March 15, 2007

Lagardère

Convening Notice

Annual Ordinary and Extraordinary
Combined General Meeting
of Lagardère SCA

Friday, April 27, 2007 at 10:00 a.m.

at the Palais des Congrès
2, place de la Porte Maillot - 75017 Paris

This English version of Lagardère convening notice has been prepared for the convenience of the English Language Readers. It is a translation of the original "Avis de convocation". It is intented for general information only and should not be considered as completely accurate owing to the unavailability of English equivalents for certain French legal terms.

How can you take part in the Annual General Meeting?

To attend this meeting:

Participants must be holders of a share account registered in the Company's books at least three days before the date of the meeting (midnight on Tuesday April 24, 2007).

All those documents legally required to be disclosed at General Meetings will be available for viewing by shareholders, either at the Company's head office or at the securities department of Lagardère SCA, ARLIS – 6, rue Laurent-Pichat, 75016 Paris.

If you wish to attend this Meeting, please complete and sign the admission card request form enclosed, and use the special postage paid envelope to mail it to us at:

ARLIS
6, rue Laurent-Pichat - 75216 PARIS CEDEX 16
FRANCE

If you cannot attend the Meeting in person:

You can participate by selecting one of the following three options:

- **vote by post,**
- **ask your spouse to represent you, or give a proxy to another shareholder,**
- **send an unnamed proxy form to the Company, which is equivalent to giving proxy to the Chairman of the Meeting,**

by using the single postal voting form or proxy voting form appended to this notice accompanied with all legally required documents and information.

Postal votes will be valid only where correctly completed forms reach the Company's head office or securities department at the address shown above, at least three days before the date of the meeting.

How to fill in your voting form?

You would like to vote by post:

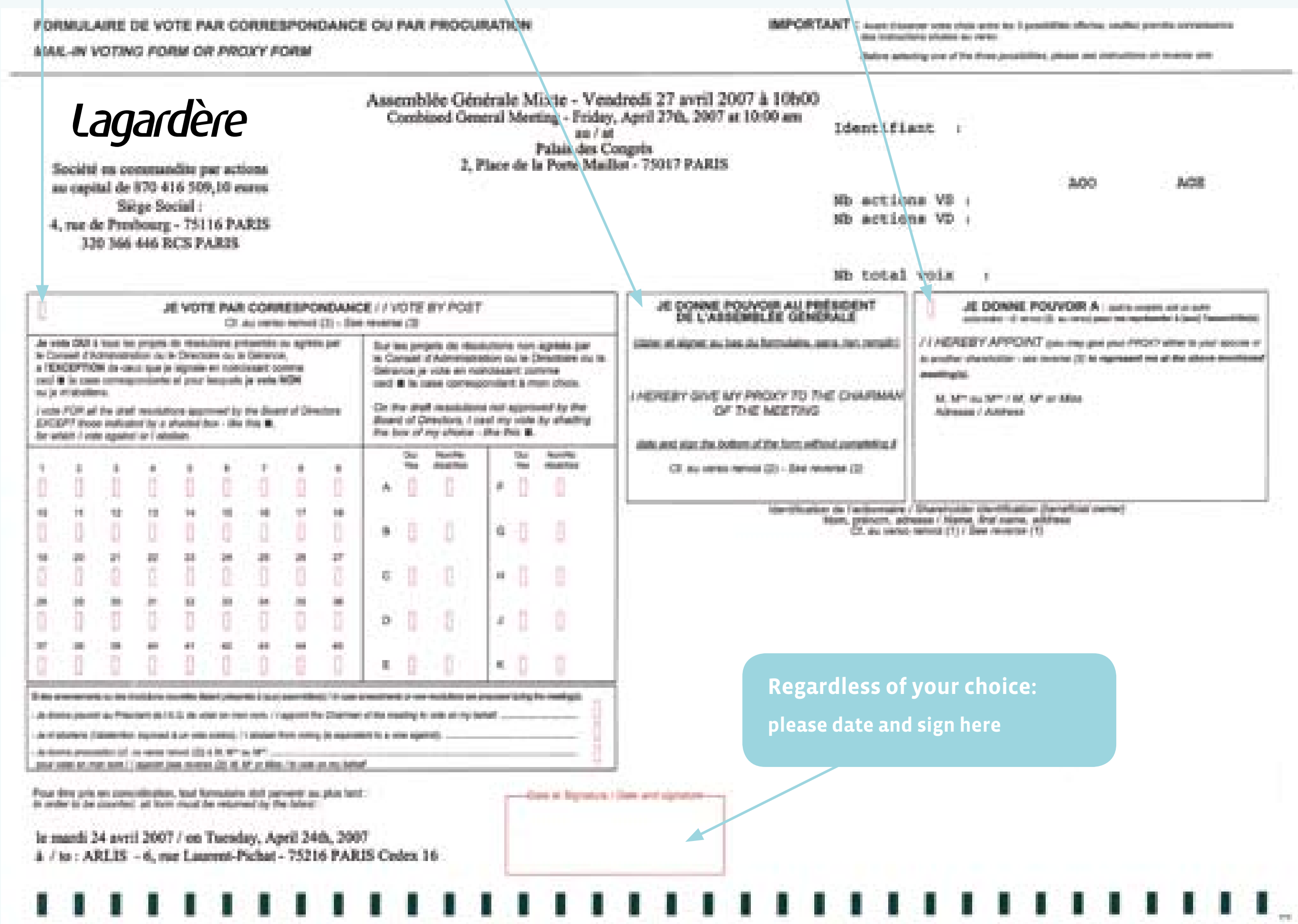
please check here and follow the instructions.

You would like to appoint the Chairman of the Meeting as your Proxy:

please date and sign the bottom of the form.

You would like to appoint a specific person attending the Meeting as your Proxy:

please check here and write the details (last name, first name, address) of your Proxy.


FORMULAIRE DE VOTE PAR CORRESPONDANCE OU PAR PROCURATION
MAIL-IN VOTING FORM OR PROXY FORM

IMPORTANT

Lagardère

Société en commandite par actions
au capital de 870 416 509,10 euros
Siège Social :
4, rue de Presbourg - 75116 PARIS
320 366 446 RCS PARIS

Assemblée Générale Mixte - Vendredi 27 avril 2007 à 10h00
Combined General Meeting - Friday, April 27th, 2007 at 10:00 am
au / at
Palais des Congrès
2, Place de la Porte Maillot - 75017 PARIS

Identifiant :

Nb actions VS :
Nb actions VD :

Nb total voix :

JE VOTE PAR CORRESPONDANCE / I VOTE BY POST

JE DONNE POUVOIR AU PRÉSIDENT DE L'ASSEMBLÉE GÉNÉRALE

I HEREBY GIVE MY PROXY TO THE CHAIRMAN OF THE MEETING

JE DONNE POUVOIR A :

I HEREBY APPOINT

M. Mme ou Mlle / Mr, Mrs or Miss
Adresse / Address

le mardi 24 avril 2007 / on Tuesday, April 24th, 2007
à / to : ARLIS - 6, rue Laurent-Pichat - 75216 PARIS Cedex 16

Regardless of your choice:

please date and sign here

Agenda

Annual Ordinary and Extraordinary Combined General Meeting

- **Managing Partners' report** (management report on the operations of the Company and Group affairs and corporate affairs and the annual financial statements for the year ended December 31, 2006).
- **Supervisory Board report.**
- **Statutory Auditors' reports** on their audit of the individual financial statements, the Group's consolidated financial statements and the agreements referred to in Article L. 226-10 of the French Commercial Code.
- **Special report of the Statutory Auditors** on financial authorizations to be given to the managing partners.
- **Special report of the Managing Partners** on stock options.
- **Special report of the Managing Partners** on share subscription and purchase options.
- **Report by the Chairman of the Supervisory Board** on the organization of the Board and internal control procedures.
- **Special report of the Auditors** on internal control procedures.
- **Approval of individual financial statements** for the year ended December 31, 2006.
- **Approval of consolidated financial statements** for the year ended December 31, 2006.
- **Allocation of income** and distribution of dividends.
- **Approval of the agreements** referred to in article L. 226-10 of the French Commercial Code.
- **Authorization to be given to Managing Partners** to deal in Company shares.
- **Authorization to be given to Managing Partners** to issue complex securities that do not entitle the owners to the Company's capital.
- **Authorization to be given to Managing Partners** to issue common shares and securities with pre-emptive rights that give immediate or future access to the Company's capital.
- **Authorization to be given to Managing Partners** to issue common shares and securities without pre-emptive rights that give immediate or future access to the Company's capital.
- **Authorization to be given to Managing Partners** to increase the amount of issues decided in the event of excess demand.
- **Authorization to be granted to the Managing Partners** to issue common shares and securities of all kinds intended to pay for securities contributed to an exchange offer or a contribution in kind.
- **Overall limit** of €300 million for capital increases and €2.5 billion for debt securities of issues authorized above.
- **Authorization to be given to the Managing Partners** to increase share capital by capitalization of reserves or premiums and by allotting bonus shares or increasing the nominal value of existing shares.
- **Authorization to be given to the Managing Partners** to issue new shares reserved for employees of the Lagardère Group under the Group Savings Plan.
- **Authorization to be given to Managing Partners** to allot bonus shares to employees of the Company and companies affiliated to it.
- **Authorization to be given to Managing Partners** to allot stock options to employees and officers of the Company and companies affiliated to it.
- **Overall limitation** to 5% of the capital of shares that may be subscribed, acquired and/or allotted to employees and officers of the Company and companies affiliated to it under the three authorizations above.
- **Harmonization** of Sections 9 bis, 13, 19, 20 and 21 of the bylaws with legal provisions.
- **Powers to carry out formalities.**

Draft resolutions

1 resolution

Approval of individual financial statements for fiscal year 2006.

The Ordinary General Meeting, after having been notified of the management report as well as the reports of the Supervisory Board and that of the Auditors on their audit, fully approves said reports and the individual financial statements for the financial year ended December 31, 2006 as prepared and presented.

Consequently, it approves all the actions carried out by the Managing Partners during the financial year as they follow from said reports and financial statements, and discharges them for their management during said financial year.

2 resolution

Approval of consolidated financial statements.

The Ordinary General Meeting, after having been notified of the management reports as well as the report of the Supervisory Board and that of the Auditors on the consolidated accounts of the financial year ended December 31, 2006, approves them as prepared and presented.

3 resolution

Appropriation of earnings; setting of dividend at €1.20 per share.

	(in euros)
The Ordinary General Meeting has noted that the Company's profit for the fiscal year, which stands at	**218,565,196.54**
given the retained earnings of	**36,241,857.63**
and provision to the legal reserve of intended to bring the amount of the legal reserve to 10% of share capital,	**18,671.49**
gives a distributable profit of	**254,788,382.68**

It resolves, in accordance with the bylaws, to deduct from this amount a sum of €2,913,680 which is equal to 1% of the consolidated attributable net profit that will be distributed to Managing Partners. This dividend will qualify for the 40% tax reduction referred to in Article 158.3.2° of the General Tax Code and due to natural persons liable to income tax in France.

It has also resolved, upon a motion by the Managing Partners, to pay a unit annual dividend of €1.20 per share, on the understanding that:

- shares created as a result of the exercise of stock options before the date of deduction of the annual dividend shall be entitled to this dividend;

- shares that may be held by the Company itself on the dividend clipping date shall not be entitled to dividends.

The dividend will be clipped from the share on May 10, 2007 and paid as from that date to holders of registered shares or to their qualified representatives, by check or by bank transfer.

This dividend will qualify for the 40% tax reduction granted exclusively to natural persons who pay income tax in France pursuant to the provisions of Article 158-3-2 of the General Tax Code.

It is recalled that the sums of the dividends paid out during the past three fiscal years as well as the tax credits accruing to them, amounted to the sums set out below:

(in euros)	2005	2004	2003
Dividends paid to shareholders	1.1	1 + 2 (*)	0.90
Tax credit	-	-	0.45
Whole dividend	-	-	1.35
Total dividend	153,613,313.70	410,517,996.00 (*)	122,815,095.30
Dividends paid to Managing Partners	6,697,620.00	3,818,730.00	3,339,000.00
Total	**160,310,933.70**	**414,336,726.00 (*)**	**126,154,095.30**

(*) Including extraordinary dividend of €2 per share.

4 resolution

Approval of regulated agreements.

The Ordinary General Meeting, after hearing the reading of the Statutory Auditors' special report on the agreements referred to in Article 226-10 of the French Commercial Code, approves this report entirely as well as the agreements therein.

5 resolution

Authorization to be given to Managing Partners to deal in the Company's shares for a period of eighteen months.

After having been notified of the Managing Partners' special report on the share buyback program, and in accordance with legal provisions, the Ordinary General Meeting, authorizes the Managing Partners to purchase a number of Lagardère SCA shares representing up to 10% of the Company's current capital. This corresponds to a maximum number of fourteen million, eighty-one thousand, eight hundred and sixty-eight (14,269,123) shares based on the capital as of February 28, 2007 and a maximum amount of seven hundred million (700,000,000) euros, under the conditions and according to the terms below.

The maximum purchase price per share will be 80 euros. This amount will be adjusted, if necessary, in the event of capital transactions, particularly in the event of capitalization of reserves, profits and premiums, bonus share issues, stock splits or combinations.

The Managing Partners may use this authorization to reach the following objectives in particular:

- reduction of capital by canceling all or part of the shares acquired, subject to the authorization given by this meeting;
- remittal or exchange of shares during the exercise of rights attached to securities that entitle the holder, in any manner whatsoever, to be allotted Company shares;
- allotment of stock options to beneficiaries who exercise their right;
- allotment of bonus shares to the employees of the Company or affiliated companies;
- allotment of shares to employees under employee profit-sharing schemes;
- any other allotment of shares to employees of the Company and affiliated companies under the conditions defined by applicable legal provisions;
- dealing in and controlling the Company's shares on the market in connection with liquidity agreements signed with an independent investment service provider, the terms of which will comply with a code of ethics recognized by the French financial market authority, *Autorité des Marchés Financiers* (AMF);
- keeping the shares and delivering them later in exchange or in payment for any external growth operations;
- and more generally, carrying out any other transaction that complies with regulations and in particular, with Market Practices admitted by the AMF.

These shares may be acquired, assigned or transferred by all means, in accordance with legislation, including if necessary by private negotiation or OTC transactions, by block sale or assignment, by using derivative products or by the creation of optional strategies.

The General Meeting grants full powers to the Managing Partners to decide, in accordance with legal and regulatory provisions, the implementation of this authorization, enter into all agreements, carry out all formalities and generally take all the necessary steps to implement this resolution.

The delegation thus granted to the Managing Partners is valid for a period of eighteen months as from this General Meeting. It cancels and supersedes the one granted on May 2, 2006.

6 resolution

Authorization to be given to the Managing Partners to issue, for a period of twenty-six months, securities that give or can give immediate or future access to debt securities and/or a share of the capital of companies other than Lagardère, within a limit of €2.5 billion for consequent loans.

The Extraordinary General Meeting after having been notified of the reports of the Managing Partners and the Supervisory Board and the special report of the Statutory Auditors and in accordance with the provisions of Articles L. 225-129-2 and L. 228-91 *et seq.* of the French Commercial Code:

- authorizes the Managing Partners to issue, on one or more occasions, in proportions and at times that it shall deem necessary, in France, outside France or on international markets, all securities other than the Company's shares that may lead, through conversion, exchange, redemption, presentation of a bond or through any other means, to the attribution of debt securities on the issuing company and/or a share of the capital of companies other than Lagardère SCA;
- resolves that the nominal amount of debt securities that could be issued in application of this delegation may not exceed two billion and five million (2,500,000,000) euros or the equivalent value of this amount in the event of the issue in foreign currency or in units of account that are fixed in reference to several currencies;

- resolves that the Managing Partners shall have all the powers required to implement this delegation, and in particular to:
  - fix issue prices and conditions, the amounts to be issued, the dates and conditions of issue, the form and characteristics of the securities to be issued and the securities that are entitled or that can be entitled by these, in particular their nature, their date of entitlement even retrospective, the conditions under which they are exercised, their mode of payment, conditions and terms of their reimbursement or their early redemption,
  - if necessary, make provisions for the conditions of their repurchase on the Stock Exchange, the possibility of suspending any related allotment rights for a period not exceeding three months,
  - carry out, as may be necessary, all the formalities needed to list these securities on the Stock Exchange,
  - and generally, enter into all agreements, make all commitments and do all that is useful or necessary to successfully carry out the projected issues;
- resolves, for existing or future debt securities, that the Managing Partners shall have all powers to decide in particular, whether or not they are subordinated, fix their interest rate, their duration, their redemption price, whether or not they are fixed, are with or without a premium, their redemption mode, arrangements for their amortization depending on market conditions, and the conditions that are granted, or may be granted by these securities, to the attribution of debt securities on the issuing Company and/or a share of the capital of companies other than the issuing Company.

The delegation granted to the Managing Partners is valid for a period of twenty-six months as from this meeting. It terminates and supersedes the one granted on May 10, 2005.

7 resolution

Authorization to be given to the Managing Partners, for a period of twenty-six months, to issue with pre-emptive right, shares and securities that give access to the Company's capital, not exceeding €300 million for capital increases and €2.5 billion for debt securities.

The Extraordinary General Meeting after having been notified of the reports of the Managing Partners and the Supervisory Board and the special report of the Statutory Auditors, and in accordance with the provisions of Articles L. 225-129-2 and L. 228-92 of the French Commercial Code:

- authorizes the Managing Partners to increase share capital, on one or more occasions, in the proportion and at periods it deems fit, by issuing, in France and abroad, the Company's common shares as well as all securities of any kind which give or can give immediate or future access, by all means, and in particular through debt securities, to the Company's shares;
- resolves that the total amount of the capital increases liable to be made immediately or in the future, may not exceed a nominal value of three hundred (300) million euros. This amount may be increased by the additional nominal value of shares to be issued to protect the rights of holders of securities that give right to the Company's shares, in accordance with the law;
- also resolves that the nominal amount of debt securities liable to be issued in application of this delegation of authority may not exceed two billion and five million (2,500,000,000) euros or the equivalent value of this amount in the event of the issue in foreign currency or in units of account determined in reference to several currencies;
- resolves that, pursuant to the law, shareholders will have a pre-emptive right to the subscription of securities issued by virtue of this delegation of authority;
- resolves that should subscriptions as of right, and where applicable, subscriptions for excess shares, not completely absorb an issue, the Managing Partners may, in addition to the options open to them by law, offer the public all or part of unsubscribed securities.

Pursuant to the above-mentioned legal provisions, the Managing Partners will have all the powers required to determine the issue terms and conditions, ascertain the resulting increases in capital and amend the bylaws accordingly.

This delegation of authority is valid for a period of twenty-six months as from this meeting. It terminates and supersedes the one granted on May 10, 2005.

8 resolution

Authorization to be given to the Managing Partners, for a period of twenty-six months, to issue without pre-emptive rights, shares and securities that give access to the Company's capital, not exceeding €200 million for capital increases and €2.5 billion for debt securities.

The Extraordinary General Meeting, after having been notified of the reports of the Managing Partners and the Supervisory Board and the special report of the Statutory Auditors, and in accordance with the provisions of Articles L. 225-129-2, L. 225-135 and L. 228-92 of the French Commercial code:

- authorizes the Managing Partners to increase share capital, on one or more occasions, in the proportion and at periods it deems fit, by issuing, in France and abroad, the Company's common shares as well as all securities of any kind which give or can give immediate or future access, by all means, and in particular through debt securities, to the Company's shares;
- resolves that the total amount of the capital increases liable to be made immediately or in the future, may not exceed a nominal value of two hundred (200) million euros. This amount may be increased by the additional nominal value of shares to be issued to protect the rights of holders of securities that give right to the Company's shares, in accordance with the law;
- also resolves that the nominal amount of debt securities liable to be issued in application of this delegation of authority may not exceed two billion and five million (2,500,000,000) euros or the equivalent value of this amount in the event of the issue in foreign currency or in units of account determined in reference to several currencies;
- resolves to waive the shareholders' pre-emptive rights to the securities to be issued, by virtue of this delegation, on the understanding that the Managing Partners may grant shareholders a subscription priority period on all or part of the issue. The duration of this period will be defined in accordance with legal provisions.
- resolves that the issue price of the shares to be issued may not be lower than the price defined by the legal provisions, namely the weighted average of the price of the Lagardère SCA share price quoted for the three trading sessions preceding the day of the fixing of the price, minus a maximum discount of 5% if necessary, in the case of the issue of securities that give immediate or future access to the Company's shares. The issue price of these shares will be calculated in such a way that the sum received immediately by the Company during the issue, plus any sum that it may subsequently receive, is at least equal, for each share issued for the issue under consideration, to the minimum price defined by the legal provisions and mentioned above.

Pursuant to the above-mentioned legal provisions, the Managing Partners will have all the powers required to determine the issue terms and conditions, ascertain the resulting increases in capital and amend the bylaws accordingly.

This delegation of authority is valid for a period of twenty-six months as from this meeting. It terminates and supersedes the one granted on May 10, 2005.

9 resolution

Authorization for the Managing Partners to increase the amount of issues decided in the event of excess demand.

The Extraordinary General Meeting, after having been notified of the reports of the Managing Partners, the Supervisory Board and the special report of the Statutory Auditors, authorizes the Managing Partners, in accordance with the provisions of Article L. 225-135-1 of the French Commercial Code, to increase within thirty days after the end of the subscription, the number of securities to issue by up to 15% of the initial issue and not exceeding the total ceiling of three hundred million (300,000,000) euros specified in said resolutions, if observes an excess demand during the issue of securities decided upon by virtue of the delegations mentioned in the foregoing resolutions. The issue price of the securities considered will remain unchanged.

10 resolution

Authorization to be granted to the Managing Partners, for a period of twenty-six months, to issue shares and securities to pay for the securities contributed to a exchange offer or contribution in kind, within a limit of three hundred million (300,000,000) euros for capital increases and two and a half billion (2,500,000,000) euros for debt securities.

The Extraordinary General Meeting, after having been notified of the reports of the Managing Partners and the Supervisory Board and the special report of the Statutory Auditors:

- authorizes the Managing Partners, pursuant to the provisions of Articles L. 225-129-2, L. 228-92 and L. 225-148 of the French Commercial Code, to increase the Company's capital on one or more occasions, of a maximum nominal value of three hundred million (300,000,000) euros, by the issue of shares or securities that may or may not give access to the Company's capital in consideration for securities contributed to an exchange offer or a mixed offer on the securities of another company the shares of which are listed for trading on a stock exchange of a State that is a party to the agreement on the European Economic Area or member of the Organization of Economic Cooperation and Development;
- authorizes the Managing Partners, pursuant to the provisions of Articles L. 225-129-2, L. 228-92 and L. 225-147 of the French Commercial Code, to increase the Company's capital on one or more occasions by a maximum nominal value of eighty-five million (85,000,000) euros, by issuing shares and securities that may or may not give access to the Company's capital, in consideration for a contribution in kind of stock securities or securities that give access to the capital of another company, given that the provisions of Article L. 225-148 do not apply;
- resolves to cancel the shareholder's pre-emptive rights to the aforementioned securities;
- also resolves that the nominal amount of debt securities issued, if necessary, in application of this authorization may not exceed two billion and five million (2,500,000,000) euros or the equivalent value of this amount in the event of the issue in foreign currency or in units of account determined in reference to several currencies.

In accordance with the above legal provisions, the Managing Partners will have all the powers required to determine the issue terms and conditions, ascertain the resulting increases in capital and amend the bylaws accordingly.

This delegation of authority is valid for a period of twenty-six months as from this meeting. It ends and replaces the one given on May 10, 2005.

11 resolution

Overall limit of €300 million (excluding premiums) for capital increases and €2.5 billion for debt securities of issues authorized according to the foregoing resolutions.

The Extraordinary General Meeting, after having been notified of the reports of the Managing Partners and the Supervisory Board, and consequent to the adoption of the seventh, eighth, ninth and tenth resolutions, resolves:

- to set the maximum nominal amount of immediate or future capital increases that are likely to be made by virtue of the authorizations granted by the foregoing resolutions at three hundred million (300,000,000) euros, on the understanding that the nominal value of additional equity securities to be issued may be added to this amount to protect the rights of bearers of securities entitling the holders to shares, in accordance with the law;

  and

- to set the maximum nominal amount of debt securities that can be issued by virtue of the authorizations granted by the foregoing resolutions, at two billion five hundred million (2,500,000,000) euros or the equivalent value of this amount in foreign currency or in units of account determined in reference to several currencies.

12 resolution

Authorization to be granted to the Managing Partners, for a period of twenty-six months to increase share capital, by capitalization of reserves, or premiums and allotment of bonus shares or increase in nominal value, not exceeding three hundred million (300,000,000) euros.

