DIRECTORS TO ISSUE – WITHOUT PRE-EMPTIVE SUBSCRIPTION RIGHTS FOR EXISTING SHAREHOLDERS AND THROUGH A PUBLIC OFFER – SHARES OR SECURITIES CONVERTIBLE, EXCHANGEABLE, REDEEMABLE OR OTHERWISE EXERCISABLE FOR SHARES IN ILIAD OR ANY COMPANY CONTROLLED BY ILIAD OR WHICH CONTROLS ILIAD, OR FOR DEBT SECURITIES

Having read the Board of Directors' report and the Statutory Auditors' special report, in accordance with the legal and regulatory provisions governing commercial companies, including Articles L.225-129-2, L.225-135, L.225-135-1, L.225-136, L.225-147, L.225-148, L.228-91, L.228-92 and L.228-93 of the Commercial Code, and after noting that the Company's capital is fully paid up, the Shareholders' Meeting:

1. Authorizes the Board of Directors to increase the Company's capital by issuing the securities set out below – without pre-emptive subscription rights for existing shareholders and through a public offer – in France or abroad, on one or more occasions, and to set the amount and timing of said issue(s):
 - (a) Shares (excluding preferred shares).
 - (b) Securities convertible, exchangeable, redeemable or otherwise exercisable for shares in the Company or for debt securities.
 - (c) Securities convertible, exchangeable, redeemable or otherwise exercisable for shares in (i) a company that directly or indirectly holds over half of the Company's share capital or (ii) a company in which the Company directly or indirectly holds over half of the share capital, subject to authorization by an Extraordinary Shareholders' Meeting of the companies concerned.
 - (d) Securities convertible, exchangeable, redeemable or otherwise exercisable for shares in the Company following the issuance of such securities by (i) a company in which the Company directly or indirectly holds over half of the share capital or (ii) by a company that directly or indirectly holds over half of the Company's share capital, subject to authorization by an Extraordinary Shareholders' Meeting of the companies concerned.
2. Resolves to waive existing shareholders' pre-emptive rights to subscribe for the securities to be issued under this authorization.
3. Resolves that under this authorization, the Board of Directors may:
 - (a) Issue securities as part of a capital increase, which, in accordance with paragraph 6 of Article L.225-147 of the Commercial Code, may represent no more than 10% of the Company's share capital, to be used as consideration for shares and/or share equivalents transferred to the Company, where Article L.225-148 of the Commercial Code does not apply.

In such a case, (i) draw up a list of the shares and/or share equivalents to be transferred to the Company, (ii) set the terms of the issue to be carried out by the Company, (iii) approve the valuation of the securities transferred and, where appropriate, the granting of specific benefits, (iv) reduce – if the transferor so agrees – the valuation of the securities transferred and/or the payment for specific benefits, and (v) place on record the related capital increase.

- (b) Issue securities to be used as consideration for securities transferred to the Company as part of a public exchange offer in accordance with Article L.225-148 of the Commercial Code.
- 4. Resolves that if the Board of Directors carries out an issue under this authorization it may increase the number of securities issued in accordance with Article L.225-135-1 of the Commercial Code.
- 5. Authorizes the Board of Directors to issue the securities – other than the shares set out in paragraph 1 above – in euros or in any other legal currency or in any other currency unit established by reference to a basket of currencies.
- 6. Sets the maximum term of this authorization at twenty-six months as from the date of this Meeting.
- 7. Notes that this authorization shall automatically entail the waiver of shareholders' pre-emptive rights to subscribe for the shares to be issued on conversion, exchange, redemption or exercise of any share equivalents issued in accordance with this resolution.
- 8. Resolves that the Board of Directors may grant existing shareholders a priority subscription period in relation to any issue carried out under this authorization, in accordance with paragraph 2 of Article L.225-135 of the Commercial Code.
- 9. Sets the following ceilings for the issues to be carried out by the Board of Directors under this authorization:
 - (a) The maximum nominal value of any capital increase(s) carried out directly or indirectly under this authorization, either immediately or on conversion, exchange redemption or exercise of share equivalents is set at €4,000,000. This ceiling shall include the value of any capital increase(s) carried out in accordance with the authorization granted under the twelfth resolution of this Meeting set out above.
 - (b) This ceiling shall not, however, include the par value of any additional shares to be issued to protect the rights of existing holders of share equivalents as required by the law and regulations in force or in accordance with any applicable contractual provisions.
- 10. Resolves that, in accordance with Article L.225-136 of the Commercial Code, the issue price of securities issued under this authorization shall be determined as follows:
 - (a) The issue price for securities representing up to 10% of the Company's capital in any given year shall be set by the Board of Directors. The price per share must be at least equal to the Company's net asset value per share, by reference to the most recent balance sheet approved by the Company's Board of Directors.
 - (b) For issues exceeding this 10% threshold, the issue price of the securities concerned shall be set by the Board of Directors in accordance with the applicable legal provisions, including Article 155-5 of Decree no. 67-236 of March 23, 1967 relating to commercial companies.
- 11. Gives full powers to the Board of Directors – including the power to delegate to the Chief Executive Officer, or with his agreement to one or more Senior Vice-Presidents – to carry out or suspend any issues referred to in this authorization.
- 12. Notes that this authorization cancels and replaces, with immediate effect, the unused portion of all earlier authorizations given to the Board of Directors to issue – without pre-emptive subscription rights for existing shareholders and through a public offer – shares and/or securities convertible, exchangeable, redeemable or otherwise exercisable for shares, or for debt securities

13. Notes that if the Board of Directors uses this authorization, it shall report thereon to the following Annual Shareholders' Meeting in accordance with the applicable law and regulations.

FOURTEENTH RESOLUTION

POWERS TO CARRY OUT FORMALITIES

The Shareholders' Meeting gives full powers to the bearer of an original, copy or extract of the minutes of this Meeting to carry out all necessary publication, filing and other formalities.

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