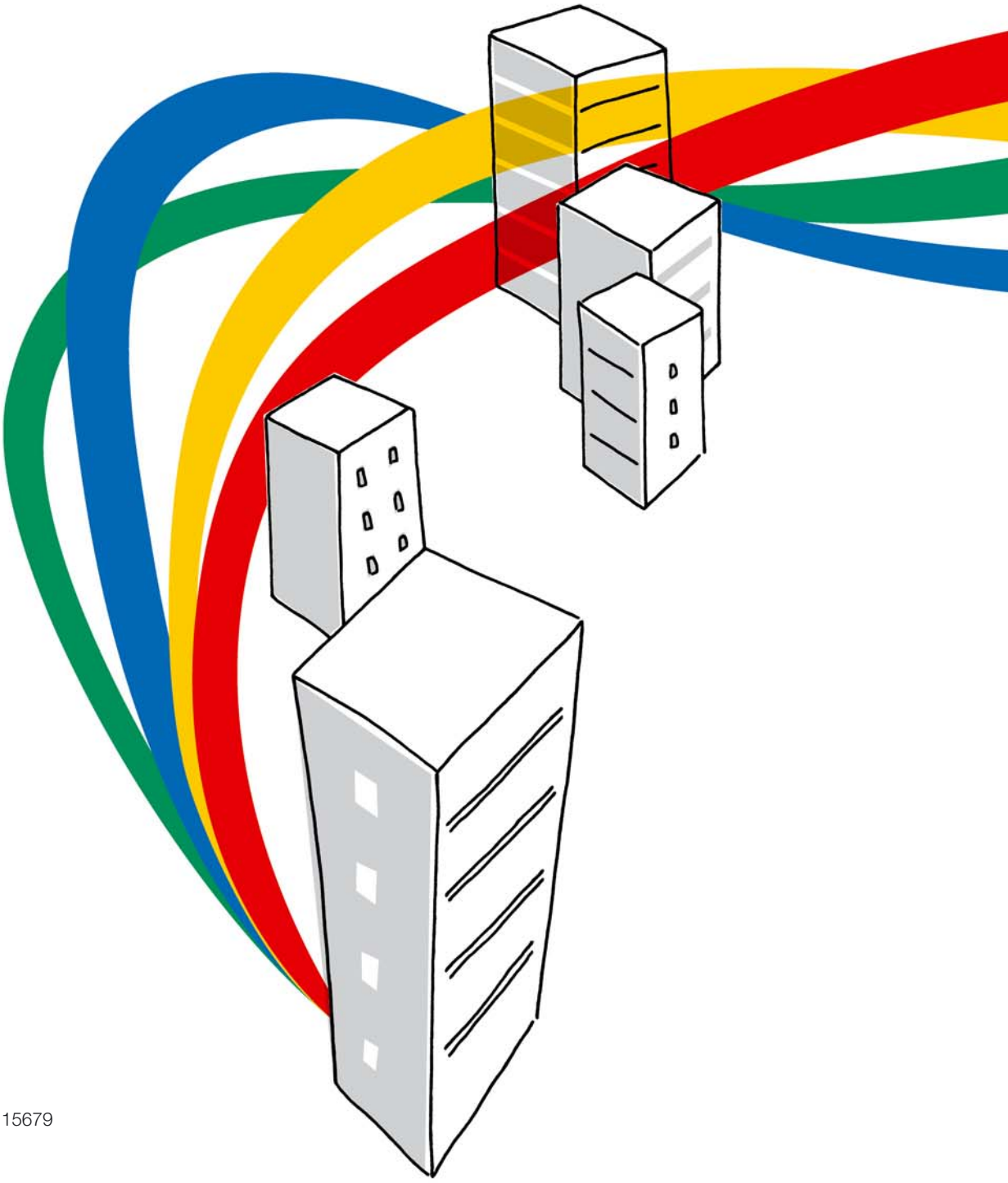
Exceed Together

Annual Accounts for the period from
27 June 2006 to 31 December 2006

COLT Telecom Group S.A.

Société Anonyme



Kansallis House
Place de l'Etoile
L-1479
Luxembourg

R.C.S. Luxembourg: B 115679

COLT TELECOM GROUP S.A. (SOCIÉTÉ ANONYME)
DIRECTORS' REPORT

Overview
COLT Telecom Group S.A. ("COLT S.A." or "the Company") is the parent company of the COLT Telecom Group S.A. Group. The Company, together with its subsidiaries, is referred to as "COLT" or "the Group". The Group is a leading provider of business communications offering data, voice and Managed Services to midsize and major businesses and wholesale customers. COLT S.A. was incorporated in Luxembourg on 13 April 2006.