The General Meeting, ruling with the quorum and majority needed for Ordinary Meetings, after having been notified of the reports of the Managing Partners and the Supervisory Board and in accordance with the provisions of Articles L. 225-129-2, L. 228-92 and L. 225-130 of the French Commercial Code:

- authorizes the Managing Partners to increase share capital, on one or more occasions, within a limit of a maximum nominal amount of three hundred million (300,000,000) euros, by capitalization of reserves, profits or premiums, by creating and allotting free securities or by increasing the nominal values of the shares or by the combined use of the two procedures. This sum is independent of the ceiling set in the eleventh resolution;
- resolves that fractional shares will be neither negotiable nor transferable, and that the corresponding equity securities will be sold. Proceeds of the sale will be allocated to rights holders no later than thirty days after the date on which the whole number of allotted shares is registered on their account.

Pursuant to the above-mentioned legal provisions, the Managing Partners will have all the powers necessary to determine the terms and conditions of the transactions, ascertain the resulting increases in capital and amend the bylaws accordingly.

This delegation of authority is valid for a period of twenty-six months as from this meeting. It terminates and supersedes the one granted on May 10, 2005.

13 resolution

Authorization to be granted to the Managing Partners, for a period of twenty-six months to issue shares reserved for employees of the Lagardère Group under the Group employee savings fund, within the limit of 3% of current capital.

The Extraordinary General Meeting, after having been notified of the reports of the Managing Partners and the Supervisory Board and the special report of the Statutory Auditors and in accordance with the provisions of Articles L. 225-129-2, L. 225-138 and L. 225-138-1 of the French Commercial Code and Articles L. 443-1 et seq. of the French Labor Code:

- authorizes the Managing Partners to increase share capital, on one or more occasions, in the proportion and at periods it deems fit, by issuing the Company's common shares in France and abroad;
- resolves that the total number of shares that may be issued in this context may not exceed 3% of the number of shares making up the current share capital;
- resolves to revoke the pre-emptive right of holders of the shares to be issued in favor of the Company's employees and those of affiliated groupings, within the meaning of Article L. 225-180 of the French Commercial Code, who contribute to a company savings plan or a voluntary employee partnership savings plan for retirement;
- resolves that the subscription price of the shares to issue may not exceed the average of the prices quoted for the twenty trading sessions preceding the day of the decision of the Managing Partners to set the opening date of subscription, nor be less than 20% of this average or 30% if the freeze period specified by the plan in accordance with Article L. 443-6 of the Labor Code were to be higher than or equal to ten years. The Managing Partners may reduce the amount of the discount on a case by case basis, in particular for certain foreign employees in order to comply with legal and regulatory constraints, notably tax, accounting or labor constraints applicable in the countries of operation of the companies of the Lagardère group involved in the capital increase in question;
- authorizes the Managing Partners to allot bonus Lagardère SCA shares or other securities giving access to existing or future shares, in accordance with the provisions of the clause 4 of Article L. 443-5 of the Labor Code.

The General Meeting empowers the Managing Partners, within the limits specified above, to set the terms and conditions of implementation of the capital increase or increases and/or allotments that will be decided by virtue of this delegation, in particular, to:

- define the criteria that companies included in the Group consolidation scope must meet for their employees to benefit from the capital increases authorized above;
- set the conditions, in particular seniority, to be met by beneficiaries of existing or future shares, and in particular, decide whether the shares may be subscribed individually by employees who contribute to a group or company savings plan or a voluntary employee partnership savings plan or through investment funds of the Company or other structures or entities recognized by applicable laws and regulations;
- set the terms and conditions of the issues and allotments and in particular, define the number of shares to issue or allot, the issue price within the limits defined above and the opening and closing dates of subscription;
- in the event of the free allotment of shares or securities granting access to the Company's capital, choose, either to totally or partially replace the allotment of these shares at the maximum discounts specified above for determining the issue price or assign the equivalent of these securities to the Company's additional contribution, or combine the two possibilities;
- ascertain the realization of the capital increase or increases up to the limit of the amount of shares that are actually subscribed or issued and amend the bylaws accordingly;
- if necessary, allocate the expenses corresponding to the capital increase(s) to the amount of premiums that will be associated with them and deduct from this amount the sums required to bring the legal reserve to a tenth of the capital level resulting from the capital increase;
- and generally take all the necessary steps to complete the capital increase, capital issues or allotment of securities.

The delegation of authority granted to the Managing Partners is valid for a period of twenty-six months as from this meeting. It terminates and supersedes the one granted on May 10, 2005.

14 resolution

Authorization to be granted to the Managing Partners for a period of twenty-six months to allot bonus shares to employees of the Company and companies affiliated with it within the limit of 1% of the Company's capital.

The Extraordinary General Meeting after having been notified of the reports of the Managing Partners and the Supervisory Board and the special report of the Statutory Auditors and in accordance with the provisions of Articles L. 225-129-2 and L. 197-1 *et seq.* of the French Commercial Code:

- authorizes the Managing Partner to allot free existing or future shares, on one or more occasions, to all or some employees of the Company and groupings and companies affiliated with it within the meaning of Article L. 225-197-2 of said Code;
- resolves that the total number of bonus shares allotted may not exceed 1% of the number of shares making up the current share capital;
- resolves that the allotment of shares to the beneficiaries will only become final at the end of a vesting period that may not be less than two years;
- resolves that the shares allotted must be kept for a period that may not be less than two years as from the date of their final allotment;
- acknowledges that this authorization automatically prevails to the advantage of shareholders of their right to reserves, profits and premiums that may be ploughed back into the capital at the end of the earning period in the event of the issue of new shares allotted free of charge under this resolution; and consequently to the renunciation of the attribution of the aforementioned shares.
- grants the Managing Partners the most extensive powers, within the limits specified above and within legal limits in force, to:
  - identify beneficiaries,
  - set the conditions, and if necessary, the share allotment criteria,
  - carry out during the earning period, if necessary, adjustments to the number of shares allotted in the event of transactions on the Company's capital in order to protect the rights of beneficiaries,
  - carry out the necessary capital increases by capitalization of reserves, profits or premiums,
  - amend the Company's bylaws accordingly,
  - and generally, take all the necessary steps to implement this authorization and, in particular, carry out all registration and publicity acts and formalities, acknowledge the capital increases and amend the bylaws accordingly.

The delegation of authority granted to the Managing Partners is valid for a period of twenty-six months as from this meeting. It terminates and supersedes the one granted on May 10, 2005.

15 resolution

Authorization to be granted to the Managing Partners for a period of twenty-six months to allot stock options to employees and officers of the Company and companies affiliated with it within the meaning of Article L. 225-180 of the French Commercial Code, within the limit of 3% of the shares comprising the Company's capital.

The Extraordinary General Meeting, after having been notified of the reports of the Managing Partners, the Supervisory Board and the Statutory Auditors:

- authorizes the Managing Partners, pursuant to the provisions of Articles L. 225-177 et seq. of the French Commercial Code, to grant on one or more occasions, to all or some employees of the Company and companies affiliated with it within the meaning of Article L. 225-180 of said Code stock options that give the right to subscribe to new shares of the Company and/or to buy existing shares;
- resolves that the total number of shares granted under this authorization may not entitle beneficiaries to subscribe or buy shares exceeding 3% of the number of shares making up the current share capital;
- resolves that the period for exercising stock options may not exceed ten years as from the date the Managing Partners allot the stock options;
- resolves, in accordance with the law, that this authorization entails, to the advantage of beneficiaries of stock options, the express waiving by shareholders of their pre-emptive rights to shares that will be issued as and when the options are exercised;
- grants the Managing Partners the most extensive powers, within the limits specified above and within legal limits in force, to:
  - set the subscription or purchase price of stock options according to the procedures indicated by the Managing Partners in their report and in accordance with applicable laws,
  - determine the procedures for the operations, define the conditions under which the stock will be granted, designate the beneficiaries of the stock options, set the period during which they may be exercised, the maximum number of stock options offered to each beneficiary and decide if necessary, on the prohibition of immediate resale,
  - decide the conditions under which the price and/or number of shares to subscribe or purchase may be adjusted to take the financial transactions carried out by the Company into account,
  - and generally, take all the necessary steps, and in particular, carry out all registration and publicity acts and formalities, acknowledge the final realization of the corresponding capital increases and amend the bylaws accordingly.

This authorization is granted to the Managing Partners for a period of twenty-six months beginning from this meeting. It cancels and supersedes the one granted by the Combined General Meeting of May 2, 2006.

16 resolution

Overall limitation to 5% of the capital of shares that may be subscribed, acquired or allotted to employees and officers of the Company and companies affiliated to it under the thirteenth, fourteenth and fifteenth resolutions.

- The Extraordinary General Meeting, after having been notified of the reports of the Managing Partners and the Supervisory Board, and consequent to the adoption of the thirteenth, fourteenth and fifteenth resolutions, resolves to limit to a maximum of 5% of the number of shares comprising the current share capital, the number of shares that may be subscribed, acquired or allotted to employees and officers of the Company and companies affiliated to it under the terms of the foregoing resolutions.

17 resolution

Harmonization of bylaws with legal provisions.

The Extraordinary General Meeting after having been notified of the Managing Partners' report, resolves to bring the Company's bylaws in line with applicable laws and thus amends Articles 9 bis, 13, 19 – 3° and 4°, 20 and 21 of the bylaws:

- the last sub-clause of Article 9 bis relating to the disclosure of thresholds is now worded as follows:

  "In accordance with applicable laws and regulations, and in particular with Article 228-2 of the French Commercial Code, the Company will be entitled to request at any time from the central depository who keeps the accounts of the shares issued, as the case may be, the name or trade name, nationality, year of birth or incorporation, and the address of the holders of securities carrying the right to vote in its own General Shareholders' Meetings immediately or in the future as well as the number of securities held by each one and, as the case may be, any restrictions affecting the securities";

- the second to last sub-clause of clause 3 of Article 13 of the bylaws relating to Supervisory Board meetings is now worded as follows:

  "Board members taking part in meetings through video-conferencing or telecommunication channels shall be deemed to be present in the calculation of the quorum and majority";

- the first sub-clause of clause 3 of Article 19 relating to General Meetings is now worded as follows:

  "All shareholders have the right to attend General Meetings and to take part in deliberations, either in person or through a representative by simply proving their identity and the registration in their name of their securities on the third business day preceding the meeting at midnight, Paris time, in the accounts of registered securities kept by the Company";

- the last sub-clause of clause 3 of Article 19 relating to Shareholders' Meetings is now worded as follows:

  "Shareholders may, upon the decision of the Managing Partners published in the Convening Notice, as well as in the calls for meetings, take part in General Meetings of Shareholders by videoconferencing and vote at these meetings through electronic communication channels. The Managing Partners, after obtaining the opinion of the Supervisory Board, defines the corresponding conditions of participation and voting. The technologies employed should guarantee, as the case may be, the continuous and simultaneous retransmission of proceedings, security of the resources used, the authentication of participants and voters, as well as the integrity of votes";

- the following sub-clause is inserted at the end of clause 3 of Article 19 relating to General Meetings:

  "Should a shareholder decide, after a decision by the Managing Partners taken in accordance with the provisions of the second sub-clause of this clause, either to vote by correspondence, give a proxy to another shareholder or send a proxy to the Company without indicating a representative, by sending the corresponding form electronically, the electronic signature must either:

  - *take the form of a secure electronic signature within the meaning of applicable legal provisions,*
  - *or be produced with a reliable identification process that guarantees its link with the act to which it is related, or any other identification or authentication process that is admitted by the legal provisions in force";*

- in the second sub-clause of clause 3 of Article 20, relating to the quorum in Ordinary General Meetings, the terms *"at least one quarter of shares with voting rights"* are replaced with *"at least one fifth of shares with voting rights.";*

- in the second sub-clause of clause 2 of Article 21, relating to the quorum in Extraordinary General Meetings, the terms "third" and "quarter" are replaced with "quarter" and "fifth" respectively.

18 resolution

Powers for carrying out formalities.

The Ordinary General Meeting has granted the necessary powers to the bearer of an original copy, excerpt, or a certified true copy of the minutes of this meeting to carry out all the legal or regulatory formalities wherever necessary.

Managing Partners and Members of the Supervisory Board

List of Managing Partners and Members of the Supervisory Board

Managing Partners

Arnaud Lagardère

ARJIL COMMANDITÉE - ARCO

represented by:

Arnaud Lagardère

Chairman and Chief Executive Officer of ARJIL COMMANDITÉE - ARCO (SA)

Philippe Camus

Deputy Chairman and Chief Operating Officer of ARJIL COMMANDITÉE - ARCO (SA)

Pierre Leroy

Director and Chief Operating Officer of ARJIL COMMANDITÉE - ARCO (SA)

Members of the Supervisory Board during the 2006 Financial Year

Raymond H. Lévy

Chairman of the Board
Chairman of the Audit Committee

Honorary Chairman of Renault SA

Bernard Arnault

Member of the Board

Chairman and Chief Executive Officer of LVMH

Hubert Burda (1)

Member of the Board

René Carron

Member of the Board

Chairman of the Board of Directors of Crédit Agricole SA

Georges Chodron de Courcel

Member of the Board

Chief Operating Officer of BNP Paribas

Groupama S.A.

Member of the Board
Represented by Helman le Pas de Secheval
(Chief Financial Officer of GROUPAMA)
Member of the Audit Committee

Pehr G. Gyllenhammar (2)

Member of the Board
Member of the Audit Committee

Pierre Lescure

Member of the Board

Chairman of AnnaRose Productions (SAS)

Christian Marbach

Member of the Board
Member of the Audit Committee

Chairman of the Oseo-Services IEG
(formerly "Agence des PME")

Bernard Mirat

Member of the Board
Member of the Audit Committee

Former Vice-Chairman and Chief Executive Officer
of Société des Bourses Françaises

(1) Hubert Burda resigned on December 19, 2006.
(2) Pehr G. Gyllenhammar resigned at the end of the Combined General Meeting of May 2, 2006.

Members of the Supervisory Board during the 2006 Financial Year

Didier Pineau-Valencienne

Member of the Board
Member of the Audit Committee

Former Chairman and Chief Executive Officer of Schneider SA

Henri Proglio

Member of the Board

Chairman and Chief Executive of Véolia Environnement

Felix G. Rohatyn

Member of the Board

Former US Ambassador to France

François Roussely

Member of the Board

Chairman and Chief Executive of Crédit Suisse France

Bernard Esambert [3]

Censor

Laure Rivière-Doumenc

Corporate Secretary

(3) The appointment of Bernard Esambert ended at the Combined General Meeting of May 2, 2006.

Executive summary

of the Group's operations and situation

I Overview

Lagardère operates in more than 40 countries and ranks among the world's leading companies in the media sector, which is at the heart of its commitment. The group is also present in the High Technologies sector with a strategic stake in the EADS Group.

After having initiated the process to eventually reduce its interest in EADS from 14.98% to 7.5% in 2006, Lagardère is today stepping up its transformation. On the one hand, it is combining its "Magazine Publishing" and "Audiovisual" activities to make it a high-performing segment in content production that is also innovative in the digital sector. And on the other hand, it has established itself as a key player in the sports field, in particular, with the acquisition of the company Sportfive.

Lagardère is thus presenting a new image in 2007: as a major communication Group that is still active in the information, education, cultural and entertainment sectors, but seeks to adapt its strategy to the profound changes that are taking place in radio and TV technologies.

Resolutely focused on the future and attentive to the needs of today's global market, the Group has thus proved its ability to renew itself to adapt to the development of new behaviors created by the era of digital technology and mobility.

Lagardère ended the year 2006 by changing its media strategy: to ensure its migration to digital technology, the Group announced that it was merging its **magazine publishing** and **audiovisual and digital** activities, which were divided between **Hachette Filipacchi Médias** (HFM) and **Lagardère Active,** into a new branch of activity called **LAGARDÈRE ACTIVE.**

In view of this, the Group has embarked on a three-year process, aimed at:

- returning the "magazines" division to profitable growth;
- establishing the foundations of the LAGARDÈRE ACTIVE branch, for which it has set the target of becoming a leading producer of content, in particular digital content.

After reviewing the strengths and weaknesses of this new division, Lagardère was able to define a new strategy, structured around six points:

- putting a new management team in place and creating a new corporate culture that is more oriented towards marketing and digital technology;
- a policy of streamlining its business portfolio, including the discontinuation of certain magazines, the disposal of certain international operations that are not very profitable or their replacement with license agreements, as well as the sale of some photo agency and partnerships related to daily regional press activities;
- a determination to improve profitability to make full-year cost savings in the region of €70 million by the end of 2009;
- a policy of revitalizing certain traditional activities (magazines, radio, audiovisual);
- the merger of two advertising sales agencies, Interdéco and Lagardère Active Publicité, to enable the division to present a more exhaustive and innovative "cross-media" offering to adapt to the changing requirements of its advertising clients. The synergies created by the merger of the two entities should enable the new organization to better resist the decline of growth in the magazine publishing sector;
- the implementation of an ambitious digital strategy that is a combination of organic and external growth.

At the end of 2009, the share of digital revenues should account for between 5% and 10% of the total revenues of LAGARDÈRE ACTIVE, depending on acquisition opportunities (compared with less than 1% in 2006).

The costs of all the restructurings in 2007-2009 aggregated data, will be between €80 million and €100 million.

The new management has set itself the following objectives for 2010:

- improve the division's profitability;
- complete the digital migration of contents and sites (which should reach 100, instead of the fifty odd sites today);
- develop a strong "cross-media" presence in five to six editorial segments with a worldwide audience (women, celebrity, news, automobile, children, etc.).

Regarding its stake in Canal+ France (the pay TV arm of the Canal+ Group), the agreement concluded by Lagardère in 2006 gives it a lot of flexibility concerning the attitude that it would have adopted by 2010 (remain at 20%, increase its stake to 34% or apply the liquidity clause).

The Group, which is already a leader in the French radio and television drama market, will adopt a common brand policy by bringing together under the Lagardère Images brand all its companies that operate in this sector. The aim is to make it the leading company in entertainment programming.

Regarding the **book publishing business (1), Hachette Livre** has chosen to position itself exclusively on the consumer market (text books, general literature, illustrated publications, children's books, guides practical guides, etc.), and exclude the "professional" market.

Hachette Livre is also focusing on the three main linguistic areas; English, French and Spanish, which account for 60% of the world market. Hachette Livre is the leading European publisher and third worldwide. It is therefore one of the key players on a market where its most powerful competitors are mainly of Anglo-Saxon origin.

Hachette Livre's strategic development is based on an international deployment that began in 1996, driven in the beginning by the success of the Partworks activity, followed by such major acquisitions as that of the assets of Editis (Vivendi group) in 2003, Hodder Headline in the UK in 2004 and Time Warner Book Group in the United States in 2006. This internationalization strategy has enabled the Group to readjust its markets by geographic area and by business segment. In addition to increasing its sales, Hachette Livre has also improved its profitability which is today among the highest in the sector worldwide.

The key success factors of Hachette Livre's publishing strategy are the combination of the balance between its positioning (geographical area, priority segments) and its decentralized organization that gives considerable leeway to the various entities and publishing houses.

Hachette Livre's development in the near future will be based on its expansion in certain industrialized countries (in particular, United States, United Kingdom, Spain), as well as the emerging markets of Asia (China, India) and Latin America (Brazil, Mexico). It is also linked to the division's ability to offer products adapted to new consumer trends (formats, availability on different distribution channels and media, including electronic channels and media). It is true that the advent of digitization and the Internet represents an opportunity, for example in the case of educational books and practical guides, which are fields where Hachette Livre has developed a range of interactive educational products and services that are accessed from an extranet site. They serve as teaching aids for teachers and specialized sites that give tourist information.

In the **"distribution and services" (2)** sector, **Hachette Distribution Services,** a world leader in press distribution has structured its development strategy around two businesses:

- retail business, dedicated to services for travelers, as well as the sale of cultural leisure products;
- national as well as international press distribution activities at retail outlets.

With respect to services to travelers, the Group, which is already present in 17 countries, continues to continue its growth strategy by setting up new locations in railway stations and airports: in 2006 therefore, the Group opened many new retail outlets (Relais H, Aelia, etc.) in Germany, Spain and in several Central European countries.

For the past two years, the variations of the Relay brand, with Relay Services and Relay Livres have enabled the Group to supplement the traditional offering of reading products by providing travelers with a vast range of travel services, food, beverages and convenience services.

With respect to the specialized sale of cultural products, in addition to reinforcing its presence in the Middle East and Turkey through a franchise network, Virgin continued to expand its digital activity by adding more products to its music download web site Virginmega.fr and developed the site by adding a new video on demand (VOD) activity as well as a classical music download web site.

HDS Digital, launched in 2006, came up with a new concept offering web surfers the possibility of downloading over 140 magazines from a veritable electronic newsstand.

With a prestigious heritage in the **sports market,** in November 2006, the Lagardère group signed an agreement to buy the sports agency Sportfive, a leader in the management of marketing and

(1) The "Book" branch of activity within Lagardère group is now "Lagardère Publishing".
(2) The "Distribution and services" branch of activity within Lagardère group is now "Lagardère services".

TV rights of European football events. This acquisition is part of a long-term strategy to reinforce the Group's presence in the market of exclusive media content with high growth potential. Sportfive currently operates mainly in football, the most developed and most attractive sports market in the world. It has a portfolio of rights for over 250 football clubs, 50 of the major federations and European leagues, as well as broadcasting rights for such prestigious international events as the Euro 2008 football matches.

Lastly, Lagardère has signed an agreement to acquire a controlling interest in Newsweb, one of the leading French companies in publishing and web content that specializes in sports news in particular. Newsweb's activities complement the Lagardère Group's businesses in three areas: content, advertising sales and digital expertise.

In addition to developing its sports businesses within Lagardère Sports' new branch, the Group is also implementing an active policy of sports patronage.

EADS

Although Lagardère's core business today is the media, in April 2006 the company monetized half its stake in EADS under conditions that enable it to maintain its prerogative as controlling shareholder of EADS together with the French government and Daimler Chrysler (see section 5.2.2).

In fiscal 2006, EADS announced further delays in its A380 program, which resulted in a sharp drop in its share price. Moreover, EADS had to bear the financial consequences of these delays, in an environment marked by strong competition and the continued deterioration of the dollar exchange rate.

Faced with these trying circumstances, the management of EADS has affirmed its determination to make the necessary efforts to put the Group back on track by focusing on its strengths and reforming its industrial model.

All the orders for A380 passenger planes have been maintained and clients reaffirmed their trust by placing new orders. Concerning the freight transport version of the A380, following the cancellation by UPS of an order for ten aircraft, Airbus decided to discontinue the development of this version at the beginning of March 2007.

At the end of 2006, EADS decided to launch the A350 XWB program. This program is an essential component of Airbus' strategy to keep ahead of its competitor in the medium capacity long-range aircraft market.

The year was also marked by the acquisition by EADS of BAe Systems' 20% stake in Airbus. Airbus is now fully owned by EADS.

More generally, EADS has embarked on a profound transformation outlined by the restructuring plan and industrial streamlining program called Power 8. The first tangible sign of this change is the clarification of the Group's management structure: Louis Gallois, who became the co-Chairman and CEO* of EADS on July 2, 2006, also takes up the duties of Chairman of Airbus. Thomas Enders, the other co-Chairman and CEO* of EADS, will run the Group's other divisions.

The EADS group, boosted by revenues close to €39.4 billion at the end of 2006 with a workforce of nearly 117,000, maintained its positions as leader on the fast-growing aerospace and defence markets. EADS has a unique portfolio of modern and diverse products and a significant order log, competent employees and leading-edge technologies.

(*) CEO: Chief Executive Officer.

II Financial highlights and key remarks on fiscal year (FY) 2006

- Revenues of Lagardère Media: up 2.4% at €8,092 million (up 0.9% like-for-like).
- Current operating income of consolidated companies of Lagardère Media: up 7.0% at €539 million. Excluding the impact of the sale of Dalloz and the acquisition of the Time Warner Book Group, excluding DTT investments, and at a euro/dollar exchange rate of 1.25, the increase stands at 4.8%, in line with the 3% to 7% guidance in March 2006.
- Slump in the net consolidated income of the Lagardère group excluding EADS (€268 million against €404 million at the end of 2005) under the effect of non-recurrent items (in 2005 and 2006) and the 2006 financial expense related to EADS redeemable bonds with adjustable parity (ORAPA). Adjusted net attributable profit restated by these items, excluding EADS increased 5% at €378 million.
- Flows generated by the LAGARDERE's operations (operating cash flow) excluding EADS grew by nearly 20% at €782 million against €654 million in 2005. This was mainly due to the payment of an extraordinary dividend by *CanalSat* (€102 million against €27 million in 2005). An 8% increase excluding this exceptional impact, highlighting the Group's ability to offset the difficulties encountered by the Press division.
- Net debt, excluding EADS, of €2,023 million at the end of 2006 against €1,075 million in 2005. One of the reasons for this increase in financial leverage over the balance sheet was the impact of the acquisitions of Time Warner Book Group, Canal+ France securities and NewsWeb, as well as the Lagardère SCA securities buyback policy.
- Proposal of a dividend of €1.20 per share for fiscal 2006, compared with the €1.10 dividend paid in 2005.

Group consolidated revenues

The consolidated revenues of Lagardere SCA rose 7.6% to €13,999 million compared with €13,013 million in 2005.

- **0.9% increase in revenues of Lagardère Media on a like-for-like basis**

Lagardère Media reported revenues of €8,092 million, up by +0.9% on a like-for-like basis.

The Book Publishing division recorded another year of solid growth with a 1.8%, increase like for like despite the refocusing of editorial programs at Larousse in France and Octopus in the United Kingdom. In 2006, Hachette Livre also benefited from the consolidation of the Time Warner Book Group over nine months (up €336 million). The Press division slipped 1.2% like for like under the combined effect of the discontinuing of publications and the weakness of some segments (men's magazines, car magazines). The Distribution and Services division grew 1.9% like for like: the drop in low-margin activities (tobacco sales in Spain, press distribution in Belgium) was more than offset by the sharp increase in sectors with higher margins (in airports as well as in Eastern European countries and Asia). Lastly, the audiovisual and digital activities were better than expected with a 0.9% drop in sales, like for like despite a very high comparative in 2005.

- **EADS's contribution to consolidated revenues up 15.5% at €5,907 million**

With revenues of €25.2 billion, up 14%, Airbus deliveries reached a record high. It delivered 434 aircraft in 2006, against 378 for the same period the previous year, mainly thanks to A320 family single-aisle jets.

The 188% increase in Military Transport Aircraft revenues was driven mainly by advances on the A400M program, including a milestone billing initially scheduled for late 2005 and postponed to the first quarter of 2006.

Eurocopter saw strong growth in deliveries, with 381 helicopters delivered in 2006, compared with 334 in 2005, which increased revenues by 18%.

Astrium benefited from growth in production of the Ariane 5 launcher and advances in new service activities, pushing revenues up by 19%.

Recurring EBIT of consolidated companies

- **4.8% increase of Lagardère Media recurring EBIT (excluding the impacts of Dalloz and TWBG, DTT investments, and at a euro-dollar exchange rate of 1.25)**

The Lagardère Media's contribution to recurring EBIT was €539 million, up 7%. This represented a 4.8% increase on 2005, excluding the impacts of the sale of Dalloz and the acquisition of TWBG, DTT investments at a euro-dollar exchange rate of 1.25.

The Lagardère Media operating margin (recurring EBIT/ revenues) in live data rose from 6.4% in 2005 to 6.7% in 2006, despite the poor performance of the Press segment and additional DTT investments.

The "Book" division performed excellently with recurring EBIT up 16.6% at more than €220 million. It benefited from the contribution of Time Warner Book Group over nine months, which added €33 million to 2006 consolidated recurring EBIT, net of €3 million of corporate costs. However, the figure does not include the EBIT of Dalloz, which was sold at the beginning of the year and posted a 2005 recurring EBIT of over €10 million. Once again, partworks had another year of significant growth, mainly driven by the businesses in Spain and Italy. Educational books were one of the highest performing segments in France and Spain (Anaya). Distribution in France and Hodder Headline played a significant role in the increase in recurring EBIT. Conversely, Larousse in France and internationally, Octopus and Orion (United Kingdom) contributed less than they had in 2005. Overall, the operating margin was 11.1%, compared with 11.5% in 2005. This drop, which was expected, was due to the integration of Time Warner Book Group and the impact of the sale of Dalloz. Aside from these two operations, underlying operating margin rose 0.2%.

The audiovisual and digital activities again posted record recurring EBIT €71 million, a 53% increase compared with €47 million in 2005, despite the increase in DTT investment from €7 million in 2005 to €19 million. Operating margin rose sharply from 7.5% in 2005 to 12.1% in 2006. In the radio segment, the international network - mainly Russia - and Europe 1 underpinned the rise in recurring EBIT to €66 million in 2006 compared with €46 million in 2005. RFM experienced a slight dip in recurring EBIT ease, despite having a good year-end, as did Europe 2. As expected, income from TV Program Production and Distribution was lower, compared with an exceptional 2005 recurring EBIT. However the drop was less than anticipated, due to solid growth in Stock Production. The contribution from theme channels remained practically unchanged. The excellent results of music channels in particular, and the elimination of losses on Match TV (closed in summer 2005), offset the additional sums invested in DTT. Overall, recurring EBIT from TV slipped only by €2 million as compared with 2005 at €8 million.

HDS posted an 8.4% increase in recurring EBIT at €116 million. The French market performed excellently once again, driven by Aelia. The American and Asian markets also had a very good year. Belgium slipped back a bit, whereas growth was buoyant in Eastern Europe while the Asia-Pacific region continued its sustained growth.

Recurring EBIT of the Press segment reached €132 million, an 18.5% drop over 2005.

In France, the fall in recurring EBIT, which was in line with the decrease for the division as a whole, was due to:

- poor performance by the men's magazines *Entrevue* and *Choc!;*
- the continuing slow downturn at *Télé 7 Jours;*
- a lower contribution from *Paris Match* after a very strong 2005;
- an increase in Internet investment.

The magazines *Public* and *Psychologies* however continued to rise.

The United States also saw a sharp drop in recurring EBIT, at a higher rate than that of the Press division. This was due to men's magazines (failed launch of *Shock*), *Woman's Day,* home and interiors magazines and car magazines.

The contribution of the Regional Press to revenues was affected by costs of the strike at *Corse Matin,* the weak circulation of some titles and development costs (new rotary press, format changes, etc).

In other countries, excluding emerging markets (Russia) which are still growing, contributions leveled overall. The United Kingdom recorded healthy growth due to the success of *Psychologies* combined with the first effects of the restructuring project.

Lastly, we must note that upscale women's magazines, especially Elle, held up well in all our markets, including the United States.

- **EADS contributes €39 million to Lagardère consolidated recurring EBIT (against €392 million in 2005)**

EADS' contribution to operating profit in 2006 dropped sharply to €39 million compared with €392 million in 2005. This downturn was the result of extraordinary charges arising from late deliveries of the A380, the launch of the A350 XWB, a provision relating to A400M and the losses of EADS Sogerma Services. These factors were compounded by a deterioration in the dollar-euro exchange rate and higher R&D expenditure at Airbus. However, these poor results were to some extent offset by record delivery levels at Airbus and Eurocopter, and by the growth of the space and defence businesses.

Overall, Lagardère SCA consolidated recurring EBIT was €578 million, compared with €896 million in 2005.

Income from equity associates

For Lagardère (excluding EADS), income from associates was €68 million, compared with €63 million in 2005.

The increase was due to further improvement in the CanalSat contribution (€52 million, against €45 million in 2005).

Non-recurring items

Lagardère (excluding EADS) recorded non-recurring losses of €40 million, comprising a €54 million loss on Lagardère Media and a gain of €14 million on Other Activities.

Lagardère Media's €54m loss breaks down as follows:

- €42 million of restructuring costs, including €31 million for the Press segment, primarily in France, the United States and the United Kingdom;
- €31 million of impairment losses (accounting charges with no cash outflow), mainly on a few American press titles;
- non-recurring income of €19 million, mainly capital gains.

The €14 million gain on Other Activities mainly related to the disposal of a building near Paris.

Net financial expense

Lagardère SCA posted a net financial expense of €192 million, compared with €76 million in 2005.

Excluding EADS' contribution, the net financial expense amounted to €174 million, compared with €53 million in 2005.

This increase was due to:

- a capital loss of €15 million recorded during the July 2006 swap of T-Online securities for Deutsche Telekom securities;
- financial interest relating to the increase in Group net debt due to acquisitions (Time Warner Book Group, Canal+ France, Newsweb) and the share buyback program, against a backdrop of a slight increase average interest rates;
- an €80 million expense corresponding to net financial expenses, related to the EADS mandatory exchangeable bond as well as the amortization of collar used to hedge this bond issue.

Income taxes

Income tax for the entire Group was €85 million, (including €12 million attributable to EADS).

The charge attributable to Lagardère (excluding EADS) was €97 million, a rate of around 30% of pre-tax income (excluding income from associates).

Minority interests in net income for the entire Group were €30 million, including €2 million attributable to EADS.

Taking all these factors into account, **consolidated net attributable income was €291 million, against €670 million in 2005.**

Lagardere attributable net income (excluding EADS) was €268 million, compared with €404 million in 2005.

(in millions of euros)	2006 Lagardère Group excl. EADS	2006 EADS	2006 Total Lagardère Group	2005 Lagardère Group excl. EADS	2005 EADS	2005 Total Lagardère Group
Revenues	**8,092**	**5,907**	**13,999**	**7,901**	**5,112**	**13,013**
Recurring EBIT of associates	**539**	**39**	**578**	**504**	**392**	**896**
Non-recurrent items	(40)	(31)	(71)	(67)	(3)	(70)
Contribution of equity associates	68	23	91	63	31	94
Income before financial expenses and taxes	**567**	**31**	**598**	**500**	**420**	**920**
Net financial expenses	(174)	(18)	(192)	(53)	(23)	(76)
Corporate income tax	(97)	12	(85)	(16)	(126)	(142)
Consolidated net income	**296**	**25**	**321**	**431**	**271**	**702**
Minority interests	(28)	(2)	(30)	(27)	(5)	(32)
Attributable net income	**268**	**23**	**291**	**404**	**266**	**670**

CALCULATION OF ADJUSTED NET INCOME

(in millions of euros)	2006	2005
Attributable net income (excluding EADS)	**268**	**404**
Impact Mandatory Exchangeable Bond operation on financial expenses	80	-
Non-recurring items relating to income tax	-	(99)
Capital loss on T-Online/Deutsche Telekom swap	15	-
Total	**363**	**305**
Impairment of value on property, plant and equipment, and intangible assets (net of tax effect)	15	55
Adjusted attributable net income (excluding EADS) (before impairment of value on property, plant and equipment, and intangible assets)	**378**	**360**

Cash flow from operations

Lagardère (excluding EADS) recorded a cash outflow of €465 million on operating and investment activities at December 31, 2006, compared with €857 million in 2005, reflecting the active investment policy pursued during the year.

The main elements of this change were as follows:

- cash flow (excluding EADS) rose sharply by 16% to €770 million. This was the result of:
  - an increase in recurring cash-flow from the Media division,
  - cash flow generated from the 9-month consolidation of Time Warner Book Group,
  - the impact of the dividend paid by CanalSat (up €102 million against €27 million in 2005);
- working capital needs rose by €12 million, compared with a €9 million drop in 2005. The change was driven by the contributions of the Books, Distribution and Active divisions that more than offset the €38 million increase in working capital needs of the Press segment. Overall, cash flow from operations (the sum of cash flow and the change in working capital needs) rose by nearly 20% in 2006;

- investment in property, plant & equipment and intangibles, net of disposals and excluding EADS, fell sharply from €150 million in 2005 to €113 million in 2006, due mainly to an asset disposal at Hodder Headline;
- in 2006, financial investments net of disposals and excluding EADS amounted to €948 million, reflecting the group's acquisition policy. The three main operations were Time Warner Book Group, which cost approximately €404 million, Canal+ France shares for €469 million, which must however be related to the €102 million paid as dividends by CanalSat mentioned earlier on, and NewsWeb, which cost €64 million. The sale of Dalloz partly offset these cash outflows.

Net debt: higher gearing

As at December 31, 2006, net bank debt was €1,532 million, a sharp increase as compared with the €863 million debt recorded at the end of December 2005.

Excluding EADS, net debt amounted to €2,023 million, compared with €1,075 million at the end of 2005.

This rise in net debt mainly reflects acquisitions during the year (Time Warner Book Group, stake in Canal+ France, NewsWeb).

It also takes into account buybacks of Lagardère SCA shares (around €260 million at the end of 2006), net dividends (€103 million), and the fair value remeasurement of debt (negative impact of around €110 million). Since the operation was concluded at the end of 2006, the acquisition of Sportfive is not included in the debt.

The impact of the EADS Mandatory Exchangeable Bond (excluding the collar) on consolidated debt at end 2006 was neutral.

A more detailed analysis of the activity of the Group's main business activities, LAGARDÈRE MEDIA (A) and EADS (B).

Activities classified under "Other Activities" (C) summary of results (D) and the dividend proposal (IV) will also be presented.

III Detailed analysis of business operations

A. LAGARDÈRE MEDIA

LAGARDÈRE MEDIA comprises Group Media activities which are divided in four main activities:

- LAGARDÈRE PUBLISHING (book),
- LAGARDÈRE ACTIVE (press, audiovisual and digital activities),
- LAGARDÈRE SERVICES (distribution and services),
- LAGARDÈRE SPORTS (sport).

INCOME STATEMENT OF LAGARDÈRE MEDIA

(in millions of euros)	2006	2005
Revenues	**8,092**	**7,901**
Recurring EBIT of associates	539	503
Non-recurrent items	(54)	(67)
Income (loss) of associated equity companies	68	63
Income before financial expenses and taxes	**553**	**499**
Net financial expenses	(84)	(52)
Income before taxes	**469**	**447**

A.1 *LAGARDÈRE PUBLISHING* (1) *(former name "book division")*

A.1.1 Main activities and markets

Hachette Livre currently ranks third worldwide and first in Europe in the publishing sector. Today it can hold its own with all its major rivals on each of the markets where it operates.

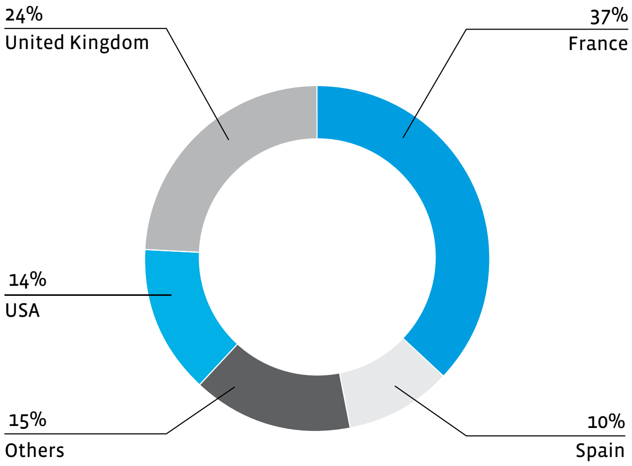
No. 1 in France and in Great Britain, No. 2 in Spain and No. 5 in the United States, Hachette Livre has always strived, ever since it was created in 1826, to publish, sell and distribute innovative books of impeccable quality that meet the expectations of its readers for knowledge, information, culture and entertainment.

This mission is accomplished by over 7,000 employees who work towards the company's growth and long-term development. In 2006, the Group had 3,000 plus employees based in France, over 1,500 in the United Kingdom, nearly 1,170 in Spain and over 860 in the United States.

Hachette Livre has a balanced portfolio that is diversified across the editorial spectrum (textbooks, general literature, illustrated books, partworks, children's dictionaries, etc.) and firmly entrenched in the three major language areas (English, Spanish and French). This portfolio offers new bases for development by geographic area and by business and also enables the division to build on the most buoyant segments and the most dynamic markets.

Boosted by this balance, in 2006, the companies in the Hachette Livre division posted total revenues of €1,975 million *(base revenues contributed to Lagardère)*.

Hachette Livre revenues were divided **by geographic area,** as follows: *(Source: internal 2006 data)*.



- Activities and structure of Hachette Livre

Hachette Livre's business model is integrated across the book publishing/distribution value chain. The division, with its highly reputed publishing houses and brand names, knows how to make the most of its high-quality relationships with authors, the expertise of its sales forces, the rigorous logistics of its distribution and the commitment of its highly qualified employees.

The autonomy of publishing houses, which are independent and fully responsible for the creative process and editorial decisions, fosters creativity as well as internal competition. The large degree of autonomy that Hachette Livre allows each of its operating divisions is one of the key factors for its success. Hachette Livre's various divisions constitute a sort of federation of small and medium sized independent publishing houses, each with its own corporate culture and specific, even unique editorial tone.

Each publishing house is responsible for the relations it maintains with its authors: Each individual relationship is of extremely high quality, enabling control of the copyright portfolio and the supply to the paperback sector and providing derived rights opportunities.

(1) *Hachette's Livre competitive positions are defined as follows: they take into account the statistics provided by IPSOS panels for France, Nielsen Bookscan for the United Kingdom, and internal sources for Spain.*

Central management functions allow Hachette Livre to maintain a sound financial position and to think in a global context in terms of balance and portfolio.

All these assets taken together make Hachette Livre the leading publishing group in France. On the main markets where it operates, against such competitors as Editis, Gallimard, Flammarion, Albin Michel, la Martinière-Le Seuil and Media Participations.

Outside France, Hachette Livre has succeeded in moving up from 13th to 3rd position worldwide, in the face of major competitors such as Pearson, MacGrawHill Education, Random House, Scholastic, De Agostini, Reed Elsevier, HarperCollins, Holtzbrinck and Houghton Mifflin.

- Activities in France [(2)]

The *Literature* division comprises prestigious publishing houses, who published 2,016 new titles in 2006: Grasset, Fayard, Stock, Calmann-Lévy, Lattès, Hachette Littératures, Le Livre de Poche and Harlequin. Each one has its preferred areas, but remains in competition, not only with the other Group publishing houses, but also with the brands of outside groups. In 2006, the division ranked second on the adult literature market, both in paperback and hard cover formats.

Hachette Illustré covers the entire range of illustrated books, from the "useful" to the "entertaining". It is in number one position in France for practical guides and DIY with Hachette Pratique and Marabout, as well as number one for travel guides with Hachette Tourisme and Le Routard, and is also present in the field of art books with two prestigious publishers, Le Chêne and Hazan. The division also includes Hachette JD and has a rich heritage in the Children's books segment with characters such as Babar, Noddy and Titeuf (in book format).

In the *Textbooks* segment, Hachette Livre is the leading publisher [(3)] in France through two separate entities, Hachette Education and the Alexandre Hatier Group. These entities comprise such reputed publishers as Hatier, Didier and Foucher as well as strong brand names like Bled, Bescherelle, Littré and Gaffiot, which pushed Hachette Livre to its leading position on the market for extra-curricular books.

In the *Reference and Dictionaries* segment, the Group has such emblematic assets as Larousse and Harrap's. Hachette Livre is No. 1 in France for both monolingual and bilingual dictionaries. Larousse enjoys international renown, and generates more than 55% of its sales in France. Today, the publishing house is particularly well-established in Latin America.

Partworks are published by the *Encyclopedias and Collections* division, which has considerably expanded internationally, in Europe, especially in Spain, and Asia. It operates in Spain through its subsidiary Salvat Editores, in the UK, Japan, Poland and Italy (with Hachette Fascicoli). The division's marketing skills and ability to create new products have pushed it to the forefront and made it an asset for Hachette Livre's global performance.

The *Academic and Professional* division comprises Dunod and Armand Colin following the sale of Dalloz to the ELS group in the middle of last year. These publishing houses, which are leaders on the French market, are putting in all their efforts into preparing for the digitization of content in the sector.

Distribution, which for Hachette Livre and other publishing houses under exclusive contracts, is carried out via a distribution network managed from the national centre at Maurepas, in the Greater Paris region. Hachette Livre handles 246 million copies each year. Hachette Livre Distribution, the leading distributor in France, is also present in Belgium, Switzerland and French-speaking Canada.

- Activities outside France[(4)]

In the United Kingdom, Hachette Livre is the largest publishing group, with five publishing houses: Octopus Publishing Group, on the Illustrated Books market, Orion Publishing Group, on the literature market, Hodder Headline, present in textbooks and literature for adults and children, Chambers Harrap on the dictionary market and, since 2006, Little Brown Book Group on the literature market.

These publishing houses and their different brand names have also pushed Hachette Livre to the position of largest publishing group in Australia and New Zealand.

Hachette Livre also has a distribution activity in the United Kingdom, via the two centres BookPoint and LittleHampton Book Services (LBS).

In Spain, Hachette Livre is the country's second largest publisher and the leading publisher of textbooks through Anaya and Bruño. Like Bruño, Anaya is active in educational publishing, and is also present in the extra-curricular, general literature and children's segments. Furthermore, thanks to Salvat Editores, a publishing house with operations in Spain and Latin America, the Group has a significant presence in the partworks market and is the second largest Spanish publisher of reference works.

Overall, Hachette Livre is represented in over 70 countries across all of its business lines.

The acquisition of the American group *Time Warner Book Group* (now Hachette Book Group) in February 2006 has enabled Hachette Livre to balance its positioning in the three major language areas: French, English and Spanish.

(2) Hachette's Livre competitive positions take into account the statistics provided by IPSOS panels for France.

(3) Internal estimates.

(4) Source: internal data, based on Nielsen Bookscan in the United Kingdom and internal sources in Spain.

A.1.2 Operations during Fiscal Year 2006

Contribution to 2006 consolidated revenues: €2,040 million

BREAKDOWN OF SALES BY BUSINESS – FRANCE

	2006
- Textbooks	24.9%
- General Literature	19.4%
- Illustrated Books	16.9%
- Academic and professional	4.9%
- Other	33.9%
Total revenues	**100%**

BREAKDOWN OF SALES BY GEOGRAPHICAL AREA

	2006
- France	36.8%
- United Kingdom	23.8%
- United States	13.9%
- Spain	10.2%
- Other	15.3%
Total revenues	**100%**

The year 2006 was a year of organic growth in the publishing and distribution businesses in Hachette Livre's main geographical locations, France, the United Kingdom and Spain. It also consolidated the division's geographical expansion in North America with the acquisition of Time Warner Book Group.

With revenues of €1,975 million, Hachette Livre, represented in over 70 countries, generated approximately 63% of this amount outside France.

- In France

In *Literature,* after an outstanding 2005, a year that was marked by a number of literary prizes received by Grasset, Stock and Fayard, and the success of Dan Brown's bestsellers published by Lattès, 2006 continued in the same vein with the ongoing success of Dan Brown at Lattès, and best-selling titles at Fayard and Grasset such as Benoite Groult's *La Touche Étoile.* The Prix Médicis was awarded to Tunisian-born Sorj Chalandon's *Une Promesse,* the Interallié Prize went to Michel Schneider for *Marilyn, dernières séances* and the Fémina Essai went to Claude Arnaud for *Qui dis Je en nous.*

All three were published by Grasset. The year also marked the return to growth of the Livre de Poche series.

In *Textbooks,* the two publishing houses increased their market share on the growing school market thanks to the elementary schools section and especially in the high school section which benefited from the impact of the free schoolbook policy adopted in the Paris region. Hachette Education performed very well, in particular in the junior and senior secondary schools sectors, as well as on the encyclopedia market, while the Alexandre Hatier Group posted record results with significant increases by Hatier in the elementary and junior high school sector and by Didier in the senior high school sector. Children's books continued to grow with new collections at Rageot and successes in new CDs and Albums at Didier Jeunesse.

In *Illustrated Books* for the consumer market, *Hachette Illustré* kept up a steady level of activity despite a sharp drop in activity at Disney Jeunesse linked to the fact that there was no traditional Christmas film release. It was also affected by an increasingly competitive environment on a weak tourism market. The editorial strategy has proved its relevance on the practical guide sectors with new successes for Hachette Pratique and Marabout as well as the Children's segment, which benefited from the impact of sales operations launched for the 150th anniversary of the Bibliothèque Rose collection. It also notched up successes on new series and the development of the large format "Fantasy" collection.

In the *Reference* (Encyclopedias) and *Dictionaries* segments, 2006 marked a turning point with a sharp drop in activity at Larousse and the definition of corrective measures at the organizational and editorial levels.

On the *Academic and Professional* market, the sale of Dalloz to Editions Lefebvre Sarrut was finalized in 2006.

Armand Colin continued to develop on the book market thanks to its attractive editorial program, while the year was one of mixed results for Dunod on a dwindling academic market.

For the *Distribution* division, the year was marked by the successful addition of new publishers, at Group level with Larousse, and outside the Group with Payot-Rivages and Tonkam. There was also the preparation of the resumption of distribution of the academic division starting January 1, 2007.

- Outside France

In the **United Kingdom,** concerning the *Literature* segment, 2006 was a year of sharp growth for Hodder Headline both on the "Adult" and Children's markets following the successful merger with Watts. Orion and Little Brown Book Group (acquired within the framework of Time Warner Book Group acquisition, see below) also posted excellent performances.

In *Education,* Hodder Headline reinforced its position with the acquisition of Philip Allan, despite the sale of the magazine business.

For the *Illustrated Books* segment, 2006 was a year of reorganization at Octopus to cope with the declining map market and foreign language co-publications.

The acquisition of the British educational resources publisher *Philip Allan Updates* in March 2006 for £14 million, has enabled Hodder Headline to reinforce its position on the Education market.

We developed our business in **Australia** very strongly in 2006 by taking over the distribution of Watts and Octopus and many best sellers.

In **Spain,** Anaya delivered a very strong performance in *Education* on the textbook market that grew mainly as a result of the extension of free textbooks policy in the Andalusia region.