COLT S.A. became the parent company of the Group on 30 June 2006 by means of a Scheme of Arrangement under which it acquired the previous parent of the Group, COLT Telecom Group plc ("COLT plc"), via an issue of new shares in the Company to the COLT plc shareholders. COLT has evolved from its origins as a UK-centric business to a truly pan-European multinational business. With over 80% of COLT's revenue and 90% of its network assets being based in mainland Europe and a significant number of key pan-European customers, the directors decided that the business would be better served with a holding company domiciled in mainland Europe, and in a country with strong EU credentials.

Following the acquisition of COLT plc the shares of the Company were admitted to trading on the London Stock Exchange's market for listed securities. At the same time, the Company also raised €438.1m of new equity net of issue costs by way of an Open Offer to what had been COLT plc's shareholders.

The accounting period of the Company was changed to end on 31 December 2006 at an Extraordinary General Meeting of the Company on 27 June 2006.

Financial performance and position
The Company is the holding company for the Group and as such it does not trade on its own account. The Company publishes consolidated accounts which contain the full consolidated results of the Group.

The Group generated total revenue of €1,801.0m (2005: €1,821.7m), EBITDA of €270.9m (2005: €253.7m) and a net loss of €18.8m (2005: €489.8m). The Group had total assets at 31 December 2006 of €1,819.7m (2005: €1,948.0m) and net assets of €924.4m (2005: €495.3m).

The Company had net assets at 31 December 2006 of €1,720.7m (26 June 2006: €442.3m) including €1,718.7m of investments in subsidiaries (all subsidiaries in the Group are 100% owned).

During the year the Company incurred costs relating to restructuring and refinancing activities and of an administrative nature. The net loss of COLT S.A. for the period from 27 June 2006 to 31 December 2006 was €2.3m (period ended 26 June 2006: €0.01m). Costs of €2.5 million associated with the raising of new capital via the Open Offer were recognised as formation expenses and are being amortised over five years. The Company also incurred exceptional restructuring costs of €0.4m in respect of the reorganisation of the Group that do not qualify as formation expenses.

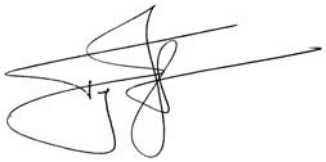
Equity
COLT S.A. had issued share capital and share premium at 31 December 2006 of €1,723.0m divided into 680,059,962 fully paid shares with a nominal value of €1.25 per share. As at 31 December, 2006, the Company did not directly hold any of its own shares.

Internal controls and processes
During the period the Group continued to transition its back office accounting processes to a shared service centre in India. The Group also completed the roll-out of upgraded enterprise-wide accounting software to all of its operating subsidiaries. Work also commenced on a major project to create a new billing system for the Group.

Likely future developments
The Group continues to focus on its core strategy of increasing revenue from data and Managed Services whilst maintaining tight control over operating costs.

Board of Directors
The following people were Directors of the Company during the period 27 June 2006 to 31 December 2006 and up to the date of this report unless otherwise specified:
A Barth
A Bates
V Damiani
G Gabbard
H F van den Hoven
R Walsh
H Eggerstedt (appointed 30 June 2006)
Dr R Hawley (appointed 30 June 2006)
T Hilton (appointed 30 June 2006)
J Remondi (appointed 30 June 2006)
J Charlier (appointed 30 June 2006, resigned 13 December 2006)
R Bhasin (appointed 13 December 2006)
S Haslam (appointed 16 January 2007)
B Bateman (resigned 16 January 2007)

The annual accounts on pages 4 to 11 were approved by the Board of Directors on 21 February 2007 and signed on their behalf by



Tony Bates
Director

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF COLT TELECOM GROUP S.A.

Report on the annual accounts
We have audited the accompanying annual accounts of COLT Telecom Group S.A., which comprise the balance sheet as at December 31, 2006 and the profit and loss account for the period from June 27, 2006 to December 31, 2006 and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the annual accounts
The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with the Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility
Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the accompanying annual accounts give a true and fair view of the financial position of COLT Telecom Group S.A. as at December 31, 2006, and of its operations for the period from June 27, 2006 to December 31, 2006 in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts

Report on other Legal Regulatory Requirements
The Directors' report, which is the responsibility of the Board of Directors, is in accordance with the annual accounts.

PricewaterhouseCoopers S.à r.l.
Luxembourg, February 21, 2007
Réviseur d'entreprises
Represented by

Marc Minet

BALANCE SHEET
(DENOMINATED IN EURO)

	Notes	As at 31 December 2006 €	As at 26 June 2006 €
ASSETS			
Formation expenses	3	2,275,956	11,532
Fixed assets			
Financial assets			
Shares in affiliated undertakings	4	1,718,691,998	442,314,495
Current assets			
Debtors			
Amounts owed by affiliated undertakings becoming due and payable after more than one year	5	1,137,468	–
Cash at bank		61,484	5,853
Prepayments		3,112	–
Total assets		**1,722,170,018**	**442,331,880**
LIABILITIES			
Capital and reserves			
Subscribed capital	6	850,074,954	215,022,284
Share premium	6	872,968,663	227,295,209
Loss brought forward		(12,713)	–
Loss for the financial period		(2,299,455)	(12,713)
		1,720,731,449	442,304,780
Creditors			
Amounts owed to affiliated undertakings becoming due and payable within one year	9	1,207,736	–
Other creditors due and payable within one year		230,833	27,100
Total liabilities		**1,722,170,018**	**442,331,880**

The accompanying notes are an integral part of the annual accounts.

PROFIT AND LOSS ACCOUNT
FOR THE PERIOD FROM 27 JUNE 2006 TO 31 DECEMBER 2006 (DENOMINATED IN EURO)

	Notes	27 Jun to 31 Dec 2006 €	13 Apr to 26 Jun 2006 €
CHARGES			
Directors' fees		180,435	–
Value adjustments in respect of formation expenses	3	248,149	398
Other administration expenses	10	1,420,886	12,315
Exceptional re-organisation costs	11	425,985	–
Other taxes	12	24,000	–
TOTAL CHARGES		**2,299,455**	**12,713**
INCOME			
Loss for the financial period		2,299,455	12,713
TOTAL INCOME		**2,299,455**	**12,713**

The accompanying notes are an integral part of the annual accounts.

NOTES TO THE ANNUAL ACCOUNTS

1 General

The Company was incorporated in Luxembourg on 13 April 2006 as a "société anonyme" subject to Luxembourg law for an unlimited period of time. The status of the Company was changed on 27 June 2006 to become a billionaire 1929 Company in accordance with the law of 31 July 1929 concerning the fiscal regime of Holding companies. The Company has its registered office at Kansallis House, Place de l'Etoile, L-1479 Luxembourg in the Grand Duchy of Luxembourg.

The objects of the Company were changed with effect from 27 June as part of its conversion to a billionaire 1929 company. The objects are: participation in any manner in all commercial, industrial, financial and other enterprises of Luxembourg or foreign nationality through the acquisition by participation, subscription, purchase, option or by any other means of all shares, stocks, debentures, bonds or securities; the acquisition of patents and licenses which it will administer and exploit; it may lend or borrow with or without security, provided that any monies so borrowed may only be used for the purposes of the Company, or companies which are subsidiaries of or associated with or affiliated to the Company; in general it may undertake any operations directly or indirectly connected with these objects whilst nevertheless remaining within the limits set out by the 31 July 1929 law on holding companies.

The Company also prepares consolidated financial statements which are published according to the provisions of the law.

2 Basis of preparation and accounting policies

The annual accounts have been prepared in accordance with Luxembourg legal and regulatory requirements. The accounting policies and valuation rules (with the exception of those specified by the Law) are determined and applied by the Board of Directors.

Accounting period
The Company closed its books and prepared annual accounts for the period from incorporation to 26 June 2006. The financial year end was then changed to 31 December 2006. Consequently, these annual accounts are for the period from 27 June 2006 to 31 December 2006.

Financial assets
The shares in affiliated undertakings are stated at cost. In case of a durable depreciation in value according to the opinion of the Board of Directors, value adjustments are made in respect of fixed assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

Details of the Company's direct subsidiary undertakings are set out in note 4 to the annual accounts.

Currency translation
The Company maintains its books and records in Euro ("EUR"). The balance sheet is expressed in this currency.

Formation expenses, intangible, tangible and financial assets denominated in currencies other than EUR are translated at their historical exchange rates.

Other assets and liabilities denominated in currencies other than EUR are translated at the exchange rates prevailing at the date of the balance sheet, unless this would lead to unrealised exchange gains.

Formation expenses
Formation expenses include costs in connection with the incorporation of the Company and eventual capital increases. Formation expenses are amortised on a straight-line basis at an annual rate of 20%.

Prepayments
This item includes expenditure incurred during the financial year but relating to a subsequent financial year.

3 Formation expenses

Formation expenses comprise incorporation fees, expenses incurred for the capital increase and the costs of the Open Offer to shareholders.