Bruño's distribution and "back office" operations were transferred to Anaya during the year.

In the **United States,** Hachette Livre acquired in February 2006 Time Warner Book group. Time Warner Book group is a publisher of consumer literature, with many bestselling authors such as Nelson DeMille, Nicholas Sparks, James Patterson, David Baldacci and Malcolm Gladwell. It also publishes illustrated books, religious books, children's literature and audio books. It also distributes publishing lines for companies like Disney and Microsoft. After their acquisition, the following publishers - Warner Books, Little Brown Books, Hachette Audio, Faithwords, Springboard Press and Centre Street – have incorporated Hachette Book Group USA since April 1st. Little Brown Group UK for its part has joined Hachette Livre UK. In the first year as part of the Hachette Livre group, Hachette Book Group USA exceeded its targets and had more than 70 books on the bestselling lists with the excellent performances of leading novelists such as James Patterson, Nicolas Sparks, David Baldacci and Michael Connelly. Since Hachette Book Group is also present in the United Kingdom, Australia and New Zealand, this acquisition has enabled Hachette Livre to become number one in these three countries.

2006 was another record year for the *Partworks* market with successful developments on the German, Spanish, Japanese and Latin American markets that reinforced the performance of backlists in the Group's traditional countries. The strategy to duplicate the most successful European publications on new emerging markets paid off.

- Disposal of assets

As annouced at the end of 2005, Hachette Livre sold Editions Dalloz to Editions Lefebvre Sarrut (ELS) on May 31, 2006 with deconsolidation effective on january 1st, 2006 for a total amount of €145 million, after having finalized the operations that would enable the company to be operationally autonomous.

Hodder Headline sold its *Journals* business in trade magazines in May 2006.

Hachette Livre sold its 50% stake in Rizzoli Larousse to RCS, with whom it owned these shares.

Lastly, Livre de Paris sold its brokerage business, while Hazan sold its card business.

- Outlook

After the transactions completed in 2006, which have propelled it to third place worldwide, Hachette Livre has maintained the strategy that it has defined in the previous years:

- capitalize on synergies made possible by recent acquisitions, its new size and its diversity, particularly by coordinating international resources to seize hitherto inaccessible opportunities, with priority given to English and Spanish;
- develop operations within the language areas where the Group is already present;
- expand the Group's reach to new geographic frontiers on fast-growing markets;
- pursue an aggressive digital strategy.

These growth focuses will enable Hachette Livre to continue developing in the international publishing scene and confirm its positions on all the markets and languages in which it operates.

A.2 *LAGARDÈRE ACTIVE*

The Lagardère group announced the creation of a new entity covering the magazine publishing businesses, radio, TV and digital businesses. This division, headed by Didier Quillot, is called Lagardère Active.

Lagardère Active has set itself the target of becoming a leader in content generation, in particular digital content, and to aggregate this content on a certain number of markets on which the Group operates. The combination of already existing talents, resources, content and brands will create a broad portfolio of assets, in France and outside France. The new division will implement an ambitious digital strategy that combines internal growth, via the large portfolio of content produced by the group, and external growth depending on the opportunities that arise.

The merger of the advertising sales agencies Interdeco and Lagardère Active Publicité should also make it possible to create the second largest agency in France in terms of advertising sales managed. It will also enable the entity to follow the change in demand from advertisers, by building a more complete and more innovative cross-media offering.

Lastly, the combining of the businesses of Hachette Filipacchi and Lagardère Active will generate cost synergies, which should improve the new unit's profitability.

A.2.1 Principal activities and main markets

- Print Media – Hachette Filipacchi Médias

The Print media business of Lagardère Active (Hachette Filipacchi Medias – HFM) primarily concern the consumer Magazine Publishing segment in France and outside France: Current Affairs, Cars, Home decoration, Women's Magazines, Children's Magazines, Leisure, Men's Magazines, Celebrities, TV guides. HFM is the world's leading Magazine Publishing company in number of titles (nearly 260 titles published) and international presence (operations in 41 countries) representing over one billion copies and over 130,000 pages of advertising.

Interdeco, the French leader in press advertising space sales (30% market share), has also developed a very powerful international network. Its subsidiaries manage HFM's titles in France and internationally, as well as titles for other publishers.

HFM is No. 1 in France[1] and Spain,[2] No. 3 in Italy[3] and Russia,[4] No. 5 in the United States (leading foreign publisher),[5] No. 6 in the United Kingdom and leading foreign publisher in Japan[6] and China.[7]

The "Magazine" business includes the Magazine Publishing France division, the Supplements division (including *"Version Femina"*, the leading women's magazine in Europe, with over 3.7 million copies distributed by 38 daily newspapers all over France) and the International Magazine Publishing division. This business represents 87% of total revenues (64% of which is generated outside France) and 77% of the workforce of the Group's Print division.

HFM also owns a Regional Daily Newspaper division comprising the Nice Matin, Corse Presse and La Provence groups. It is currently exploring several partnership avenues for the division.

HFM has also developed complementary activities such as Licensing, which markets variations of the "*Elle*" brand name, particularly in fashion, through license holders worldwide.

Lastly, HFM has revised its diversification strategy to focus on Magazine Publishing. The Photo division (consisting of photo agencies including such prestigious names as Gamma, Rapho and Hoa Qui, in Current Affairs and Feature Stories, Celebrities, Celebrity Portraits and Illustrations) is no longer a strategic business, and this led the Group to sign a sale agreement in January 2007.

Market players on the consumer magazine publishing sector are either national or monolingual groups (Time Inc and Primedia in the United States, Mondadori in Italy, etc.), or multi-language groups with global brand policies (Hearst, Condé Nast) or portfolios of local titles (EMAP, Gruner&Jahr, Burda, etc.). HFM has a unique positioning among the major players, since it is the only group to have succeeded in combining both policies into a global strategy.

HFM's 2005 magazine publishing market share is set out below:

	% circulation market share [8]	% advertising market share
France	23.3 (Top 6: 63.8)	22.5 (Top 6: 67.5)
United States	2.9 (Top 5: 35.3)	6.0 (Top 5: 54.2)
Spain	20.5 (Top 5: 61.5)	16.2 (Top 4: 42.8 %)
Italy	7.4 (Top 5: 78.0)	13.2 (Top 5: 74.2)

38% of HFM's sales come from the sale of magazines and daily newspapers (a quarter of which are sold by subscription), 58% from the sale of advertising space and 4% from other activities and combined products.

Over the past five years, changes in circulation have varied depending on the country and the readership segment. The

(1) Sources: OJD for circulation and TNS-MI for advertising.
(2). Source: Total revenue published by INFO ADEX Total number of copies sold (OJD); Total number of readers (EGM).
(3) Source: Accounts published by the publishers (total revenues).
(4) Source: Revenues for retail circulation (distributors).
(5) Sources: Ad Age Top Consumer Magazine Company (total revenues); TNS Media Intelligence Report (Advertising revenues).
(6) Source: Tokyo Tax Services.
(7) Classification of foreign publishers with "copyright cooperation" status, under direct control.
(8) Circulation market share = total number of copies circulated during the year/Advertising market share = in value. Sources : Interdeco Expert, IGA, PMI.

magazine publishing market is rather mature in developed countries and apparently stable, driven by the constant renewal of the product range. HFM also launched and discontinued a number of titles over the period.

In emerging countries, the growth of press circulation is driven by the fact that these countries have only recently opened out to the market economy and that the standard of living of their citizens is gradually improving. HFM has been positioning itself on these markets for some years, particularly in China and Russia. In Russia, HFM ranks No. 1 on the TV guide with its subsidiary IMG (14 million viewers).

As regards the advertising market, the year ended with a significant increase in media expenditure, in contrast with 2005, which had been a less than average year for many markets.

Although the economic upturn naturally encouraged spending on advertising, it was the mainly the exceptional development of the Internet that drove media expenditure. Over 50% of total increase in advertisements came from the Internet.

Most of the major mature markets worldwide recorded a more or less good advertising year and significant annual growth that was generally well above 2005 levels. However, the change in Magazine Publishing advertising was less than all the other media.

Results for China and Russia, which are emerging countries in terms of media, were much higher with annual growth rates of 19% (25% for magazines alone) and 27% (18% for magazines alone) respectively, on the understanding that these figures were boosted by the positive impact of strong inflation as well as the revaluation of the rouble against the dollar.

	Total advertising investments		Mass market magazines	
	Growth 2006/2005	Growth 2005/2004	Growth 2006/2005	Growth 2005/2004
France	3.8%	2.2%	-0.8%	-1.2%
Italy	3.3%	2.9%	2.9%	4.5%
Spain	6.2%	8.2%	0.5%	-0.2%
United Kingdom	2.2%	4.0%	-1.0%	0.7%
Japan	2.2%	2.0%	-0.8%	-0.6%
United States	5.6%	3.1%	2.4%	4.9%
W7	3.8%	2.5%	-1.0%	-1.6%
China	18.6%	19.9%	25.0%	22.1%
Russia	26.7%	31.3%	18.0%	23.5%

Lastly, for the first time in the United States in 2006, the Internet reached the symbolic mark of 10% of total net advertising expenditure (the same should apply to the United Kingdom and Japan in 2007).

MARKET SHARE OF CONSUMER MAGAZINE PUBLISHING AND THE INTERNET IN TOTAL ADVERTISING EXPENDITURE

	Consumer Magazines		Internet	
	2005	2006	2005	2006
France	14.3%	13.7%	3.5%	4.8%
United States	8.6%	8.3%	9.1%	10.9%
Italy	12.8%	12.8%	1.3%	1.7%
Spain	8.1%	7.7%	1.7%	2.3%
United Kingdom	11.5%	11.2%	6.5%	8.9%
Japan	8.9%	8.7%	6.4%	8.1%
China	3.3%	3.4%	3.3%	4.8%
Russia	13.1%	12.2%	1.3%	2.0%

In a sluggish Magazine Publishing market and faced with the increase in web advertising expenditure, HFM oriented its 2006 strategy towards a cross-media strategy (print media and Internet). It will pursue this strategy in 2007.

- Audiovisual and digital – Lagardère Active SAS

Lagardere Active comprises the radio broadcasting, special-interest television channels, radio and TV production and distribution, advertising space sales and the new media businesses of the Lagardère Group, as well as an interest in the Canal+ group France (see paragraph B.2.6 below).

Over the past five years, Lagardere Active SAS has been streamlining business portfolio, strengthening its historic positions in each of its business lines and developing new growth engines.

- For its radio broadcasting business in France, Lagardere Active Broadcast established the positioning of each of its three networks and is today delivering a powerful and consistent sales offering that for all its target advertisers.

  On the international market, Lagardere Active withdrew from countries in which it was making losses or in which it had not attained its critical size. Today, Lagardere Active Radio International (LARI) is focusing on countries in which it holds a leading position and where the growth outlook is the most promising. For a few years now, LARI has been acquiring the minority shareholdings of the partners who have historically accompanied it in this business

- In the field of special-interest TV channels, Lagardere Active focused on the domains in which it is leader: children and young adults and music. To face the arrival of a large number of competitors over the past few years, it has developed its offering around the flagship brands Canal J (TiJi launched in 2002 and Filles TV in 2004) and MCM (Mezzo acquired in 2001 and merged with Muzzik, MCM Belgique launched in 2002, MCM Top and MCM Pop in 2003). Lagardere Active also capitalized on its expertise in these fields to expand its operations in all the new broadcasting media, in particular DTT, by launching the «free» channels Gulli and Europe 2 TV in 2005, and broadcasting Canal J as a pay channel in November 2005.

- Lagardere Active has always had a key presence in the production of drama. All the while reinforcing this historic business line, adapting it to the standard 52-minute format, over the past five years it has also branched out into streaming and animation, and has today become a key partner of the terrestrial channels, to whom it proposes an extensive offering.

- In recent years, Lagardere Active Publicité has spared no efforts to become the leading advertising space sales agency across the various media. For example, it has developed activities for the Internet and special-interest TV channels, all the while maintaining its leading position in radio broadcasting.

- In the field of new media, after the Internet bubble burst, Lagardere Active Broadband refocused on mobile phone services, in France and Germany. As from the middle of 2004; these services were merged within Cellfish Media in 2006. To fund the development of these activities, in September 2006, it opened part of Cellfish Media's capital to investors in North America. The resulting dilution of Lagardere Active in the capital of Cellfish Media's activities, Cellfish is now accounted for according to the equity method.

- An extensive radio offering in France and abroad

In France, Lagardere Active is one of the major players in the radio broadcasting market, with three national networks:

- *Europe 1*, the Group's non-specialist radio station, remains faithful to its values of freedom, rigor and innovation. Its programs are structured around current affairs, news and debates. A mainstream radio station, Europe 1 is available on the Europe1.fr website, on the radio stations included in the offerings of the principal cable and satellite operators, on mobile phones and, since October 2005, via podcasting. Every day, about 4.5 million auditors aged 13 and over listen to Europe 1 [9] :
- *Europe 2* whose catchphrase is *"Just rock and pop"* is a pop-rock music station with its roots in the 1990s that continues to make itself heard as powerfully as in the beginning. The music radio for the generation of 15 to 34 year olds, Europe 2 breathes new life into the radio broadcasting scene with a program fare that is a real alternative to "ready-made commercial music".
- *RFM* whose catchphrase is *"The best of the music from the 80s till today"* is a "contemporary adult" music radio station. Its format was chosen after in-depth studies and research into music programming, while at the same time maintaining a specific identity with Jean-Luc Reichmann's morning program and Bruno Robles in the afternoon.

These radio broadcasting activities are subject to the European and French legislation and regulations governing the audiovisual and telecommunications industries.

At the end of 2005, Lagardere Active had 556 broadcasting authorizations granted by the French broadcasting regulatory authority (CSA), about half of which are scheduled to be submitted to the CSA for renewal between 2006 and 2008 (FM+ plan). As at December 31, 2006, the CSA had already granted about 40 additional broadcasting authorizations that were to be launched in 2007.

Over 90% of the revenues of these radio stations come from advertising sales, which depend a lot on audience ratings and the advertising market. Given the cyclical, volatile nature of this market, and the fact that it is dependent on the economic environment, it is increasingly difficult to make forecasts several months ahead.

Outside France, Lagardere Active Radio International (LARI) makes full use of the radio broadcasting skills of Lagardère Active in seven countries (Eastern Europe, Germany and South Africa). Every day, 27 million people listen to its 20 radio stations, most of which are music stations. These activities, which enjoy strong, steady growth in terms of both sales and profitability, are a growth engine for the Radio and TV division.

(9) Source: Médiamétrie Survey 126,000 radio, 13 + age group, Nov-Dec 2006 wave.

In almost all the countries it operates in, LARI is one of the leaders in the local private radio station market (No. 1 in the Czech Republic, Romania, the Saar region in Germany and South Africa, and No. 2 in Russia and Poland). In Russia, LARI operates Europa Plus which, with over 7 million daily listeners, is the second largest private radio station in the country in terms of audience [10]. The Russian advertising market, expected to more than double in volume between 2005 and 2008, is among the most dynamic in the world [11]. In Poland, LARI is the second largest private operator, with RadioZet, which reaches an audience of almost 8 million listeners each day [12].

Lastly, Lagardere Active is present on the music download market via its subsidiary VirginMega.fr, co-owned with Hachette Distribution Services.

- Leading positions in television

Lagardère Active operates 10 special-interest channels in two areas:

- music, with an outstanding musical offering through 6 channels, one of which is a DTT channel. They are:
  - MCM, the generational channel for the 15-34 age group,
  - MCM TOP, exclusively broadcasts video clips of current hits for the 15-24 age group,
  - MCM POP, exclusively broadcasts Pop hits from the 1980s to today, for the 25-34 age group,
  - Mezzo, the classical music and jazz channel, in partnership with France Télévisions,
  - MCM Belgique, the leading Belgian music channel,
  - Europe 2 TV on Digital Terrestrial Television (DTT), broadcast free, launched in October 2005;
- children, with Canal J (for children aged 7 to 14), TiJi, (for the under sevens), Filles TV (for girls aged 11 to 17), and since November 2005, Gulli, broadcast free on DTT.

This offering places Lagardere Active in a position of leader in France on the music and children's channel [13]. More specifically, a year after it was launched, Gulli is the leading DTT channel for children aged four and over, whose parents have a DTT adapter, with 4.1% of audience share. If the terrestrial channels are included in the rating, it ranks fifth, ahead of France 5, Canal+ and Arte [14].

(10) Source: TNS Gallup Media.
(11) Source: ZenithOptimedia survey June 2006.
(12) Source: SMG / KRC.
(13) Source: MédiaCabSat survey, December 2005 – June 2006.
(14) Source: Médiamétrie survey September - October 2006.

Income from these channels are mostly generated from payments from the operators who broadcast them, except for Gulli and Europe 2 TV. These two channels, which are broadcast free on Digital Terrestrial Television, derive their income only from advertising. They are however key elements of an integrated system intended to maximize the points of contact and develop the loyalty of children as well as teenagers and young adults.

Lagardere Active thus intends to seize every opportunity, particularly technological opportunities, to reinforce its leading positions in France on the children and music markets. It is involved in particular in the development of DTT with the broadcasting of the free channels Gulli and Europe 2 TV, and the pay channel Canal J.

In the film and TV production and distribution business, Lagardere Active supplies all the terrestrial channels with program archives (drama, documentaries, animation) and regular programs (features, entertainment, prime-time), through its subsidiary Europe Audiovisuel. In 2006, Lagardere Active remained the premier producer of prime-time drama in France [15] (in number of hours of programs broadcast) and the second largest producer of regular programs [16].

The revenue of these companies is made up of financing from the broadcasters or co-producers, along with funding from bodies such as the French national cinema board (CNC). Revenues from a given production do not depend directly on audience ratings, which means there is less risk involved than in the production of films for viewing in cinemas, for example. The reputation of the producers of Lagardere Active and the success of its products in terms of audience ratings (for example, *Julie Lescaut,* broadcast on TF1, *Nous ne sommes pas des anges* on Canal+, *C dans l'air* on France 5) and their ability to adapt to new demands (for example *David Nolande,* a 52-minute TV drama broadcast on France 2) ensure long term partnerships with the major broadcasters.

- A powerful commercial offering on multiple media in advertising

In France, Lagardere Active Publicité is the leading advertising sales agency on multiple media (radio, television and the Internet):

- Number 1 in radio advertising sales, with a commercial audience share of 33.6% in the 13 plus age group [17]: Europe 1, Europe 2, RFM, Les Indépendants (a network of 112 radios), Oui FM, Autoroute FM, Autoroute Info, 107.7 FM;
- leading advertising sales agency on the special-interest channel market: Lagardere Active channels, AB Group's channels, including RTL9, representing a total of about 20 special interest channels;
- Internet advertising sales: Club Internet, SeLoger.com, Le Guide du Routard, etc.;
- Lastly, Lagardere Active Publicité broke into advertising sales on terrestrial channels, with the marketing contract signed with Arte in 2005.

- A major player specializing in the creation, production and distribution of mobile phone content and services

Lagardere Active Broadband, which combines the Group's activities in the new media, is a major player for the creation, production and distribution of mobile phone content and services in France and the rest of the world.

In France, its subsidiary Plurimedia is among the major players on this market, the leader for the most popular themes in mobile telephony (personalization of mobile phones, horoscopes, chat rooms, weather, news, outings, etc.). On the strength of this expertise, Lagardere Active Broadband has established operations in the United States where it has been developing an offering of content specially produced for mobile phones (ring-tones, images and videos). Through its subsidiary Legion, Lagardere Active Broadband is also present in Germany, the United Kingdom and Greece, where it supplies interactive mobile phone and vocal services to the major national media and has developed partnerships with the principal mobile phone operators.

(15) Source: Ecran Total.
(16) Source: Ecran Total.
(17) Source: Médiamétrie Survey 126,000 radio, 13 + age group, Nov-Dec 2006 wave.

A.2.2. Operations during fiscal 2006

- Print Media – Hachette Filipacchi Médias

Contribution to 2006 consolidated revenues: €1,896 million.

BREAKDOWN OF REVENUES BY BUSINESS

	2006
- Magazine Publishing France + Advertising Sales Agencies	28.7%
- Magazine Publishing outside France	55.6%
- Regional Daily Press	11.7%
- RDP supplements	3.0%
- Other activities	1.0%
Total revenues	**100%**

REVENUE BREAKDOWN BY GEOGRAPHICAL AREA

	2006
- France	44.4%
- USA	18.4%
- Asia Pacific	7.3%
- Italy	7.5%
- Iberian Peninsula	6.8%
- Russia	6.4%
- Other	9.2%
Total revenues	**100%**

2006 was a year of transition, marked by a leveling off or even a decline on some countries of the "Magazine" media and the ramping up of the web medium.

The Print division embarked on actions to restore its short-term profitability and to prepare for its transformation in a world where digital technology has become essential:

- streamlining of the stock of titles (discontinuation of more than 20 titles since mid-2005);
- streamlining of geographical locations: acquisition, in July 2006, of Quote Media (a historic partner on the Dutch JV): HFM thus becomes the fourth magazine publisher in the Netherlands; grouping Polish businesses with Burda (creation of a company with a 49% stake for HFM and a 51% stake for Burda);
- partnership on non-strategic businesses: finalization of discussions on the regional daily press and finalization of the sale of Photos Agencies in January 2007;
- stepping up of the development of Internet media (overhaul of Elle web sites, creation of new portals, acquisition of Thotnet, a Web agency in France and the creator of the Infobébés.com web site), etc. This transformation will be intensified in 2007 as part of the more global strategy defined by Lagardere Active Media.

Advertising revenue of the Print division remained stable thanks to the growth of emerging countries (mainly Russia), which offset the impact of the restructuring of the title portfolios which began 18 months earlier and the sluggish magazine advertising markets in mature countries (with a second half that performed better than expected). Market trends were mixed on the various segments. Men's and special-interest magazines dropped sharply while the women's and celebrity segments held firm or even grew.

Newsstand circulations followed the same trends, although they dipped more in certain countries (France for men's magazines, USA, Italy, Japan, etc.). Growth continued to be sustained in emerging countries.

- Magazine Publishing France

In the Circulation segment, we noted a sharp drop in newsstand sales, down 10% in comparison with 2005. This was related to:

- the reversal of the Men's magazine market: flagging sales of *"Choc"* (–40%) and *"Entrevue"* (–25%), and discontinuation of *"Maximal"* in July as a result of these difficulties;
- a less buoyant situation than in 2005 and increased competition on the Celebrity and News Pictures market; *"Paris Match"* ended the year with a 9.5% drop, *"France Dimanche"* with a an 8% drop, *"Ici Paris"* with a 10.3% drop; in this difficult context, *"Public"* continued to grow with 5% and reinforced its success with young readers;
- on the Television magazine market: with a 7% drop in newsstand sales, *"Télé 7 Jours"* nevertheless emphasized its leadership on the market of major TV magazines by renewing its editorial strategy and management;
- the Women's magazine market continued to be buoyant and the Group's titles performed excellently, in particular with *"Parents"* (6.5%) and *"Elle"* (up 5% by restating the impact of the 60th anniversary special issue at the end of 2005).

In Advertising, the market leveled or even declined with a 0.8% drop compared with 2005). HFM recorded a drop in sales mainly due to decisions to discontinue certain titles. However, the results were mixed depending on the segment:

- good performance of such major weekly magazines as *Elle* (3.5%) and *Paris Match* (3.6%), but especially *JDD* (16%), which benefited from a leadership premium;
- excellent growth of *Public,* whose good circulation performance is beginning to bear fruits in terms of advertising (43%);
- very significant growth of "*Psychologies*" (13.4%) and Home Decoration monthlies such as *Elle Décoration* (13.2%);
- conversely, sharp drop of the advertising revenues of *Entrevue* (29%), linked to the downturn observed on the Men's magazine market;
- difficulties on special-interest monthlies and magazines, which are competing with other growing medias such as the Internet (*Pariscope* and *Première* sales down).

- Magazine Publishing outside France

Business in the Print Media Division was marked, in several countries, by the rise in popularity of the Internet, and the intensification of competition on circulation (the launch of "clones", and the multiplication of free bonus products).

In the United States, the year was marked by the discontinuation of titles *(For Me, Elle Girl)* and declining advertising income (on *"Car books", Première,* etc.) and circulation (in particular *Woman's Day*). HFM's American subsidiary is currently penalized by the reduction in its relative size in comparison with its main competitors, who grew significantly though successive acquisitions. It has also been affected by the extensive transformation of information media where the Internet, boosted by the spread of broadband access, now plays a key role. In this context, HFM is stepping up the development of its Internet activities, in particular, on the women's magazine segment (with the *Elle* web site) and the automobile segment *(Car&Driver).* These development should contribute, in the future, to bring the various advertisers a global solution.

In Italy, the restructuring of Hachette Rusconi improved results and advertising income was on the rise (excluding discontinued titles), in particular for *Elle, Elle Decor* and *Marie Claire*. Conversely, income from circulation dipped once again, in particular with the weekly magazine *Gente* which faced fierce competition from rival magazines.