	As at 31 December 2006 €	As at 26 June 2006 €
Gross book value		
Opening balance	11,930	–
Additions	2,512,573	11,930
Disposals	–	–
Closing balance	**2,524,503**	**11,930**
Amortisation		
Opening balance	398	–
Amortisation for the period	248,149	398
Disposals	–	–
Closing balance	**248,547**	**398**
Opening net book value	**11,532**	**–**
Closing net book value	**2,275,956**	**11,532**

4 Shares in affiliated undertakings

	As at 31 December 2006 €	As at 26 June 2006 €
Cost		
Opening balance	442,314,495	–
Additions	3,003,689,179	442,314,495
Disposals	(1,722,989,337)	–
Return of share premium	(4,322,339)	–
Closing balance	**1,718,691,998**	**442,314,495**
Opening net book value	**442,314,495**	**–**
Closing net book value	**1,718,691,998**	**442,314,495**

The list of affiliated undertakings held as at 31 December 2006 is as follows:

Subsidiary	Country	% ownership	Investment value €	Net equity at 31 Dec 2006 €	Net loss for the period €
COLT Lux Holding S.à r.l.	Luxembourg	100%	**1,718,691,998**	**1,753,583,656**	**(9,272)**

The additions and disposals above relate to transactions in June and July 2006 to insert the Company as the new parent company of the Group and the subsequent restructuring to put in place the desired group structure. On 30 June 2006, as part of the Scheme of Arrangement, the Company received a contribution of all of the shares in COLT Telecom Group Limited via an issue of new shares in the Company to the COLT plc shareholders (refer note 6). On 4 July the Company contributed those shares along with its investments in COLT Telecom (Gibraltar) 1 Ltd and COLT Telecom (Gibraltar) 3 Ltd to COLT Lux Holding S.à r.l. as a contribution-in-kind.

All subsidiaries have a balance sheet date of 31 December. During the period, the Company's subsidiary, COLT Lux Holding S.à r.l., returned surplus cash as a return of share premium. There were no value adjustments in respect of the shares in affiliated undertakings during the period.

NOTES TO THE ANNUAL ACCOUNTS
CONTINUED

5 Debtors

	As at 31 December 2006 €	As at 26 June 2006 €
Amounts owed by affiliated undertakings	**1,137,468**	**–**

The amounts owed by affiliated undertakings represents a loan facility to COLT Lux Group Holding S.à r.l.. The loan facility is interest bearing and due and payable in greater than one year.

6 Subscribed and authorised capital

On incorporation, the authorised capital was EUR 910,000,000 represented by 728,000,000 ordinary shares with a nominal value of EUR 1.25 each. On 28 April 2006, the Company's authorised capital was increased to EUR 1,250,000,000 represented by 1,000,000,000 ordinary shares with a nominal value of EUR 1.25 each.

The subscribed capital at 31 December 2006 is represented by 680,059,962 fully paid ordinary shares of EUR 1.25 each as set out below.

	Ordinary shares No.	Share Capital €	Share Premium €	Total €
As at 26 June 2006	172,017,827	215,022,284	227,295,209	442,317,493
Issued during the period	508,042,135	635,052,670	645,673,454	1,280,726,124
Balance at 31 December	**680,059,962**	**850,074,954**	**872,968,663**	**1,723,043,617**

508,027,538 shares were issued in June 2006 as part of the Scheme of Arrangement. A further 14,597 shares were issued subsequent to the Scheme of Arrangement as a result of the exercise of employee share options (refer note 7).

7 Share option plans

Implications of the Scheme of Arrangement on COLT Group share schemes
Under the terms of the Scheme of Arrangement which was approved on 30 June 2006, participants in the existing COLT share schemes were given the opportunity to exchange their options and awards to acquire COLT plc shares for equivalent options and awards to acquire COLT S.A. shares. The rules of the existing COLT share schemes continued to govern such exchanged options and awards.

COLT Telecom Group Share Plan
The COLT Telecom Group Share Plan (the "Option Plan") was adopted on 7 November 1996 and allows for the grant of options in respect of ordinary shares to selected executives. On 30 June 2006, upon execution of the Scheme of Arrangement, all outstanding options at that date were adjusted for the one-for-three basis of the Scheme and the obligation to issue shares upon exercise of the options was transferred to COLT S.A.

The Option Plan is divided into two parts; the "Approved Part" which is approved by the UK Inland Revenue and offers specific tax advantages on exercise, and the "Unapproved Part" which is not so approved.

Options are generally exercisable between three and ten years from the date of grant at a subscription price which is not less than the market value of the ordinary shares at the date of grant. No discounted options have been granted. The vesting of options granted since July 2003 is conditional upon the achievement of certain performance conditions.