Spain underperformed, both in terms of revenues and profit. We must point out that these results take into account the positive impact of the discontinuation of *Xtreme Tuning* and *Maxim,* an increase in advertising revenues (in particular in women's magazines), significant DVD coupling operations on *Diez Minutos* and the increased margin of *Psychologies Magazine* (second year of launching). Circulations slipped, on the other hand, mainly for men's magazines, TV and home decoration magazines, while the legal prohibition of TV competitions had a very adverse impact on the Telephone Publishing margin.

In Japan, the context continued to be tense regarding circulation, down 5% on a like for like basis for HFM titles). However, the year proved to be a stable one for the advertising market. Hachette Fujingaho managed to relative maintain its results thanks to its streamlining strategy (discontinuation of *30 Ans* and *Gentry* in February, continued cost control and restructuring of the sales and managerial organization).

In the United Kingdom, the situation remained difficult for youth and children's magazine segment: *B* and *Elle Girl* were discontinued and *Sugar* suffered from the escalation in free bonus products. The streamlining of the magazine portfolio was followed by a major restructuring plan. The women's magazines *Elle* and *Red* continued to hold their own against the new launches in this sector.

Strong economic growth in Russia and China continued to benefit HFM subsidiaries in those countries where the Group is pursuing expansion either by extending the circulation of its Russian TV guides to new cities towns or through local variations of its international special-interest magazines (*Psychologies Magazine* was launched in Russia in November 2005, followed by China in July 2006). We also invested in promotion and editorial contents for the flagship products in leading position in these countries, to back the strong growth in advertising. The reinforcing of support structures and activities such as Finance, Distribution and Control, launched in 2005, continued into 2006.

- Daily newspapers and Supplements

For the regional dailies, 2006 was a year of transition, marked in particular by:

- the study of a merger with the regional daily newspaper business of the Le Monde group;
- the modernization of newspapers, with the launch in April, of *Nice Matin* and *Var Matin* in tabloid format and the adoption of the Berliner format for *Corse Matin* (printed in the new press in Corsica) as well as the finalization of the project to replace the rotary presses in Marseille (first issue of *La Provence* in Berliner format in January 10, 2007);
- tense circulation: an average drop of 3.3% compared with 2005. However, the development of home delivery and the increase in the sale price of *La Provence* partly offset the drop of newsstand sales;

- a decline in advertising: this trend was more pronounced on the French Riviera than in Marseille;
- the strike of Corsican magazine delivery workers in April and May had a very adverse effect on Corse Presse profits.

However, Supplements sales increased. The advertising income of *Version Femina* recovered, up 6.5% in volume and the supplement posted an increase in circulation revenue thanks to the adjustment of prices invoices to the Daily Regional Newspapers.

It was also a very good year for *TV hebdo,* which had succeeded in growing in a fast-changing market in the face of competition from fortnightly magazines thanks to its new organization. In a sluggish market, the magazine managed to increase the number of pages by 11.6%, thus reaching its highest level ever in its history.

- Other activities

Income from *Licensing* continued to rise, mainly due to the dynamism of the Asia region and despite the problems encountered in Europe.

Revenues of Photo Agencies dropped compared with 2005, which had benefited from the very eventful year. However, operating profit improved slightly as a result of restructuring. A sale agreement was finalized in January 2007 as a result of the strategic refocusing.

- Outlook

Faced with the sluggish advertising and circulation environment, we will continue and step up the streamlining of the business portfolio in 2007, in particular with:

- the examination of the discontinuation of magazines that generally have declining sales and operating losses;
- the possible disposal of certain international establishments that are too small and not profitable enough.

At the same time, we will adopt a policy to boost the most buoyant segments and step up the switching of our activities to digital technology.

- Audiovisual and digital – Lagardère Active SAS

Contribution to 2006 consolidated revenues: €593 million

BREAKDOWN OF REVENUES BY BUSINESS

	2006
- Television	39%
- Radio	49%
- New Media	12%
Total revenues	**100%**

BREAKDOWN OF REVENUE BY GEOGRAPHICAL AREA [18]

	2006
- France	74%
- Outside France	26%
Total revenues	**100%**

Thanks to its diversified business portfolio, in 2006, Lagardere Active succeeded in taking full advantage of opportunities in all its markets both in France and outside France. The Radio and TV division thus performed well overall, by combining the ability to innovate, mastery of expertise in its various businesses, commercial strength and rigorous management.

- Radio

A year after the arrival of Jean-Pierre Elkabbach at the head of Europe 1 and the transformation of the program schedule, programs continue to be focused around current affairs, news and debates. The podcasting and blog initiatives were continued in 2006, making Europe 1 a radio station that is in tune with the times.

Europe 2 hit the news with the arrival in September 2006 of star presenters Nagui and Manu to host the morning programs (7- 10 am). Of all the music stations, Nagui and Manu's morning is the one that posted the highest increases in cumulated audience and market share in one year. Thanks to its *"Just rock and pop"* positioning, Europe 2 has increased its audience on its target format of 20-40 year olds [19].

With its musical format based on the slogan *"RFM the best of music from the 80s till today"* and to its presenters Jean-Luc Reichmann and Bruno Robles, RFM has become the leading music channel for adults with 7% of audience share in the 35-49 age group. In 2006, it is the only music channel for adults to have increased its audience in relation to the previous year.

(18) For the record, Cellfish Media changed its consolidation method on 10/01/06, see below.

(19) Source: Médiamétrie Survey 126,000 radio, 13 + age group, Nov-Dec 2005 and Nov-Dec 2006 waves.

Outside France, Lagardère Active Radio International (LARI) continued to increase its audience in all seven countries in which it operates. Its radio stations attracted over 12 million daily listeners in Russia [20], over 8 million in Poland [21], 3 million in Romania [22], 2 million in Germany [23] and the Czech Republic and 1 million in South Africa, representing 27 million listeners for all the countries where LARI operates [24].

LARI pursued its strategy and at the beginning of 2006, it acquired all the shares in four radio stations that were mainly owned by the investment fund Warburg Pincus (2 radio stations in Moscow-Radio 7 and Mélodia Moscou, and 2 in St Petersburg-Eldoradio and Mélodia Saint Petersburg). At the end of the year, LARI continued its expansion into Poland with the acquisition of a new radio station. LARI's historical presence allowed it to continue to extend its networks with 27 new broadcasting licenses obtained in 2006, mainly in the Czech Republic.

- TV channels

In the field of special-interest TV channels, 2006 was marked with the finalization of refocusing on the Children's and Music segments that came with the disposal of the weather channel (La Chaîne Météo).

With this disposal, Lagardère Active now has 10 special-interest channels. It obtained excellent audience results,[25] which confirmed the performance of the Group's channels despite the stepping up of competition:

- MCM is the number one music channel on cable and satellite for over 10 years now, and the number one special interest channel for 15-24 year-olds. The MCM offering (MCM, MCM Pop and MCM Top) accounts for 2.4% of audience share for 15-34 year olds;
- Canal J, TiJi and Filles TV together obtained a 39% market share of children's special-interest channels. Canal J, which celebrated its 20th anniversary in 2005, is the fourth largest cable and satellite channel for all audiences taken together, with a 1.1% audience share for the 4+ age group, while TiJi moved up to become the sixth largest cable and satellite channel with 1% of audience share. Gulli is now the leading DTT channel.

- Film and television production and distribution

Through its film and television production and distribution activities, Lagardère Active is a major partner of the terrestrial channels for prime-time drama and regular programs (magazine programs, entertainment programs, etc.) with approximately 880 hours produced in 2006 and 12 of the 100 best prime-time audience ratings in 2006, for all programs [26], and each with between 9 million and 10.9 million viewers.

In the field of prime-time drama, for the fifth year running, Lagardère Active was the premier producer in 2006 [27] with 94 hours of programs broadcast over the 2005/2006 season. Lagardère Images distinguished itself with the production of prestigious individual episodes and drama as well as for its productions of mini-series: *De Gaulle* (GMT Productions for France 2), Joseph (GMT Productions for TF1).

To meet the expectations of viewers with whom these programs are a tremendous success, Lagardère Active also supplies flagship series with a recurrent hero, such as *Julie Lescaut* and *Diane, Femme Flic* (GMT Productions for TF1), *Joséphine ange gardien* (DEMD Productions for TF1), *Père & Maire* (Aubes Productions for TF1). It is also developing in the 52-minute format with *Mafiosa* (Image & Compagnie for Canal+) and *David Nolande* (GMT Productions for France 2, which received several awards at the Saint-Tropez film festival: prize for the best prime-time series, prize for the best production and prize for artistic contribution for photos and special effects).

Lagardere Images is also in a leading position in the field of regular programs, in particular through Maximal Productions (*C' dans l'air*, daily on France 5), Angel Productions (*Nous ne sommes pas des anges* for Canal+ and *Sagas* for TF1), Léo Vision (*La grande course* for Canal+) and Image et Cie (*Ripostes* for France 5).

- New Media (Lagardère Active Broadband)

At the beginning of 2006, Lagardère Active Broadband brought together its American (Lagardère Active North America), French (Plurimedia) and German (Legion) mobile activities into a new entity named Cellfish Media.

Cellfish Media, established in New York, is today one of the world's leading groups in the creation and distribution of content for mobile phones. With its French and American production studios, Cellfish Media creates original mobile brands and content, specially designed for consumption via telephone, such as ringtones, wallpapers, animations, games and community services.

- In the United States, Cellfish Media is already one of the leading publishers of mobile telephone personalization products (logos, ringtones and chat rooms). Content produced by Cellfish Media, mainly under the BlingTones label, are distributed to such major mobile telephone operators as Sprint, Cingular, Nextel and Verizon;
- In France, Cellfish France, formerly Plurimedia, is among the major players on the mobile content distribution market as well as the leader for the most popular themes in mobile

(20) Source: TNS Gallup Media Dec. 2005 – April 2006.
(21) Source: SMG / KRC Oct. 2006.
(22) Source: IMAS Oct. 2005 – April 2006.
(23) Source: AG.MA Jan. --June 2006.
(24) Other sources: AC Nielsen, Szonda-GFK, Median + GFK Prague.
(25) Source: MédiaCabSat survey, December 2005 – June 2006.
(26) Source: Mediamétrie / Médiamat for viewers aged 4+.
(27) Source: Ecran Total No. 576 of 14 September 2005.

telephony (personalization of mobile phones, horoscopes, chat rooms, weather, news, outings, etc.). Since the end of 2005, Cellfish France has become the number one print advertiser of the mobile phone personalization sector. With over a hundred services designed for the three French operators, benefiting mainly from the development of mobile Internet (Wap sites and i-mode), Cellfish France is among the three leading publishers of downloading content (logos and ringtones);

- In Germany, Legion GmbH is the leading supplier of interactive services for the media, especially for TV and radio. It had been the leading supplier of interactive voice services for several years, and is today a key player in the supply of interactive mobile services (SMS).

To support the development of these activities, Lagardère Active opened part of the company's capital to institutional investors in North America, raising $50 million. After this operation, the new partners held nearly 30% of Cellfish Media's capital. Since October 1, 2006, Lagardère Active accounts for Cellfish Media using the equity method.

- Outlook

In France, the performance of the radio business will depend on the advertising market, which is very difficult to predict for 2007.

The challenges for the radio business in France for the coming years continue to be mainly related to broadcasting networks:

- in France, pursuant to the law of July 9, 2004 on electronic communications and radio and television communication services, in the course of 2005, the French regulatory authority, CSA, conducted a public consultation based on an open forum, known as «FM +», relative to the reorganization of the terrestrial frequency band and the drawing up of a new frequency grid for FM radio. The reorganization, which made a lot of headway in 2006, will be continued and finalized in 2007 and 2008 with the lasts calls for bidders;
- Furthermore, in the fall of 2006, the Directorate for Media Development and the CSA launched public consultations on the standards and deployment of digital radio. These should be followed in 2007 by the first calls for bidders with a view of allocating frequencies. The advent of digital radio could open up the radio market and facilitate access to new entrants, against which Lagardère Active would have to compete. However, digital radio should also be an opportunity to reinforce both brand and content, through a streamlined portfolio of stations and an optimized cost structure;
- Lastly, the development of new listening modes (Internet, web radios, MP3 players equipped with FM receivers, etc.) was intensified in 2006 and should be taken into account in measuring audience ratings.

At the same time, as from January 1, 2007, French radios will have to manage the authorization granted to Retail advertisers to broadcast their advertising messages (excluding sales promotion operations) on terrestrial television channels, which had been prohibited until then. In 2007, therefore, part of the advertising revenue from this sector could be diverted to television, to the detriment of radio, among others.

Outside France, LARI remained well positioned to take advantage of the growth expected in the countries in which it operates. It will also continue to apply its strategy of streamlining its geographic locations to concentrate its resources in the countries where it may expect to further strengthen its leadership.

The deployment of Digital Terrestrial Television continued through 2006 and should cover 80% to 85% of the population in metropolitan France by the end of 2007. It is planned to stop analog transmission by 2011. The three Lagardere Active channels broadcast on DTT will therefore continue to benefit from the stepping up of the penetration of DTT to consolidate their leading positions in the music and children's segments.

Furthermore, at the end of 2006, the Directorate for Media Development and the CSA launched public consultations on high definition television services and Personal Mobile Television services. In this respect, we must emphasize that on February 22, 2007, the French Parliament definitively adopted the parliamentary bill relating to the modernization of radio and television broadcasting as well as the television of the future. This law, which organizes the gradual shift from analog to digital and defines the framework for developing personal mobile television and high-definition television will have to be examined by the Constitutional Council, to which the law was referred after it was adopted. During the public consultation organized before the parliamentary debates, the Lagardère group pointed out its support of these new technologies, the legal framework of which had to comply with the founding principles of audiovisual law, namely the allocation of authorizations to the publishers who operate the frequencies and the free supply of these frequencies.

In the coming years, Lagardere Active will endeavor to build on all technological developments that will ensure the continuity and reinforcement of its current positions. The fast-changing digital media scene is bringing many opportunities that Lagardère Active has to seize thanks to the responsiveness and expertise of its teams, all the while applying the rigorousness and analysis characteristic of a major group.

- Canal +, TPS industrial merger

On January 6, 2006, Vivendi, TF1 and M6 signed a memorandum of understanding (the **"TF1-M6 memorandum"**), the purpose of which was to define the conditions of an integration project for (i) Télévision Par Satellite SNC (TPS) and its direct and indirect subsidiaries (ii) Canal + Group's pay television creation and distribution services in the French Republic (including in the overseas territories and departments) and other French-speaking countries, into Canal+ France, a company in which TF1 and M6 would own a 15% stake (9.9% for TF1 and 5.1% for M6) and which would be under the exclusive control of Vivendi. The TF1-M6 memorandum stipulates that the merger operations had to be carried out with zero net treasury.

On 14 March 2006, Lagardère, Vivendi and Canal + Group signed an investment memorandum (the **"Lagardère memorandum"**), structured mainly around the exclusive control of TPS and CanalSatellite by Vivendi and the Canal+ Group. According to this agreement, Lagardère Active undertook to take subject to certain conditions precedent, a 20% equity interest in Canal+ France by contributing its 34% equity interest in CanalSatellite (without diluting the equity interests of TF1 and M6) and by acquiring Canal+ France shares from the Canal+ Group for €525 million in cash, less 34% of the net cash of CanalSatellite and 16.66% of the liquid cash of GIE Numérique Canal+/CanalSatellite, plus 20% of the net cash of Canal+ France (these net cash amounts must be calculated as at 31 August 2006).

Canal+ France's scope primarily consists of 100% of CanalSatellite, MultiThématiques, MediaOverseas and TPS and 49% of Canal+ S.A.

On August 30, 2006, the merger was cleared for competition concerns, by a decision of the French Ministry of Economy, Finance and Industry, subject to compliance with the undertakings made by Vivendi and Canal + Group.

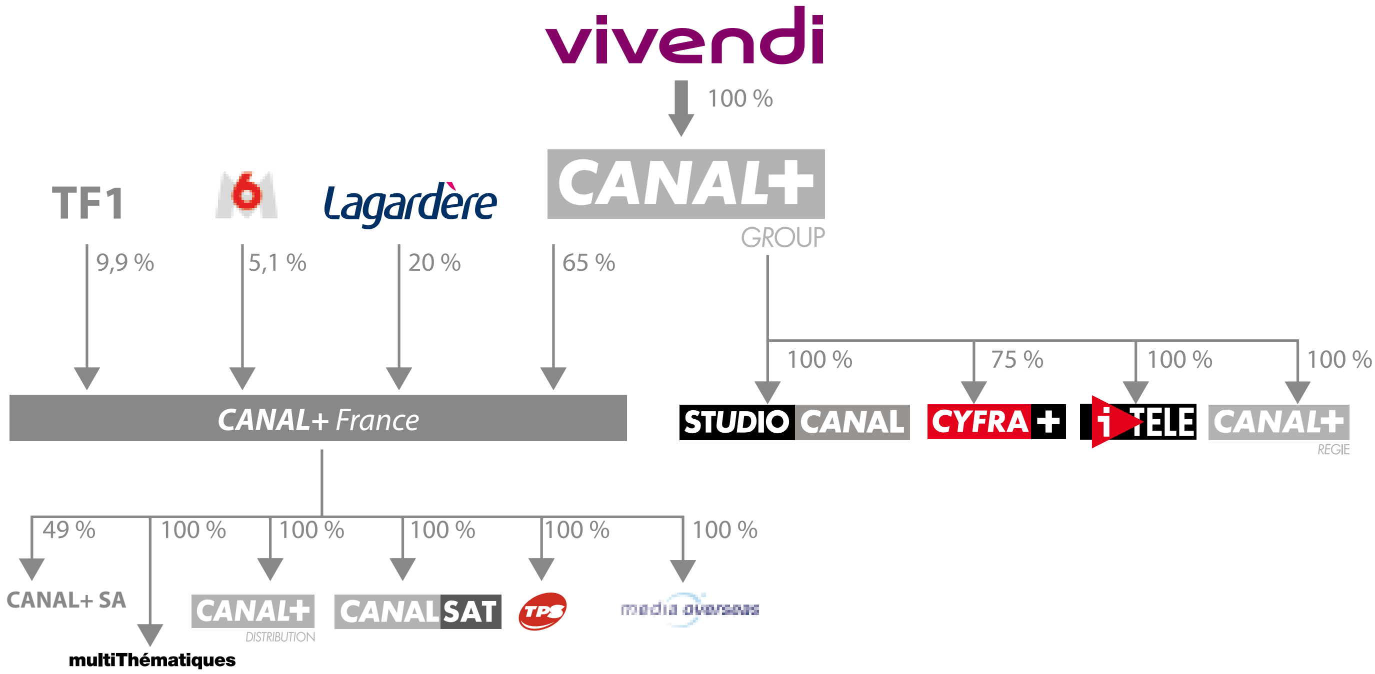
The merger was signed on January 4, 2007 after the following preparatory operations:

- On November 30, 2006, Canal+ Group transferred to Canal+ France, through a partial business transfer (with the exception mainly of MediaOverseas which had previously been sold to Canal+ France), all its assets and businesses in the production and distribution of pay television services in France (including the overseas departments and territories) and other French-speaking countries, mainly including all the shares of Multithématiques and Canal+ Distribution, 66% of CanalSatellite and 49% of Canal+ SA. The recapitalizations set out in the TF1-M6 Agreements to set the net cash positions at zero will be carried out by TF1 and M6 on one hand and Canal+ Group on the other hand;
- On 19 December 2006, Canal + Group sold Canal + France shares representing 7.08% of the company's current capital to Lagardère Active, for a total amount of €469 million, subject to a condition subsequent of the non-accomplishment latest by January 15, 2007 of the operations by TF1 and M6 to contribute all the TPS shares to Canal+ France and by Lagardère Active to contribute 34% of CanalSatellite. This amount corresponds to the price of €525 million calculated at zero net cash positions, less, in accordance with the Lagardère memorandum, 34% of the net cash of CanalSatellite and 16.66% of the liquid cash of GIE Numérique Canal+/CanalSatellite, and plus 20% of the net cash of Canal+ France (these net cash positions were calculated as at 31 August 2006. Lagardère Active also received a cumulated total of €102 million as dividends from Canalsatellite from January to August 2006). To guarantee that the Canal+ Group returns this amount to Lagardère Active in the event of the realization of the condition subsequent, an independent bank guarantee upon first demand has been set up by a financial institution for Lagardère Active, at the order of Vivendi. To set up this guarantee, Vivendi has constituted a cash pledge for the same duration and the same amount, which guarantees the obligation that it would have to refund to the financial institution the sums that it would have paid to Lagardère Active, in the event of a call for guarantee upon first demand. The independent guarantee and the cash pledge were terminated on January 4 2007.

The merger was concluded on January 4, 2007 after these preliminary operations, according to the procedures below:

- TF1 and M6 made a contribution in kind to Canal+ France, 100% of the capital of TPS Gestion, a company that owns all the capital of TPS. This contribution was paid for in Canal+ France shares, representing, after all the contributions, 9.9% of capital for TF1 and 5.1% for M6;
- Lagardère Active made a contribution in kind to Canal+ France of 24% of the capital of CanalSatellite and 100% of the capital of Lagardère Télévision Holdings SA which holds 10% of CanalSatellite's capital. These contributions were paid for in Canal+ France shares. After the shares acquired on December 19, 2006, this gave Lagardère Active a 20% share in Canal+ France's capital after all the contributions had been completed.

At the end of these operations, the organization structure of the new entity was as follows:



TF1 and M6 put options

TF1 and M6 each benefit from a put option to Vivendi of their stake in Canal+ France. This option can be exercised in February 2010, at the market price determined by an expert, combined with a price floor of e1,130 million for 15% of Canal+ France (corresponding to a valuation of €7.5 billion for 100% of Canal+ France).

Lagardère call option

In accordance with the Lagardère memorandum, Lagardère benefits from a call option relating to a number of shares that raises Lagardère's share to 34% of Canal+ France's capital, exercisable in October 2009. The exercising of the option would occur after the put options of TF1 and M6 have been exercised, or failing which, after they expire, at the market price determined by an expert (which will be the same as the exercise price of TF1 and M6' put options on the assumption that one and/or the other option would be exercised) combined with a minimum amount of €1,050 million (for 14% of Canal+ France), corresponding to a valuation at €7.5 billion for all the shares of Canal+ France.

Shareholders' agreement between Vivendi, TF1 and M6

Under the shareholders' agreement signed on January 4, 2007, TF1 and M6 have a joint withdrawal right in the event of the transfer of the exclusive control of Canal+ France by Vivendi/Canal+ Group as well as the right have precedence to transfer their securities to the market in the event of the listing of Canal+ France on the stock exchange. TF1 and M6 are not represented on the Canal+ France Supervisory Board and do not have any rights whatsoever on the management of the company.

Shareholders' agreement between Vivendi, Canal+ Group, Lagardère and Lagardère Active

The Canalsatellite agreement concluded in 2000 between Lagardère and Group Canal + expired on January 4, 2007.

Under the Canal+ France shareholders' agreement signed on 4 January 2007, Vivendi has exclusive rights to all joint control on Canal+ France including the exercise by Lagardère, if necessary, of its call option. Lagardère's rights are intended to protect its fundamental interests as a shareholder and vary according to its stake held in Canal+ France. The main provisions of this agreement are as follows:

- The Chairman as well as all the members of the Canal+ France Management Board are appointed by the Supervisory Board, most of the members of which are appointed by Canal+ Group. Canal+ Group and Lagardère have seven and two representatives respectively out of the eleven members of the Supervisory Board. The Board also includes an independent member and an employee representative. The number of Lagardère representatives on the Supervisory Board will be increased to three if Lagardère's equity interest is raised to 34%;

- Lagardère has veto rights on certain operations (listing of Canal+ France on the stock exchange, entry of a third party into the shareholding structure of Canal+ France or its major subsidiaries under certain conditions) and proprietary rights (joint withdrawal rights, right to profit) aimed at protecting its fundamental interests as a shareholder;

- Furthermore, in the event of a process to transfer the control of Canal+ France to a third-party, Lagardère has an outbidding right that will enable it to acquire the control of Canal+ France if Lagardère made the best offer;

- Vivendi has a pre-emptive right in the event of the transfer by Lagardère of its Canal+ France shares and a piggyback clause with respect to Lagardère that is likely to lead Lagardère to transfer its equity interest in Canal+ France should Vivendi accept an offer from a third party for the acquisition of at least 95% of Canal+ France's capital (subject to the prior application of Lagardère's right to outbid);

- Between 2008 and 2014, once Lagardère holds at least 10% and not less than 20% of the capital or voting rights of Canal+ France and insofar as Lagardère has waived its right to exercise its call option enabling it to own 34% of the capital of Canal+ France or that this option has expired, Lagardère will have a liquidity right that may be exercised between 15 March and 15 April of each calendar year. Under this liquidity right, Lagardère will be able to request for the listing of Canal+ France on the stock exchange. In this event, Vivendi/Groupe Canal+ may decide to acquire all of Lagardère's equity interest;

- The financing of Canal+ France has been structured through a mechanism which includes shareholders' loans and the delivery of guarantees by the parent. Pursuant to this mechanism, Lagardère has the option to participate in such financing and guarantee arrangements pro-rata its level of ownership in the share capital of Canal+ France. With effect from 2011, after the reimbursement of the shareholder loans to which Lagardère has not contributed in proportion to its equity interest and subject to compliance with certain indebtedness ratios, Canal+ France will distribute a dividend equal to its available cash flow not necessary for the financing of its operations provided that Lagardère owns at least 34% of the share capital of Canal+ France;

- Vivendi and Canal+, on one hand and Lagardère and Lagardère Active, on the other hand, have not made any non-competition undertaking with each other, nor with Canal+ France.

A.3. *LAGARDÈRE SERVICES (formerly known as "Distribution and services" branch)*

A.3.1. Main business and markets

As the world's leading press distributor, Hachette Distribution Services (HDS) coordinates the largest international network of communication and cultural leisure products (4,000 outlets) through brands with international presence (Relay, Virgin) and strong local identities (Payot, Le Furet du Nord, Inmedio).

HDS reported consolidated revenue of €3,681 million for 2006, 61.9% of which was generated outside France.

During 2006, HDS continued to develop its retailing activities by testing a number of new concepts and renewing a large number of concession contracts in travel hubs. HDS subsidiary companies consolidated their unique expertise as distributors of communication products with the signature of several new press distribution contracts in Europe, North America and Asia. 2006 also saw the launch by HDS of a magazine download service called HDS Digital.

Key figures:

- HDS has built a unique network of 4,000 outlets in 18 countries worldwide;

- HDS is the international press distribution market leader in Belgium, Canada, Spain, Hungary and the Czech Republic;

- Over 50,000 press retailers are supplied every day by HDS in Europe, and 180,000 in North America;

- 1,100 Relay outlets in 16 countries serve 1 million customers every day;

- Virgin Megastore is the third gest chain of multimedia outlets in France;

- Virginmega.fr logged 7 million music downloads in 2006.

HDS growth comes from two business strands: (1) retailing, which includes outlets targeting travelers and cultural leisure outlets, and (2) distribution of newspapers and magazines to points of sale.

- Outlets targeting travelers

As the world leader in retail outlets targeting travelers, with companies such as Relais H, Newslink and Aelia, HDS has secured new locations in the airports and rail stations of the 17 countries in which its brands operate. With Relay, HDS now coordinates the largest international network of press retailers. Having recently opened a series of new sales outlets in Germany, Spain, Poland, the Czech Republic, Romania and Russia, Relay offers an increasing number of travelers a broad range of products, including newspapers, magazines, books, confectionery, souvenirs and food.

The brand derivatives Relay Livres and Relay Services supplement the traditional range of reading materials to provide a better response to the needs of customers in many countries (including Switzerland, Poland and Belgium) by providing travelers with an array of last-minute, emergency and food products, as well as essential services.

In addition to the Relay outlets in nearly 80 international airports and the Newslink stores in Australia and Singapore, HDS also operates duty-free and specialist retail brands via Aelia, the French market leader in airport retailing (on the basis of figures for 2005). Aelia manages over 100 points of sale in 11 French airports. In addition to franchised brands, such as Virgin and Hermès, Aelia has its own brand portfolio, containing names such as Pure & Rare, Beauty Unlimited, French Days, The Gourmet Shop and Cosmopole. Aelia also runs an upscale in-flight sales operation on behalf of carriers such as Air France and Swiss Airlines, and operates points of sale in Belfast and Luton airports in the UK.

HDS operates many music, book and small electronics outlets in rail stations and airports under the Virgin brand in France, Australia, Germany and the USA, whilst the "Découvrir" brand in France, America and Australia offers tourists location-specific and culture-specific products.

Competition in travel hub press retailing is essentially local: Hudson News, Paradies and HMSHost in North America, Valora in Switzerland, Valora and Eckert in Germany, Areas in Spain, Ruch and Kolporter in Poland, etc.

The leading global players in the duty-free segment and specialist brands are DFS (LVMH Group), TNG (The Nuance Group), Aldeasa, Heinemann and Dufry, as well as European players, such as Aelia and World Duty Free (BAA Group).

- Specialist retailing of cultural leisure products

HDS manages 33 Virgin Megastore multimedia stores in France, as well as the leading regional chains of "Le Furet du Nord" in northern France, and "Payot Libraire", whose 12 stores control over one-third of the book sales market in French-speaking Switzerland.

Over 11 million people visited Virgin Megastores in 2006, and many of them will have done so to attend the 100+ concerts and book signings that the brand hosts on a regular basis. In 2006, Virgin Megastores gave customers the opportunity to meet writers and artistes including Mary Higgins Clark, Marc Levy, Amélie Nothomb, Jonathan Littell, Deep Purple, Patrick Bruel, Toto, Johnny Hallyday and Fabrice Luchini.

Virgin also continues to develop its Virginmega.fr web site, France's second largest legal music download site after i-tunes. The site delivered 7 million paid-for downloads in 2006, from a catalog of 1.5 million music titles. In 2006, virginmega.fr extended its range of services with the addition of Video on Demand (VoD) and the classical music download site virginmegaclassic.fr.

Virgin is also extending its geographical presence through the development of its franchise network in the Middle East (Kuwait, Lebanon, Egypt, the United Arab Emirates and Saudi Arabia), Turkey and La Réunion.

During the 2006 financial year, HDS also launched a magazine download service called HDS Digital. This electronic newsstand operates through a number of e-commerce sites (including Relay.fr and Virginmega.fr) and allows customers to download over 140 magazine titles as and when they wish.

- National press distribution and press import-export

Supplying points of sale with newspapers and magazines is a vital part of the press distribution chain, and this is precisely what HDS does in 15 countries by operating at the following two levels:

- as the global leader in national press distribution, HDS is also Number 1 in the USA, Belgium, French-speaking Switzerland, Spain and Hungary, and also operates in Poland. In many countries, HDS serves networks of local sales outlets, like Lapker in Hungary (13,000 outlets, 1,000 of which are in-store) and SGEL in Spain (18,000 outlets). Curtis Circulation Company, the leading national magazine distributor in North America, runs a network of independent wholesalers and manages sales of its titles to the largest retail chains. Its market share fell back in 2006 to 40%.[1] Its competitors are major local players such as TDS/WPS (Time Warner Group), KABLE and COMAG (Hearst/Conde Nast). SGEL, the leading national press distributor in Spain, holds over 20% of its market,[2] whilst its main competitor (Midesa) holds a similar share. HDS has no significant competition in Hungary, Belgium or Switzerland;

- HDS is also a leading player in the international press import-export segment, with a presence in 12 countries: Belgium, Bulgaria, Canada, Spain, USA, Hungary, Czech Republic, Romania, Russia, Serbia-Montenegro, Slovakia and Switzerland.

(1) Source: internal survey.
(2) Source: internal survey.

A.3.2. Business activity for the 2006 financial year

Contribution to consolidated revenue for 2006: €3,681 million

BREAKDOWN OF REVENUE BY BUSINESS ACTIVITY

	2006
- Retail	67.7%
- Distribution	32.3%
Total revenue	**100%**

BREAKDOWN OF REVENUE BY GEOGRAPHICAL REGION

	2006
- France	38.2%
- Europe	52.7%
- North America	6.0%
- Asia/Oceania	3.1%
Total revenue	**100%**

During 2006, HDS consolidated its positions around the world by achieving its targets: increasing sales through traditional retailing and e-commerce, developing new retail concepts, gaining and renewing concession contracts in travel hubs and strengthening its positions in Asia/Oceania.

At the end of 2006, retailing and press distribution accounted for 67.7% and 32.3% of HDS consolidated revenue respectively, marking a further increase in the relative importance of retailing (which represented 62.7% at end 2005).

The market environment in 2006 was marked by the continued revival in air passenger traffic, although this trend was tempered by the introduction of tighter airport security, which caused overcrowding in terminals and discouraged shopping. 2006 also saw a continued decline in the press and music markets.

- Outlets targeting travelers

Relais H saw its business stabilize in France (+1%) as a result of the good performance delivered by non-press products (including a 12% increase in food, 1.7% in books and 13% in souvenirs) supported by an innovative sales policy of range diversification and new concept creation (e.g. Départ Immédiat). These increases were impacted negatively by the fallback seen in press (-2.9%) and telephony (-7.9%), whilst tobacco sales stabilized (+0.3%). Relais H also renewed its major concession for points of sale at the Eiffel Tower.

In other European countries, trends are varied. Germany grew significantly by 9.4% as a result of newly opened points of sale, and especially that in Berlin's central station. Belgium also boosted its revenue by 1.8% following the acquisition of new points of sale. The total number for the whole network was 283 at the end of 2006.

In Switzerland, where business levels remained relatively stable (-0.5% at comparable exchange rate), Naville did well to resist the downturn in the press and telephony markets (-5.6% and -8.7% respectively), thanks chiefly to exceptional sales of scratch cards and lottery tickets.

Spain, on the other hand, experienced a difficult year (-8.2%) despite winning major rail network contracts at the end of 2005 and opening 10 new points of sale in the terminal of Madrid Barajas airport in February 2006. New legislation to restrict tobacco sales resulted in the closure of over thirty points of sale, most of which were in metro stations and shopping malls, thus reducing the network to 194 points of sale.

HDS continues to grow strongly in Central Europe, with particular emphasis on:

- Poland (revenue growth of +19.1% at comparable exchange rate): 62 points of sale opened in 2006 a network of 422 points of sale in total ;
- the Czech Republic (growth of +24%): 21 new points of sale opened in 2006 (11 following the acquisition of an independent network, and 10 new openings). HDS bought 50% of the shares held by the Finnish Rautakirja Group, which gave the company complete control from January 1, 2006 onwards;
- Hungary: extension of the network through the Relay and Inmedio brands (323 points of sale), delivering growth of +10.6% in 2006;
- Romania (revenue growth of 86%): the business consolidated in 2006, with 55 points of sale.

Despite the recovery of air passenger traffic in North America, retail revenue fell back slightly in 2006 at comparable exchange rate. The main cause was the lower levels of business done by points of sale in Canadian tourist locations (negatively impacted by increased security between the USA and Canada).

HDS saw its business grow very strongly (over 50% at non-comparable accounting scope) in Asia/Oceania (Australia and Hong Kong) thanks chiefly by the acquisition of all WHSmith outlets in Australia and Hong Kong (5 and 10 respectively) in the final quarter of 2005.

Aelia reported a significant increase in business during 2006 (+8%) as a result of increased traffic in the Paris Airports, new concessions in Marseille and Roissy T3 and the successful development of its recent arrival in the UK airports of Luton and Belfast.

Aelia was able to maintain its position as France's leading airport retailer and renew its concession at Orly, which is now part of SDA in (50/50) partnership with Aéroports de Paris. SDA operates the alcohol/tobacco/perfumery concessions at Orly Sud, Orly Ouest and Charles de Gaulle airports (T1, T2 and T3), as well as restaurants in some terminals. Aelia also grew in the fashion sector.

- Specialist retailing of cultural leisure products

During the last financial year, Virgin opened a new store in Saint-Denis, and closed an existing one in Nantes. The 33 Virgin stores (including 4 Music Railways) and 12 Furet du Nord book, music, video and multimedia stores reported a -2.7% fall in revenue compared with 2005: the dramatic falls in sales of music (-10.5%) and video (-5.9%) were partially offset by increased sales of books (+0.9%), stationery (+17.2%) and technical products (+4%), which benefited from pre-Christmas new product launches (mp3 players, Wii games consoles, etc.).

Books are now the leading product for the Virgin brand, accounting for 28.3% of sales, and running ahead of music (27.8%) and video (22%).

The commercial music download site Virginmega.fr opened in 2004, and delivered nearly 7 million paid-for downloads in 2006. In now offers 1.5 million titles and is France's second-largest legal commercial online music site.

The Virgin brand has also continued to grow in travel hubs, and now has four points of sale in rail stations (three in France and one in Germany), as well as 20 points of sale in airports (12 in France, two in Spain, five in North America and three in Australia). The Virgin Megastore store network is also growing strongly through franchises in the Middle East, Turkey and La Réunion.

In Switzerland, the performance of Librairies Payot remained stable in 2006 (-0.2% at comparable exchange rate).

- National press distribution and press import-export

2006 was marked by a downturn in all areas of press distribution.

Distribution sales fell in Spain (-4.5%). This reduction is explained chiefly by a marked decline in partworks (-8.7%) as a result of fewer launches and less successful titles, and a fall in sales of phone cards (-35%). The trend in the magazine market remains negative, although winning the Edipresse contract (predominantly the national distribution of monthlies) helped sales for the year.

In Belgium, 2006 was marked by the return of leading magazine publisher Sanoma (representing a quarter of the business). Taken together, the distribution activities of AMP generated less revenue, with particularly poor performances from magazines, phone cards and books. At comparable accounting scope, consolidated revenue fell by -4.8% in 2006. AMP has now developed a far-reaching restructuring and modernization plan for implementation in 2007.

The erosion of press sales is also having its effect on the distribution activities of Naville in Switzerland, where sales fell by 5.3% after the negative impact resulting from the launch of two free daily newspapers in the French-speaking Switzerland.

At the beginning of 2006, HDS disposed of its holding in the German distribution company Saarbach to its longstanding partner and G+J Group company DPV.

On the other hand, Hungary saw significant business growth in 2006 (+15.5% at comparable exchange rate) driven primarily by the favorable impact of a reduction in the rate of VAT charged on daily newspapers (introduced on January 1, 2006) and magazines (introduced on July 1, 2006), and very strong growth in non-press sales (phone cards and tobacco).

In the USA, consolidated revenue fell by 7.1% due mainly to the cancellation of a major contract, which occurred at the same time as a downward trend on newsstand magazine sales.

- Prospects

The prospects for HDS in 2007 depend once again on the way airport passenger traffic develops following the restrictions imposed by more stringent security measures.

Nevertheless, HDS intends to maintain sustained growth of its basic activities in 2007 and beyond as a result of penetrating new markets, organic growth and acquisition, whilst seeking geographical and operational complementarity with existing activities wherever such opportunities exist.

In terms of retailing, HDS targets are focused on:

- continued business growth in Asia/Oceania and Central Europe;
- developing specialist points of sale (in airports), especially in international markets;
- applying retail concepts in travel hubs;
- bringing forward new e-commerce solutions.

Recognized for its market-leading positions in its all its business sectors, its operational thoroughness, its performance culture and its international brands, Hachette Distribution Services has all the strengths needed to achieve its targets.

A.4 *LAGARDÈRE SPORTS*

The Lagardère group implemented, during the 2006 fiscal year, its strategy for the acquisition of companies operating in the sports sector. There were two notable operations during the year: The acquisition of Sportfive and that of Newsweb.

The two companies have not been part of Lagardère's 2006 consolidation perimeter.

A.4.1. Sportfive

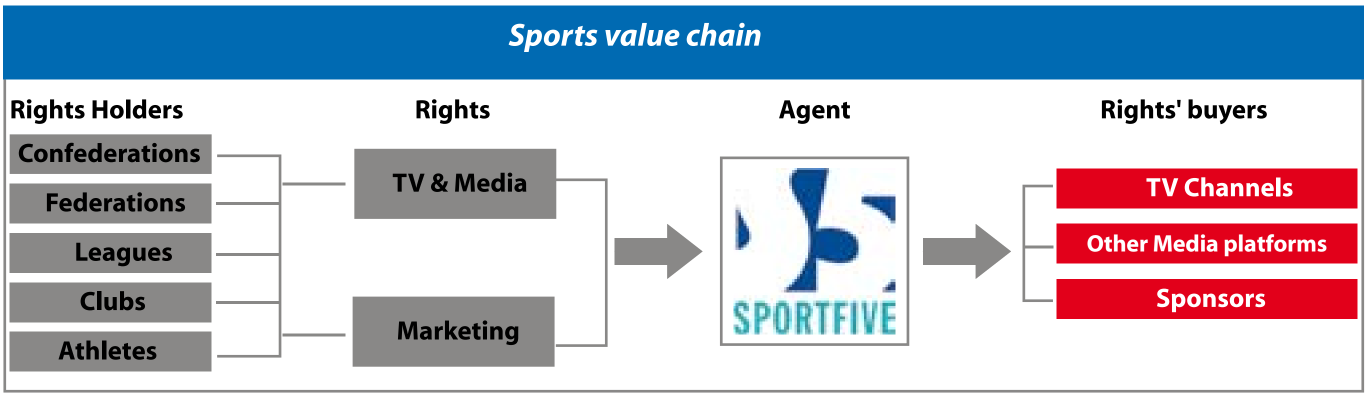
On November 19, 2006 Lagardère and S5 Hattrick SARL (a company indirectly controlled by Advent International, RTL Group and Goldman Sachs Private Equity), agreed a convention whereby the Lagardère group would become, subject to the realization of certain suspensive conditions, the owner of 100% of the shares and voting rights in Sportfive Group SAS, the parent company of the Sportfive group, valuing the company at €865 million. This operation was also subject to approval by the relevant competition authorities.

Competition-regulating authorities gave their agreement on January 18, 2007.

As all of the suspensive conditions contained in the contract of November 19, 2006 had been fulfilled, the closing operations took place on January 24, 2007, on which date Hachette SA became the owner of Sportfive.

The leader in terms of the management of marketing and TV rights for European football, Sportfive is a partner to the sports governing bodies and the clubs in the context of promoting their rights. These rights include, on one hand, the transmission rights, for which the buyers are the TV channels and all other content distribution platforms (currently Internet and mobile) and, on the other hand, the "marketing" rights that enable the advertisers to communicate using a range of supports (players' shirts, boards and the sponsorship of stadiums).

Sportfive is the European leader in the management of sports marketing and audiovisuals rights with a positioning principally focused on football rights. The 2006 turnover was c. €500 million (before setting Lagardère's turnover in compliance with recognition standards). It makes its unique experience and know-how in the management of professional sport available to the clubs, federations and sports events.



- TV & Media rights

Sportfive has an effective structure that is particularly suited to the exploitation and marketing of sport TV & Media rights. Its executives are in contact with the leading decision-makers in the media markets directly from the Headoffice in Hamburg and Paris or via agencies around the world.

There are a large number of sports clubs, federations and event organizers that are dependent on this network of agencies, providing experienced partners and personnel, able to guarantee them an optimum media exposure and significant media revenues.

The managed TV & Media rights are primarily second and third rights (rights not including the broadcasting of the matches in their host countries) for qualification matches for international competitions but also the rights for certain friendly matches.

Football, the world's number 1 sport, is both the starting point behind the success of Sportfive and the core of its business around which the activities gravitate. However, although Sportfive is now the European leader in terms of the marketing of the TV & Media rights for football events, the portfolio of Sportfive's rights has expanded significantly over the years and now includes a wide range of attractive sports such as handball, boxing, rugby and ski jumping.

Football

Federations

Sportfive currently manages a portfolio of more than 40 international federations. These include, among others, the French Football Federation (France men's, women's, Hopefuls and Coupe de France teams) as well as the Greek, English, Dutch and Swiss federations.

Clubs

Sportfive represents more than 270 clubs in the exploitation of their TV & Media rights. Sportfive is the European leader in managing on behalf of the football clubs the rights to the Champions' League qualification matches, the UEFA Cup, the Intertoto Cup, as well as friendly matches.

Among these clubs are, Hamburg SV, Hertha Berlin SC, Olympique Lyonnais, Paris Saint-Germain, FC Kopenhagen, Fenerbahce and Galatasaray.

Leagues

Sportfive is also responsible for the marketing of the TV & Media rights for the major European football leagues to broadcasters in over 180 countries. Leagues such as the Italian Serie A (marketing of international TV rights) or Spain's Premier League (exclusive marketing of the international TV rights for Liga for Asia except Japan, Eastern Europe and Sub-Saharan Africa) have given Sportfive responsibility for the optimization of the sales of their rights on all platforms (television, Internet and mobile).

UEFA EURO 2008™

UEFA has appointed Sportfive to market the TV rights for Euro 2008 for Sub-Saharan Africa, Asia (except for the Indian subcontinent and Hong Kong), Oceania, South America, Brazil and other markets (free-to-view TV only), Central America and the Caribbean (Cuba and other markets (free-to-view TV only), and Europe. For this, Sportfive has set up a dedicated team located in Geneva with the task of negotiating with the interested TV channels on behalf of UEFA.

African Competitions

Sportfive is also the commercial partner to the African Football Confederation for the exclusive marketing of the world media rights to the African Nations Cup, the Confederations Cup and the CAF Champions League.

Rugby

Rugby has become a key part of Sportfive's portfolio of activities. Thanks to its increasing popularity around the world, rugby is now a major strategic focus for its development. The presence of Sportfive in rugby has grown continuously over recent years with the signing of partnerships, notably, with key contributors to the sport.

Fédération Française de Rugby

Sportfive manages the marketing of the international TV rights for the France XV (test matches).

VI Nations Tournament

Sportfive manages the exploitation of the TV rights for the Five Nations Tournament (except for the host countries).

In addition, Sportfive manages the TV & Media (as well as Marketing) rights for the Argentinean rugby Championship and the "Pumas" national team, as well as those for the Uruguay national squad.

Other Sports

Basketball

Sportfive holds the TV rights for the FIBA for Asia for the World and Asian basketball Championships (2009-2011).

Handball

Since 1999, Sportfive has held the TV rights for the International Handball Federation (IHF) for the Men's and Women's World Handball Championships up to 2009.

In this Sportfive is the exclusive agent for the marketing of the rights to the 2007 Men's World Championship in Germany as well as for the 2007 Women's World Championship in France.

Rally

Sportfive is responsible for marketing the TV rights for the World rally championship. The Championship is divided into 16 different circuits located in 16 countries around the world. The global audience has risen by more than 44% since 2002 to reach a total audience for the whole period of the 2005 Championship of 800 million TV viewers in 186 countries.

Sportfive also holds a number of significant rights, notably in fields such as boxing, tennis and ski-jumping.

TV production and coordination

The huge portfolio of audiovisual rights to sport events represented by Sportfive requires top-rate TV production standards.

Sportfive makes available to these rights holders a digital platform that allows the optimization of the exploitation of the media rights: archiving and multi-channel transmission.

A specific expertise together with the use of the latest technologies is essential in supplying the international broadcasters with the best possible pictures of a match.

In terms of the management and supervision of the license agreements, Sportfive is able to supply satellite transmission resources that suit the needs of the customers as well as English language commentaries and graphic inserts for each event.

- Marketing rights

Sponsorship is today the form of communication for which the spending is the highest after TV and press advertising. Sponsorship is an effective communication tool for brand. The main objectives for sponsorship – other than increasing the awareness of the brand and sales – are enhancing the image, increasing the loyalty of existing customers (through B-to-B communication) and improving staff motivation.

After the Olympic Games, football is the sport that generates the highest level of interest around the world. It therefore receives corresponding attention in the media, and the scale of its TV presence makes football the largest marketing platform in the world. TV audiences and the market share of football on TV exceed those for all other sports.

Football

Clubs

Sportfive provides the global management for the marketing rights of more than 30 clubs in Europe. These clubs include, notably, Hamburg SV, Hertha Berlin SC, Olympique Lyonnais, Paris-Saint-Germain, FC Kopenhagen, Fenerbahce and Galatasaray.

In this matter, Sportfive acts as the exclusive agent for the clubs and markets their rights to sponsors. This concept tallies with the expectations of the market as it allows the clubs to have a single point of contact and to avoid having to deal with the commercial constraints.

The clubs can also draw on Sportfive's expertise in the following areas:

- marketing: brand communication strategies, product innovation, search for new visibility opportunities;
- market studies: analysis of media spin-offs, affinity surveys, general data on sponsoring and football;
- development of stadiums/consultancy: optimization of the space in the stadium.

With its local and central services, Sportfive is able to make use of additional resources, to create greater added value and to achieve significant cost reductions for the clubs.

France Football Team

Sportfive manages the marketing rights for the France men's National Football Team, the France Hopefuls football Teams and the France A football women's Team.

Coupe de France de Football

Sportfive is responsible for the marketing rights for the Coupe de France de Football.

African Competition

The marketing rights for the African Nations Cup (CAN) and the CAF Champions League have been granted to Sportfive.

Rugby

2007 VI Nations Tournament

Sportfive carried out the marketing of the "Village partenaire de la Fédération Française de Rugby (Partner Village of the French Rugby Federation)" for the matches of the France XV during the 2007 VI Nations Tournament.

2007 Rugby World Cup

Held every four years, the Rugby World Cup is considered as being one of the leading five international sports events and as the event 'par excellence' in the world. The 2007 Rugby World Cup, the sixth such tournament, will take place in France. Over a six week period, this will be a celebration of rugby starring the world's greatest players, gathered from every part of the globe. The 48 matches in the tournament will be played at grounds all over France, with a number of matches also being played in Cardiff and Edinburgh.

Other Sports

Handball

Sportfive handles the marketing rights for the Men's Handball Champions League.

Tennis

Sportfive holds the marketing rights for the Moselle Open.

Rally

Sportfive handles the marketing rights of the Rally World Championship.

Basketball

Sportfive handles the marketing rights for the FIBA for Asia and the Middle-East for the Asian basketball Championships.

Advertising tolls

Partnership Packages

Sportfive offers a wide range of options and forms of partnerships (official partner, major partner, corporate club member, public relations, event-based), which correspond with the various expectations and levels of commitment for customers.

Playing field boards

The advertising opportunities within the European football stadiums are extremely diverse. Other than advertising through billboards, the most common means of advertising within grounds, there are a number of other innovative supports which, creatively and effectively, can be used to present the sponsors' brands in a highly relevant way. The stadiums provide a wide range of possible sites which vary depending on the location of the hoarding (around the TV perimeter or outside, i.e. visible only for the spectators). There are a number of types of billboards, such as fixed or rotating signs. Another possibility that is frequently used to provide sponsors with the best possible exposure is the placing of their logo on two boards located one behind the other. Because of the viewing angle of the camera, the two boards merge into each other and thus offer a very forceful point of presence on the TV screen for the sponsor.

The 3D mat is another form of advertising, only visible to the TV viewers. Other visibility opportunities are available within stadiums such as: corner boards, electronic displays, product displays, etc.

On top of this the latest video screens in stadiums allow the showing of films illustrating the convergence between the brand sponsorship commitment and their conventional advertising mode.

Team Kit Sponsorship

The kit sponsor is present at all competitions and matches, national and international, home and away, played by the club, and also offers the advantage of signing inside the stadiums. The lead sponsor and the club thus form an inseparable pairing with a presence on all the clubs' communication supports:

- team kit, youth and fans;
- interview backdrops;
- trading areas;
- team bus;
- club magazines;
- club Internet Site;
- staff equipment;
- match Program;
- TV boards;
- players' bench.

Naming

The acquisition of the *naming* of a stadium is the latest form of football club sponsorship (*e.g.*: AOL Arena, Hamburg). Naming is (after initial resistance on the part of the media in particular) generally well received: the impact is undeniable and undisputed. In the same way as with team kit sponsorship, naming is because of the limited number of available stadiums and clubs, an exclusive rights which, thanks to a national media presence represents an extremely attractive communication tool. The perception of the sponsor is not simply based on the sporting success of the club bearing its colors. The sponsor acquiring the naming specifically benefits from a permanent and positive association, in the public mind, with an outstanding architectural structure and an avant-garde stadium, synonymous with values such as functionality, quality and passion. Sportfive, since 2001, has been involved with five sponsors in the successful acquisition of the *naming* of the stadium.

Public Relations

In B to B communication, the relationship between the club and the company is more than just a simple partnership: in this case, the sponsor is the host and offers its customers a unique experience. The quality of the service provisions is directly linked with the potential for welcoming visitors to the stadium. And even in those stadiums where the facilities are perhaps not the most up-to-date, the benefits accruing from these operations are undeniable.

Events & Promotions

For spectators present in the stadiums, brands can come to life and become tangible. Through a wide range of promotional activities, a sponsor can deliver information and create emotional links with the public, thus ensuring lasting improvements for the image.

Official Internet Site

The Internet is also an opportunity for establishing a direct link on the club's official site to the sponsor's home page and to display the brand using interactive tools.

A.4.2 Newsweb

On December 12, 2006, the Group signed share transfer agreements with certain shareholders in Newsweb (and notably the members of the Management Board, certain historic individual shareholders, as well as certain institutional shareholders), that covered approximately 75.2% of the equity and voting rights in Newsweb.

The purchase took place, in return for the payment by the Group to the owners of a total price of €53.05 million (or €24.70 per share), corresponding with a total price for 100% of Newsweb of €74 million.

Lagardère has, following these initial acquisitions, made further acquisitions concerning around 12.8% of the equity and voting rights of Newsweb (the purchase price was also €24.70 per share).

In accordance with the Stock Market regulations, Newsweb was listed on the Alternext market as of January 23, 2006,[1] the Lagardère group submitted on February 1, 2007 to the French Autorité des Marchés Financiers, a price guarantee offer covering the Newsweb shares not yet purchased under the terms of the agreement, at a per share price identical to that of the acquisition of the controlling block, *i.e.* €24.70 per share.

On completion of this price guarantee offer Hachette SA, which owned 98.19% of the shares in Newsweb:

- launched a buy-out offer for the remaining shares; and
- requested the removal of the listing of Newsweb which should intervene by the end of the buy-out.

Founded in 1999, Newsweb produces and distributes content on the new media and is today the leading group in the target male market for four major areas: sports news, financial news, automobile news and entertainment.

These four areas are today covered by Newsweb through its five Internet sites:

- Sports.fr: a generalist sport site launched in 2000 with an editorial content based on real time sports news, results, league positions and live matches;
- Sport4fun.com: free Paris sports and game site, acquired by Newsweb in December 2004;
- Football.fr: a site specializing in football, launched in January 2006;
- Autonews.fr: an automobile news site, launched in June 2006;
- Boursier.com: a financial news site covering French and US markets, acquired by Newsweb in January 2006.

The five sites attracted 2.4 million single visitors during October 2006.

Newsweb's revenues are through the sale of space advertising (advertising, sponsored links, sponsorship, etc.), which represent the main source of its turnover, the sale of editorial content on the various sites, the sale of premium services (subscriptions) and rental from databases.

(1) Newsweb was introduced on January 23, 2006 on the EA listing group (private investment) on Alternext, before being transferred to the E1 segment (public issue) on August 4, 2006.

In 2006, Newsweb's turnover was c. €8.78 million (before setting Lagardère's turnover in compliance with recognition standars).

Sportfive and Newsweb, for some of their business activities, are going to join the Lagardère Sports division, a new division that is intended to bring together under a single management all the shareholdings of the Lagardère group in this business sector and which the Group intends to further grow over the coming years. There are a number of reasons for the Lagardère group to diversify in the sports segment and invest in it.

First of all, unlike certain of the Group's businesses which are almost at maturity (publishing, press, etc.), the businesses relating to sports still have a very strong growth potential.

In addition, Lagardère believes that it is especially important to invest in the contents sector (which can them be sold to various distributors for transmission on a variety of supports) rather that to simply remain in the publishing and broadcasting segments.

Thus, Sportfive when it came up for sale by its former shareholders (Advent International, RTL Group and Goldman Sachs Private Equity) presented a compelling investment opportunity. Sportfive effectively combined an attraction both in terms of the nature of its business (the marketing of contents, a business matching perfectly with the Group's chosen strategy) and its business sector (sport, a sector with a significant growth potential).

Newsweb was an opportunity to bring into the Group a community of professionals having acquired a significant level of experience and recognition within the new medias and notably in the sports sector. This acquisition thus notably gave the Lagardère Sports division its opportunity to expand its presence and know-how in terms of digital content.

B. EADS

Income statement (1) *(in € million)*	2006	2005
Revenue	**5,907**	**5,112**
Pre-tax operating income for consolidated companies	39	392
Non-recurring items	(31)	(3)
Income from companies accounted for using the equity method	23	31
Income before finance charges and taxes	**31**	**420**
Net cost of finance	(18)	(23)
Income before tax	**13**	**397**

(1) Indicators expressed as the portion attributable to the Lagardère Group (14.98% in 2006 and 14.95% in 2005).

The structure of the EADS group remains strictly that set out in the founding principles of EADS NV, as agreed in 1999 between the French State, Lagardère SCA, DaimlerChrysler AG and the Spanish State (via the holding company SEPI), that is to say:

- *principle of parity:*
  - *as applied to controlling bodies: this principle of parity can be seen at work in the French holding company; a partnership limited by shares and called Sogeade, which is owned 50/50 by Sogepa (a French State company) and Désirade, a wholly owned subsidiary of Lagardère. These percentages will respectively increase and decrease between June 2007 and June 2009, following the partial withdrawal from EADS NV begun by Lagardère in April 2006 — cf. below.*

The same principle of parity can also be seen in the "Contractual Partnership" (formed under Dutch law), which holds the mandate to exercise the voting rights of Sogeade, DaimlerChrysler and SEPI at EADS NV shareholder meetings, in accordance with the shareholders' pact. Sogeade and DaimlerChrysler own absolutely identical holdings in this partnership,

- *as applied in terms of management: the EADS NV Board of Directors contains four representatives proposed by Lagardère. DaimlerChrysler is equally represented. The Board of Directors also contains two independent members, one appointed by Sogeade, and the other by DaimlerChrysler,*

In accordance with these principles, the General Meeting of EADS NV Shareholders held on May 11, 2005 appointed the members of the Board of Directors for a period of five years,

Notwithstanding the fact that SEPI is no longer entitled to appoint a director, the General Meeting of Shareholders referred to above nevertheless appointed a Spanish director on the basis of a proposal put forward by Sogeade and DaimlerChrysler,

The Board of Directors of EADS NV is responsible for developing Group strategy, and is still chaired by two Chairmen, Arnaud Lagardère and Manfred Bischoff, who were reappointed to the Board of Directors for a further term of five years on May 11, 2005,

under the same principle of parity, executive management is provided by two CEOs, Thomas Enders and Louis Gallois, who were appointed to these roles for the period of their appointment as directors at board meetings held respectively on June 25, 2005 and July 2, 2006,

Decisions are taken by a qualified majority vote requiring the approval of both Sogeade and DaimlerChrysler;

- *Principle of consistency:*
  - *in accordance with the wishes expressed at the time the company was established, EADS NV has only one General Management team (despite the fact that this function is performed by two CEOs), only one Financial Division, only one Strategy Division, etc.,*
  - *the EADS Group N.V. Executive Committee is jointly responsible, together with the CEOs, for the executive management of the Group, and comprises twelve members.*

Changes in the shareholding structure of EADS NV

Readers are reminded that, since July 1, 2003, the controlling shareholders of EADS NV within the Contractual Partnership may freely dispose of their shares in the market, subject to a pre-emption right shared by Sogeade and DaimlerChrysler.

Having observed in 2005 that the proportion of its market capitalization accounted for by EADS was becoming excessive compared with the configuration of its other activities, and was therefore holding back its own share price, Lagardère took the decision in Quarter 4 of 2005 to begin the process of partial withdrawal from its investment in EADS NV, with the aim of gradually halving its holding from approximately 15% to 7.5%.

It is against this background that Lagardère then sought to identify the structure best suited to this transaction, given the various constraints surrounding its realization.

Lagardère SCA has since adopted the scheme proposed by IXIS Corporate & Investment Bank and Nexgen Capital Limited, and on April 6, 2006 signed a contract with both under which Lagardère will issue a Mandatory Exchangeable Bond redeemable in EADS NV shares.

Under the terms of this contract, Lagardère SCA has issued, and IXIS Corporate & Investment Bank and Nexgen Capital Limited have subscribed for, a bond valued at €1,992,186,000 redeemable for a maximum of 61,110,000 existing EADS NV shares in three tranches on June 25, 2007, June 25, 2008 and June 25, 2009, none of which will exceed a maximum of 20,370,000 shares.

At the time of redemption, Lagardère SCA will receive an upside bonus equivalent to any interim rise in the EADS NV share price above the reference price of €32.60, capped at 115%. This would have the effect of reducing the number of EADS NV shares to be transferred to the bondholders to 53,139,130. Conversely, Lagardère SCA will not be obliged to release more than 61,110,000 EADS NV shares should the share price fall below the reference price.

This bond issue saw the issue of 61,110 Mandatory Exchangeable Bonds on April 11, 2006 at a price of €32.600 per bond and an annual coupon rate of 7.7%.

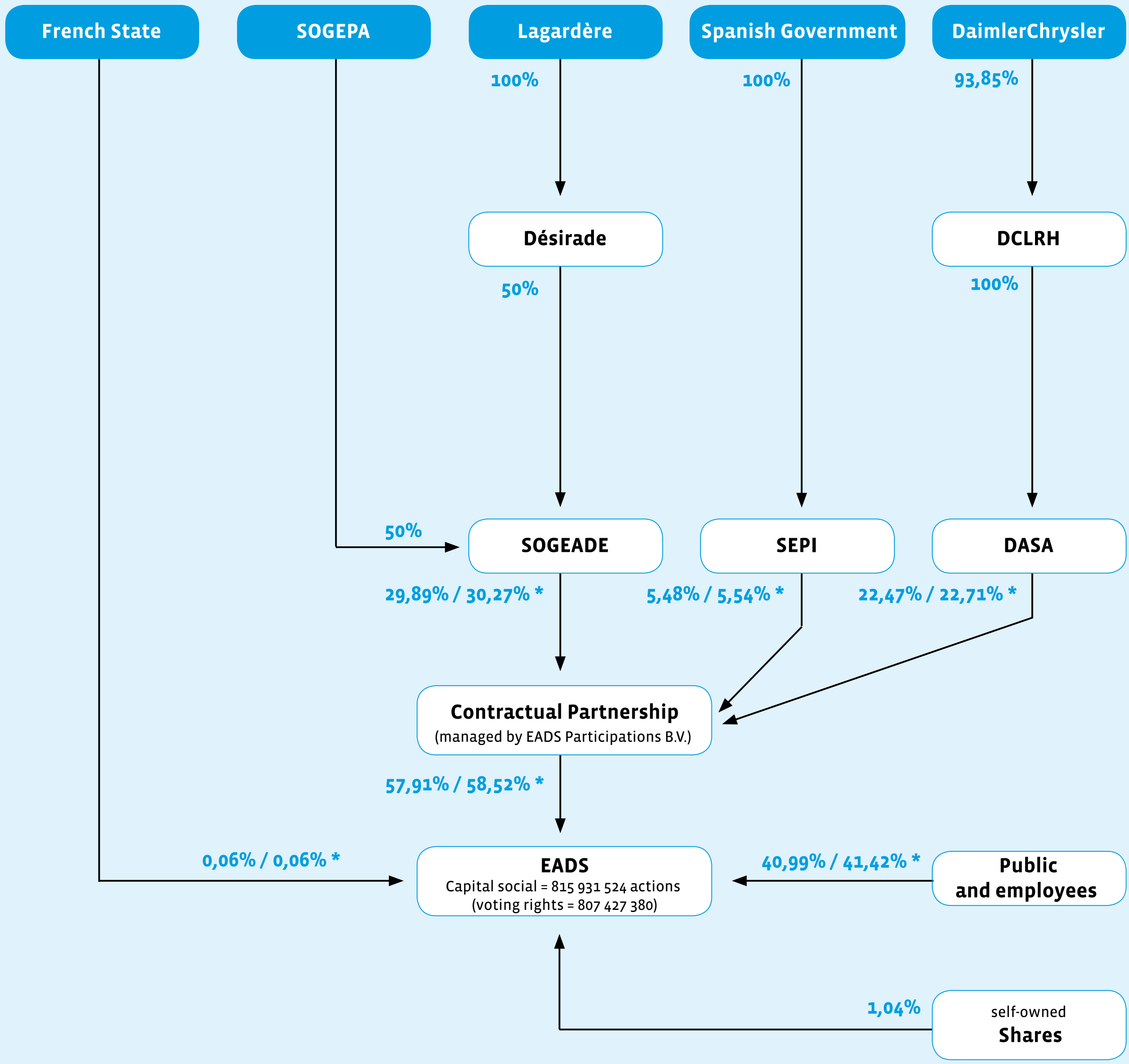
This issue enables Lagardère SCA to:

- *retain ownership of its full 15% holding in EADS NV until June 2007 (and therefore to receive the associated dividends), whilst liquidating half of it under an arrangement that spreads the disposal of the full 7.5% over the period from that date until June 2009;*
- *achieve no change in its net borrowing position. In practice, the final amount of the bond issue will increase Lagardère SCA financial debt, whilst the income from the bond issue will increase liquid assets: the impact of the transaction on net Group borrowings will therefore be nil;*
- *benefit from any rise in the EADS NV share price above the reference price under the upside exposure mechanism built into the bond issue;*
- *maintain its role as a leading shareholder in the controlling structure of EADS NV, within which this transaction has no impact on the balance of power between the French State and Lagardère, and between the French and German interests.*

This transaction has been conducted by Lagardère SCA in parallel with another conducted by DaimlerChrysler, which disposed of 7.5% of its holding in EADS NV, which had the effect of immediately reducing its holding in EADS NV from approximately 30% to 22.5%.

On March 12, 2007, DaimlerChrysler put in place measures that will enable the company indirectly to liquidize the equivalent of 7.5% of its holding in EADS NV (one-third of its current holding) by selling shares to German investors (private and public), whilst retaining the voting rights attached to the holding. If, in 2010, DaimlerChrysler decides not to repeat the exercise, it will be able to dispose of its 7.5% holding in EADS NV to these investors directly on the understanding that, subject to compliance with the EADS NV shareholders' pact, Sogeade and the German State will each benefit from a pre-emption right, whose implementation would enable them to maintain the balance between the French and German interests that control EADS NV, should they wish to do so. The plan is that DaimlerChrysler will retain the voting rights associated with the EADS NV shares acquired by the German State, and that these rights will only be able to be disposed of under the conditions contained in the EADS NV shareholders' pact.

EADS NV share ownership and control at December 31, 2006



* % of capital / % of voting rights

B.1 *Main activities and main markets*

With a consolidated turnover of €39.4 billion in 2006, EADS is the European leader in the aviation, aerospace and defence industry and ranks second worldwide. In terms of market shares, EADS is one of the top two manufacturers of commercial aircraft, civil helicopters, commercial launchers and missile systems. It is also one of the main suppliers of military aircraft, satellites and defence electronics. In 2006, about 75% of EADS' revenue was in the civil field and 25% in the military field.

EADS has organized its business in five Divisions: (1) Airbus, (2) Military transport aircraft, (3) Eurocopter, (4) Defence and Security and (5) Astrium. In addition to these five divisions, EADS also includes the ATR, EADS EFW, EADS Socata and EADS Sogerma operational units which are classified in the "Other activities" category, which is not an EADS division in its own right.

B.1.1 Airbus

Airbus, which is now 100% owned by EADS, is one of the principal two suppliers worldwide of commercial aircraft with a seating capacity in excess of 100. Airbus has operated in a bipolar market since Lockheed's withdrawal in 1986 and Boeing's acquisition of McDonnell Douglas in 1997. Airbus and Boeing thus share the market for passenger transport aircraft with a seating capacity in excess of 100. Given the considerable barriers to entering the market for passenger transport aircraft with a seating capacity in excess of 100, it is highly unlikely that a new competitor will effectively be in a position to challenge one of the established suppliers in this market in the foreseeable future.

Since its creation in 1970 and up to the end of 2006, Airbus had received 7,097 aircraft orders from about 250 customers worldwide. Its market share of aircraft delivered worldwide has increased from 15% in 1990 to 52% in 2006. On December 31, 2006, its order book (2,553 aircraft), based on the catalogue price value, represented more than 80% of the total value of EADS' orders. In 2006, it had firm orders for 790 aircraft, with cancellations taken into account.

Several factors have contributed to Airbus' success: its range of modern aircraft, its continuous technological innovations, its stable pool of highly qualified staff and its aircraft "family" concept allowing customers to reduce their crew training, maintenance and procurement costs for their various sized fleets of Airbus aircraft. The market for commercial passenger transport jet aircraft essentially depends on the demand for air transport, which is itself fuelled by economic growth, prices and demographic growth. The air transport market, measured in terms of Passenger/Kilometers transported, thus increased each year at an average annual rate of 7.9% over the period from 1967 to 2000, except in 1991, due to the Gulf War. In 2006, Airbus forecast a growth in air traffic of 4.8% a year over the period 2006-2025.

Airbus is currently operating in each of the three main segments: standard-body aircraft such as the A320 family have a seating capacity of 100 to 210 in two rows of seats separated by a center aisle and are principally used for short and long-haul routes; wide-body aircraft such as the A300-A310 and A330-A340 families have a seating capacity in excess of 210 arranged in three rows of seats separated by two aisles. The A300/A310 and A330/A340/A350 families are used for short- and medium-haul routes, and the A330/A340 family is due to be replaced, from 2013 onwards, by the new A350 family which will be capable of operating ultra-long-haul routes. Very wide-body aircraft such as those of the A380 family are designed to transport more than 400 passengers without a stopover on very long-haul routes under conditions of optimum comfort while affording airlines significant cost advantages per seat. Freight transport aircraft form a fourth segment, which is often based on the reconversion of old passenger transport aircraft.

In 2006, the turnover of EADS' Airbus Division was €25.1 billion, or 63.7% of EADS' total turnover.

B.1.2 Military transport aircraft

The Military Transport Aircraft Division ("ATM Division") manufactures and sells small- and medium-haul military transport aircraft. It is responsible for the development of the European military transport A400M wide-body aircraft project. Governments and multinational organizations form the ATM Division's main customers in the tactical military transport aircraft market. This market includes three segments: (1) light transport aircraft with a load capacity ranging from one to four tons, (2) medium transport aircraft with a load capacity varying from five to fourteen tons and (3) heavy transport aircraft with a load capacity of fifteen tons or more. According to a survey conducted by the Teal group, an independent consulting firm specializing in the aerospace and defence sector, the military transport aircraft market will be worth around $42.2 billion between 2004 and 2013.

In addition, this division produces and markets aircraft for special missions, derived from existing platforms and devoted to specific military tasks, such as maritime surveillance, anti-submarine warfare and in-flight refueling. Derived military aircraft are transport aircraft derived from existing platforms and tailored for special missions, generally for military customers. According to a survey conducted by the US consulting firm Forecast International, the derived military aircraft market will be worth about $42.4 billion between 2004 and 2013. It is an advanced technology, high-added-value solution market characterised by an increasing demand for complete systems characterized to the individual operational needs of customers. Modern defence and combat situations increasingly call for independent access to information in complex forms and in a variety of theatres of operation. This phenomenon, coupled with Europe's as yet unfilled defence needs, should stimulate the short-term demand for derived military aircraft produced in Europe. The ATM Division is well placed in this market since it has access, through Airbus, to high-performance platforms already well established in the civil market. However, the market is currently dominated by US companies.

The ATM Division also designs and manufactures airframe components. It's consolidated turnover was €2.2 billion, or 5.6% of EADS' total turnover in 2006. A contract worth €19.7 billion for the manufacturing and delivery of A400M aircraft was signed in 2003, which will make a significant contribution to the future growth of EADS' turnover.

B.1.3 Eurocopter

Eurocopter, one of the world's leading helicopter manufacturers, produces a very wide range of civil and military helicopters. In 2006, Eurocopter's share of the world market was 50% for civil helicopters and 12% for military helicopters.

In 2006, the revenue from helicopters delivered worldwide was estimated to be more than €8.6 billion, and is, according to Eurocopter's Management, set to reach €14.6 billion by 2009. According to various surveys conducted in particular by the Teal group, Honeywell and Rolls Royce, between 5,200 and 5,800 civil helicopters and between 5,500 and 6,000 military helicopters are due to be manufactured worldwide between 2006 and 2015. These projected figures largely depend, for the military segment in particular, on future trends in major US development programs.

In the military segment, Eurocopter's main competitors are the four helicopter manufacturers on the world market: Agusta-Westland in Europe and Bell Helicopter, Boeing and Sikorsky in the United States. In addition, a number of domestic manufacturers are competitors in the respective national markets of these four manufacturers.

The helicopters sold to the civil sector are used for private passenger transport, offshore oil operations, and various other applications in the commercial and state sectors, such as coastguard, police, medical assistance services and the fire brigade. Eurocopter's Management believes that the revenue from the deliveries of civil helicopters will grow at an average rate of 10% over the next three years, before stabilizing. Market data indicate that the worldwide deliveries of turbine-powered civil helicopters were maintained at 680 aircraft in 2006.

In the civil market, Eurocopter's main competitor worldwide is the Textron Inc division of the US company Bell Helicopter, but Agusta-Westland and Sikorsky have increased their market share.

Eurocopter's Management considers that it currently offers the most comprehensive and modern range of helicopters, covering more than 85% of the global civil and military market. Eurocopter's product range includes light single-engine helicopters, light twin-engine helicopters, medium helicopters and medium-heavy helicopters. Eurocopter's product range is based on a series of new generation platforms, designed to be tailored to military and civil applications.

Eurocopter's consolidated turnover in its helicopter manufacturing and maintenance and aircraft structures business was €3.8 billion, or 9.6% of EADS' total consolidated turnover.

B.1.4 Defence and Security

The Division and Security Division ("DS" or "DS Division") was set up in 2003 to provide a backbone for EADS' defence and security business. By combining missile systems (MBDA and EADS/LFK), defence and communications systems (DCS), defence electronics systems (DE), and military aviation systems (MA) — including EADS' participation in the Eurofighter program — and services within a single Division, EADS has reinforced its defence business so as to provide a better response to the needs of its customers, calling for integrated defence and security solutions.

On the basis of its 2004 turnover, MBDA, an EADS subsidiary, is now the leading supplier of tactical missile systems. Its Operational Unit, specialized in military aircraft, was transferred from the Aviation Division to the DS Division in 2003, and is a major player in the Eurofighter consortium. EADS, as the number three supplier of defence electronics in Europe, plays an important role in the secure, encrypted communications market.

During its third full year of trading, the DS Division has significantly increased its profitability, through the considerable progress made in integration and transformation, by rationalizing its business and reinforcing its Large Systems Integration (LSI) capacities. Its portfolio of innovative products and integrated solutions — including electronics, missiles, platforms, systems and services — is designed to meet the increasing, fast changing needs of armed forces and in the field of national security. DS intends to continue to reinforce its LSI role as a supplier of EADS Systems and Solutions, by focusing on its core business and by providing productivity gains and making new adaptations.

The DS Division's consolidated turnover in 2006 was €5.8 billion, or 14.7% of EADS' total turnover.

B.1.5 Astrium

EADS is the world number three manufacturer of space systems, behind Boeing and Lockheed Martin and the leading European supplier of satellites, orbital infrastructures and launchers. The Space Division, which is now Atrium, designs, develops and manufactures satellites, orbital infrastructures and launchers, mostly through its subsidiaries, Astrium Satellites and Astrium

Space Transportation ("EADS ST") and provides space services by means of its subsidiary, Astrium Services. The Space Division also provides launch services, through its shares in Arianespace, Starsem and Eurockot, and telecommunications satellites related services through its specialized companies such as Paradigm.

The highly competitive commercial telecommunications satellite manufacturing market is a market in which customer decisions are essentially taken on the basis of price, technical expertise and experience criteria. EADS' main competitors worldwide are Boeing, Lockheed Martin and Loral in the United States, and Alcatel Space-AleniaSpazio (in France and Italy). Astrium has a 15% to 20% share in this market. While the telecommunications satellites segment is currently turned down due to the consolidation of satellites operators, Astrium's Management believes it may well gradually pick up again in stages, under the effect of various factors: the growth in the demand for telecommunications, including Internet, multimedia and military applications and a rise in the demand for the replacement of ageing fleets. EADS intends to remain a major player in this field so as to be able to participate fully in the anticipated upturn of the market.

According to Astrium's Management, the commercial market for launch services will probably remain limited, representing about 20 payloads a year on average, mostly in geostationary telecommunications satellites. This figure is, however, extremely sensitive to various factors (technological progress, consolidation of customer entities). This market does not include institutional launch services for US, Russian and Chinese government and military agencies. Over the last few years, the emergence on the market of the satellites of an increasing number of private customers driven by profitability requirements has promoted the development of launch services companies eager to compete in terms of price and service quality. These new players include a number of entities set up to provide space launchers derived from low-cost military ballistic missiles, produced by the former Soviet Union, associated with the marketing capabilities of Western manufacturers. The arrival of these entities has made the commercial launcher market highly competitive.

In 2006, Astrium's contribution to EADS' consolidated turnover was €3.2 billion, or 8.1% of the total consolidated turnover.

B.1.6 Other business

ATR is one of the world leaders in the regional aviation market for 40- to 70-seat turboprop aircraft. ATR Integrated is a consortium 50% of which is owned by EADS and 50% by Alenia. On December 31, 2006, the world market for 40- to 70-seat turboprop aircraft still in production was dominated by two manufacturers: ATR and Bombardier. In 2006, ATR received 63 orders for new aircraft and delivered 24 new aircraft.

EADS Socata manufactures a range of light aircraft for both private civil aviation and public fleets. It also participates in airframe subcontracting and the production of materials and sections for major international aviation programs, including EADS'.

In the aircraft reconversion and technical services fields, EADS includes the business activities of EADS Sogerma and Elbe Flugzeugwerke GmbH ("EFW").

On January 10, 2007, EADS Sogerma sold two of its maintenance subsidiaries — Sogerma Services and Barfield — to the TAT Group . As a consequence, EADS Sogerma's main business is the customization of aircraft and airframes, principally for Airbus..

B.2 Activity during 2006 fiscal year

The EADS NV Group is structured into five major divisions: Airbus, Military Transport Aircraft, Eurocopter, Defence and Security and Astrium.

EADS Group* (data published by EADS)	2006	2005
Revenue *(€ million)* including Defence activities *(€ million)*	39,434 10,039	34,206 7,700
EBE (1) (4) *(€ million)*	2,033	4,365
EBIT (2) (4) *(€ million)*	399	2,852
Research & Development Costs *(€ million)*	2,458	2,075
Net income (3) (4) *(€ million)*	99	1,676
Income per share (3) (4) *(€)*	0.12	2.11
Available cash flow *(€ million)*	2,029	2,413
Available cash flow before customer financing *(€ million)*	869	2,239
Dividend per share *(€)*	(5)	0.65
Orders received (6) *(€ million)*	69,018	92,551
Order book (6) *(€ million)*	262,810	253,235
Including Defence activities *(€ million)*	52,933	52,363
Net cash position *(€ million)*	4,229	5,489
Workforce	116,805	113,210

(1) Operating income before interest, taxes, depreciation, amortization and extraordinary items.
(2) Operating income before interest, taxes, amortization of goodwill and extraordinary items.
(3) EADS continues to use the term "Net income". This is identical to income for the period attributable to parent company shareholders, as defined in IFRS.
(4) In 2006, EADS changed its accounting method for the treatment of pensions changing from the corridor method to the constitution of provision per net situation. All acturial increases or decreases in value are accounted for as provisions for pensions, which reduces equity. As a consequence, the variations of actuarial increases or decreases in value are accounted for as expenses.
(5) Proposal put to the Annual General Meeting on May 4, 2007.
(6) The contributions of Commercial Aircraft activities to the EADS orders received and order book items are accounted for at list price.

B.2.1 Airbus

On October 13, EADS acquired the 20% BAE Systems holding in Airbus at a cost of €2.75 billion. This figure was set by an independent consultant as part of the disposal option process initiated by BAe Systems in June 2006. EADS paid the purchase price in cash from its own internal resources. EADS is now the sole proprietor of Airbus.

Despite management changes and the manufacturing problems encountered with the A380, the Division delivered a strong sales performance in 2006, and reported a record number of deliveries, with a total of 434 aircraft (339 of which were single-aisle), nine A300 cargo aircraft and 86 A330/A340.

* *EADS uses EBIT before amortization of goodwill and extraordinary items as a key indicator of its financial performance. The term "extraordinary items" refers to items such as amortization charges relating to the revaluation of assets as part of the EADS merger, the formation of Airbus and the constitution of MBDA, as well as exceptional depreciation of the related goodwill.*

Net orders received by Airbus for the year totaled 790 aircraft; the second highest in its history, following on from 1,111 in 2005. The single-aisle segment represented the majority of orders, with a total of 673 from 47 customers, including a record order for 150 A320 aircraft for the Chinese carrier CASGC.

The order book contained orders for 2,533 aircraft, reflecting a rise of 17% and representing 51% of the industry order book. This record level offers Airbus forward visibility of approximately five years.

Despite the manufacturing difficulties encountered with cabin electrical wiring, which have delayed its program delivery schedule, the A380 has successfully completed its flight test campaign. The aircraft was granted type approval in December, clearly demonstrating its technical excellence. The majority of A380 customers have maintained their orders, and the fact that some have placed additional orders sends a clear sign of their trust in the aircraft. Delivery of the first A380 to Singapore Airlines in Quarter 4 of this year is an imperative target for the Airbus management team.

In December, Airbus received the necessary authorization to commence manufacture of the new A350 XWB family of innovative 270-350 seat long-haul aircraft. The first aircraft are scheduled to enter service in 2013.

In response to the challenges posed by the weak dollar, increasingly fierce competition, financial overruns generated by delays in the A380 program and future funding requirements, Airbus has launched a nine-module restructuring plan called Power 8. This transformation process will be rolled out progressively over several years.

The Airbus management team will deliver significant cost reductions and optimum cash management to generate a €2.1 billion annual contribution to EBIT* from 2010 onwards, and additional total cash of €5 billion between 2007 and 2010.

In order to ensure full and sustainable implementation of the Power 8 plan, Airbus has introduced a stringent monitoring system with tangible cost and cash indicators designed to ensure that these benefits are reflected in the company's financial statements.

DISTRIBUTION OF POWER 8 CONTRIBUTIONS TO EBIT* BY MODULE:

	EBIT*
Faster growth	6%
Smart buying	31%
Lean manufacturing	16%
Reduce overhead costs	32%
Maximize cash	-
Restructure manufacturing / Refocus on core business	12%
Final Assembly Line	3%
Total	**100%**

B.2.2 Military Transport Aircraft

In 2006, the MTA division focused chiefly on the manufacturing management of its two new programs, both of which have reached an important stage. The A330 multi-role tanker/transport (MRTT), which incorporates the new in-flight refueling systems and probe, is scheduled to enter service in 2009. The first A400M delivery is also scheduled for the same year; its final assembly line should begin operation this year. In 2006, the A400M passed through four manufacturing stages, in line with its contractual schedule. Nevertheless, EADS has conducted an internal review to confirm the status of the current program and ensure transparency for customers. This review confirmed the fact that the A400M program is progressing in accordance with its contractual milestones. However, it also identified significant challenges presented by the program in the run-up to the first delivery in 2009. More specifically, the audit identified several areas of critical risk, including the design of certain systems (with special focus on the electrical wiring), the maturity of several military systems, engine modifications and the completion of fitting-out on the final assembly line. In terms of sales, the Malaysian A400M contract has been signed, adding a further four to the 188 orders already received. MTA has also received orders for 19 light/medium Military Transport Aircraft, including a contract for 12 C-295 airlifters for the Portuguese Air Force.

B.2.3 Eurocopter

In 2006, **Eurocopter** maintained its position as world market leader in civil and paragovernmental helicopters, setting a record level of 381 new deliveries, representing a global market share of 50%. At 615, new orders were also at record levels, and the order book value totaled a record €11 billion. During the year, Eurocopter achieved a decisive breakthrough in the US defence market, when

** See previous note.*

it was appointed by the US Army to supply its new lightweight utility helicopter. The total LUH requirement is for 322 helicopters, and represents a potential total order value of $2 billion over the full life of the program. Orders have already been placed for 42 aircraft, and the first three delivered. Eurocopter has also secured an order for 34 NH90 helicopters placed by Australia, and has received confirmation of an order for a further 9 NH90s from New Zealand. The total number of orders for this troop transport helicopter program is now 400. In terms of manufacturing, Eurocopter has increased its presence in Russia with the official opening of Eurocopter Vostok, and has strengthened its position in Spain with a new plant at Getafe.

B.2.4 Defence and Security

Profitability continued to rise in the **Defence & Security** division as a result of improved operating performance in airborne military systems, an increased contribution from professional mobile radio systems and the capital gain made on the sale of EADS/LFK to MBDA. The effect of these improvements was partly offset by the effects of the US dollar exchange rate and the projected costs of restructuring the Defence and Communication Systems Operating Unit. Revenue grew by 4% to €5.8 billion, due largely to increased production of the Eurofighter and security activities.

The addition of LFK consolidates the position of MBDA as the world's leading missile producer. LFK integration is now underway and will improve operational performance. The second generation Meteor air-air missile was fired successfully for the first time during the year, demonstrating its superior speed and long-range capability. The DGA (French Procurement Agency) has awarded MBDA the contract to develop and manufacture 250 SCALP cruise missiles for the French Navy's FREMM multi-mission frigates and Barracuda submarines. The DCS professional mobile digital radio systems business has been awarded over 20 orders for secure radio systems, including the German government BOSNet contract.

EADS and Thyssen Krupp have finalized their acquisition of Atlas Elektronik. The two groups will integrate their naval platform, electronics and systems into Atlas, which is owned 40% by EADS and 60% by ThyssenKrupp. EADS has also acquired the French company Sofrelog. Both acquisitions strengthen the presence of EADS in the naval sector.

B.2.5 Astrium

Feeling the full benefits of a five-year industrial restructuring program, Astrium delivered a solid performance in the 2006 financial year. Margins have improved as a direct result of substantial cost reductions and the strong position of the Division as Europe's leading space technology business.

The increased frequency and progress of military communication satellite programs, like Skynet 5 and SatcomBw, were the main drivers behind this success. The Division also received 7 new orders for telecommunications satellites.

B.3 *Strategy: innovation, internationalization and improvement*

With the aim of maximizing shareholder value and balancing its business portfolio, the EADS management team is committed to establishing EADS as a leader in all the major aerospace and defence markets. In addition to responding to its current operational challenges, EADS will continue to offer superior value to its customers by delivering innovative products and services.

EADS has therefore set four strategic objectives designed to create sustainable shareholder value:

To secure sustainable market leadership in commercial aviation

Despite the difficulties of 2006, EADS will continue to strive for leadership of the world airliner market, in terms both of innovation and customer satisfaction. More specifically, it will seek to offer its customers a full portfolio of products, whilst developing international partnerships. Exclusive control of Airbus enables closer integration with EADS, and should deliver improved long-term profitability.

To develop high-growth activities to improve the balance of the business

Faced with restrictions on European governmental procurement budgets and the shortage of new programs in Europe, EADS intends to pursue its growth strategy by adopting a global approach based on strategic acquisitions in key markets, and by increasing its focus on offering new solutions built on the group's extensive skills and products base. More particularly, the management team wishes to increase the presence of EADS in the services market.

To become a truly global manufacturing group

EADS is designing a long-term manufacturing strategy and implementing a policy of locating manufacturing capacity in the world's most significant markets as a way of accessing the growth potential of markets where the traditional commercial approach has reached its limits. The group will also seek to reduce its exposure to euro/dollar exchange rate fluctuations through the introduction of a purchasing policy and the establishment of manufacturing facilities in selected countries.

To return to profitability and retain long-term funding capability

EADS is seeking to achieve its long-term strategic targets, whilst returning the best possible margins in every sector in which the group operates. Given the current downturn in the situation at Airbus, the successful implementation of Power8 and the establishment of solid foundations for a "New Airbus" will be central to achieving this objective of profitability. The initiatives designed to strengthen Airbus will be accompanied by the group-wide introduction of measures to improve operational efficiency.

Greater integration at group level is crucial if the strategic objectives set out above are to be achieved. As a result, the group will seek to develop a joint sales policy and to emphasize the importance of sharing technologies and processes as a way of stimulating growth and reducing expenditure. With this in view, the management team has identified three paths to growth and profitability: innovation, internationalization and improvement.

B.3.1. Innovation

Central to EADS strategy, innovation will define the future of the group. Faced with shorter cycles and the emergence of new competitors in all its markets, EADS must maintain its technological excellence and cover a broad spectrum of skills in order to secure its position as market leader in all its markets.

EADS has always applied a greater proportion of its resources to research and development than its competitors, in terms both of absolute value and percentage of revenue. In 2006, EADS spent approximately €2.4 billion on self-financed R&D; an amount equivalent to 6% of revenue. EADS has also strengthened its technology team with the appointment of a new Chief Technical Officer who has a seat on the executive committee and reports directly to the executive chairmen.

EADS has set itself some ambitious innovation targets. The systematic use of the latest digital design and engineering systems will underpin its efforts to develop platforms within relatively short lead times. EADS plans to extend its monitoring of key new technologies and accelerate its processes to fill or offset any gaps in its technological expertise identified in comparison with its competitors. EADS is also committed to doubling the number of technology programs undertaken in cooperation with university partners and international manufacturers.

Together with the transformation seen in armed forces and public security agencies in Europe and the US, the need to use existing defence budgets more efficiently is leading EADS customers to demand full-service systems and solutions. EADS is responding to this demand by setting itself the objective of making its solutions more competitive by highlighting its systems and service solution integration expertise.

EADS wants to extend its program management expertise by offering service solutions. Building on a number of recent successes, EADS also wishes to develop its range of armed forces outsourcing services.

B.3.2. Internationalization

Although EADS has established a decisive and conclusive presence in a number of non-European markets, it will continue to strengthen its manufacturing capacity worldwide. This commitment is being coordinated at group level in order to promote cohesion and synergies between the EADS' operating units. In some countries, market access is conditional on having a local manufacturing presence.

On the basis of this approach, EADS plans to establish itself as a powerful local player in strategic markets like the USA, China, Russia, South Korea and India. EADS intends to build a targeted manufacturing base that will deliver long-term access to these markets, at the same time as benefiting from their growth potential, technology skills, cost structures, natural exchange rate hedging and risk sharing.

In the USA, EADS intends to create the clear impression of being a socially responsible and respected company operating in the world's leading defence and homeland security market.

To achieve that aim, the group is applying a strategic approach built on four cornerstones: a manufacturing presence in the USA, development of transatlantic relationships with the leading US aerospace and defence companies, acquisition of small and midsize defence companies and cooperation with the leading American companies in its own industry sector. EADS has already established partnerships with key market players: MTA is working with Raytheon on the Future Cargo Aircraft campaign and Northrop Grumman on the KC-30 tanker aircraft (a decision that includes final assembly in Alabama), whilst Eurocopter is working alongside Sikorsky on the Light Utility Helicopter program. The appointment of Eurocopter as part of this program marks a decisive step in the conquest of the American market.

China has been the pioneer country for the introduction of the EADS long-term manufacturing initiative. Manufacturing cooperation has been progressively extended over recent years, and was further advanced in 2005 and 2006 with the signature of several strategic agreements with Chinese partners. Eurocopter has signed an agreement with AVIC II for the joint development and production of a new helicopter. Airbus has earmarked a site on which it will construct a final assembly line for single-aisle Airbus airliners in China. The group has entered into long-term strategic partnerships in China in order to sustain the leadership of EADS in the commercial aviation market.

In South Korea, Eurocopter is working with KAI on the development of a new (8-tonne) military transport helicopter. This project will form the basis for future EADS sales growth in South Korea.

India is already proving itself to be a market with high sales potential (accounting for around 7% of the order book). The current challenge is to build on this success to increase our presence in the defence sector, which accounts for the majority of potential growth in the Indian market.

Russia is showing promising economic development, but at the same time its space and defence industry is growing stronger through restructuring and consolidation. EADS has invested in a key player in Russia's future industrial landscape with its acquisition in 2005 of a 10% holding in Irkut.

B.3.3. Improvement

Transforming the group's record order book of over €210 billion into profitability will depend on the ability of EADS to improve its operational performance in terms of time, cost and quality, both within the group and in cooperation with its key suppliers.

The A380 production delays have highlighted the need for improvement.

This need for improvement has been made even more crucial by the weakness of the US dollar against the euro. The introduction and implementation of group-wide improvement plans is therefore a priority for future years.

More specifically, the management team has announced the introduction of the Power8 plan, under which every aspect of the group will be examined closely to identify opportunities to reduce costs and build structures that are more efficient and deliver higher performance. In this context, Airbus will be seeking to integrate its internal processes, at the same time as pursuing closer integration within EADS. Power8 aims to generate sustainable annual savings of at least €2 billion from 2010 onwards, and to save total cash of approximately €5 billion by 2010.

C. NON-DIVISIONAL

Non-divisional includes those entities not specifically associated with the operating divisions addressed above, and includes operating costs and finance costs met by central holding companies, the contribution from the Matra Manufacturing Services (formerly Matra Auto) spare parts department and all expenses arising as a result of innovative sports project initiatives.

Income statement *(in € million)*	**2006**	**2005**
Pre-tax operating income for consolidated companies	-	1
Non-recurring items	14	-
Income before finance charges and taxes	**14**	**1**
Net cost of finance	(90)	(1)
Income before tax	**(76)**	**0**

In 2006, the main component of non-recurring items was a capital gain made on the disposal of real estate assets. The majority of the €90 million entered in respect of *Net cost of finance* reflects the finance costs associated with the Mandatory Exchangeable Bond redeemable in EADS NV shares issued in April 2006.

D. SUMMARY OF RESULTS

On the basis of income before tax, the Group share of net income is calculated as follows:

(in € million)	2006	2005
Income before tax - Lagardère Media	469	447
Income before tax - EADS	13	397
Income before tax – Non-Divisional	(76)	-
Income before tax	**406**	**844**
Tax charge	(85)	(142)
Consolidated net income	**321**	**702**
Group share	*291*	*670*
Minority holdings shares	*30*	*32*

The 2006 tax charge of €85 million is broken down as follows:

- excluding EADS, the tax charge for 2006 was €97 million, compared with €16 million for the 2005 financial year, during which non-recurring deferred tax income was entered in the sum of €99 million. This income resulted partly from the resolution of previously-provisioned tax disputes, and partly from the new tax regulations introduced in 2005 regarding perpetual subordinated note withdrawal schemes,
- deferred tax income of €12 million, compared with a tax charge of €126 million in 2005, resulting from the EADS contribution and the consequent fall in income.

IV Dividend

The management has resolved to propose that the General Meeting of Shareholders approves the distribution of a dividend of €1.20 per share, rather than the €1.10 dividend paid on the basis of the 2005 annual results. This proposal reflects the sound financial health of Lagardère SCA and the confidence it has in its future performance.

Results of the last five financial years

Five-year summary

(Articles 133-135 and 148 of the decree of 23 March 1967 regarding commercial companies)

Type of indication	2002	2003	2004	2005	2006
I CAPITAL AT YEAR END *(in euros)*					
a) Share capital	849,229,824	851,664,914	858,993,979	866,456,932	870,416,509
b) Number of existing common shares	139,218,004	139,617,199	140,818,685	142,042,120	142,691,231
c) Maximum number of future shares to be created by exercising stock options	2,653,353	3,550,108 (1)	1,944,724 (1)	1,706,788 (1)	0 (1)
d) Maximum number of future shares to be created by bond conversion	-	-	-	-	-
e) Maximum number of future shares to be created by exercising equity warrants	-	-	-	-	-
II OPERATIONS AND INCOME FOR THE PERIOD *(thousands of euros)*					
a) Revenues ex-VAT	926	2,357	1,072	258	13,245
b) Net results before taxes and calculated expenses (depreciation and amortisation)	(72,115)	15,421	(9,021)	76,291	91,035
c) Income tax	53,316 (2)	50,774 (2)	65,396 (2)	87,008 (2)	79,708 (2)
d) Net results after taxes and calculated expenses (depreciation and amortisation)	(65,952)	91,572	131,631	196,553	218,565
e) Income distributed to shareholders	111,227	122,815	410,518	153,613	(3)
III EARNINGS PER SHARE *(in euros)*					
a) Net results after taxes, but before calculated expenses (depreciation and amortisation)	(0.14)	0.47	0.40	1.15	1.20
b) Net results after taxes and calculated expenses	(0.47)	0.66	0.93	1.38	1.53
c) Dividend distributed to each share	0.82	0.90	1.00+2.00 (4)	1.10	(3)
IV EMPLOYEES					
a) Average number of employees	-	-	-	-	-
b) Total wage bill for the fiscal year	-	-	-	-	-
c) Sums paid as social benefits for the year	-	-	-	-	-

(1) The number of shares indicated corresponds to stock option plans for which the exercise price is lower than the price as at 31 December.
(2) Mainly a tax consolidation gain.
(3) A proposal will be made at the General Meeting to distribute a dividend of €1.20 per share.
(4) Extraordinary dividend of €2 per share.

Admission card request form

Combined General Meeting
of Lagardère SCA

Friday, April 27, 2007 at 10:00 a.m.
at the Palais des Congrès
2, place de la Porte Maillot - 75017 Paris

I the undersigned: ....

would like to attend this meeting in person and have entered the identification number shown in the top right-hand corner of the voting form.

Identification no.:

Signed at (place): .... on (date): 2007

Signature:

This request must be returned to ARLIS using the postage paid envelope enclosed.

Lagardère SCA
Limited partnership with shares
(société en commandite par actions)
capitalized at €870,416,509.10
Head office: 4, rue de Presbourg – PARIS 75016
Registered with the Companies Registry of Paris
under number 320 366 446 00013

Request for documents and information

Combined General Meeting
of Lagardère SCA

Friday, April 27, 2007 at 10:00 a.m.
at the Palais des Congrès
2, place de la Porte Maillot - 75017 Paris

I, the undersigned: ....

last name and first name: ....

Address: ....

....

Identification number shown in the top right-hand corner of the voting form:

....

request Lagardère SCA, in accordance with the terms of article 138 of the decree of March 23, 1967 and in preparation for the Meeting of April 27, 2007, to send me all the documents and information listed in article 135 of the decree.

Signed at (place): .... on (date): 2007

Signature:

N.B.: Further to paragraph 3 of article 138 of the decree of March 23, 1967, holders of registered shares may obtain, on request to the Company, all the documents listed in article 135 of the decree on the occasion of each subsequent meeting of shareholders.

This request must be returned to Arlis using the postage paid envelope enclosed.

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