In 2005, a Special Award of stock appreciation rights was made under the rules of the Option Plan to certain selected executives. These stock appreciation rights will vest after between four and five years, provided that the performance criteria are met.

In addition to options granted under the Option Plan, further options to subscribe for 53,333 ordinary shares have been granted to certain employees of the Company. At 31 December 2006, 21,333 options had been exercised and 32,000 had lapsed.

The exercise of share options was satisfied by the issue of new shares.

Adjusted exercise price (£)[1]	Dates of vesting	Date of expiration	Adjusted outstanding at 31 Dec 2005[1]	Adjusted granted in the year[1]	Adjusted exercised in the year[1,2]	Adjusted lapsed in the year[1]	**Outstanding at 31 Dec 2006**
2.07	Dec 97 to Dec 01	Dec 06	1,767,666	–	–	(1,767,666)	**–**
2.34	Jan 98 to Jan 02	Jan 07	6,666	–	–	–	**6,666**
2.13	Apr 98 to Apr 02	Apr 07	69,400	–	–	–	**69,400**
2.88	Aug 98 to Aug 02	Aug 07	279,466	–	–	(4,268)	**275,198**
3.87	Nov 98 to Nov 02	Nov 07	150,533	–	–	(46,401)	**104,132**
5.10	Dec 98 to Dec 02	Dec 07	650,533	–	–	(86,936)	**563,597**
14.28	May 99 to May 03	May 08	82,083	–	–	(4,337)	**77,746**
19.80	Aug 99 to Aug 03	Aug 08	203,219	–	–	(42,505)	**160,714**
22.47	Nov 99 to Nov 03	Nov 08	96,487	–	–	(19,669)	**76,818**
33.90	Mar 00 to Mar 04	Mar 09	82,666	–	–	(10,339)	**72,327**
36.75	May 00 to May 04	May 09	45,666	–	–	(27,002)	**18,664**
38.22	Aug 00 to Aug 04	Aug 09	72,000	–	–	(24,337)	**47,663**
63.00	Nov 00 to Nov 04	Nov 09	67,000	–	–	(28,002)	**38,998**
73.17	Dec 00 to Dec 04	Dec 09	88,333	–	–	(35,018)	**53,315**
108.54	Feb 01 to Feb 05	Feb 10	67,500	–	–	(25,011)	**42,489**
67.83	May 01 to May 05	May 10	132,109	–	–	(43,796)	**88,313**
79.98	Jun 01 to Jun 05	Jun 10	112,666	–	–	(50,849)	**61,817**
57.48	Aug 01 to Aug 05	Aug 10	149,833	–	–	(50,020)	**99,813**
53.19	Aug 01 to Aug 05	Aug 10	33,333	–	–	(13,342)	**19,991**
58.44	Nov 01 to Nov 05	Nov 10	151,666	–	–	(50,027)	**101,639**
45.54	Dec 01 to Dec 05	Dec 10	126,130	–	–	(42,403)	**83,727**
40.11	Feb 02 to Feb 06	Feb 11	248,759	–	–	(83,535)	**165,224**
25.32	May 02 to May 06	May 11	92,833	–	–	(43,846)	**48,987**
21.30	Jun 02 to Jun 06	Jun 11	448,333	–	–	(126,158)	**322,175**
9.66	Aug 02 to Aug 06	Aug 11	161,500	–	–	(55,695)	**105,805**
5.16	Nov 02 to Nov 06	Nov 11	61,666	–	–	(40,835)	**20,831**
4.68	Dec 02 to Dec 06	Dec 11	319,500	–	–	(85,621)	**233,879**
1.23	Feb 03 to Feb 07	Feb 12	423,681	–	(122,685)	–	**300,996**
1.35	May 03 to May 07	May 12	5,000	–	–	(2)	**4,998**
1.44	Jul 03 to Jul 07	Jul 12	1,201,580	–	(52,133)	(271,784)	**877,663**
1.38	Apr 04 to Apr 08	Apr 13	3,333	–	(3,333)	–	**–**
1.41	May 04 to May 08	May 13	50,000	–	(50,000)	–	**–**
1.47	May 04 to May 08	May 13	16,666	–	(6,666)	–	**10,000**
2.31	Jul 06 to Jul 08	Jul 13	1,716,333	–	–	(404,056)	**1,312,277**
3.03	Oct 06 to Oct 08	Oct 13	20,000	–	–	(10,000)	**10,000**
3.39	Feb 07 to Feb 09	Feb 14	20,000	–	–	(13,334)	**6,666**
2.52	Apr 07 to Apr 09	Apr 14	6,666	–	–	–	**6,666**
2.31	May 07 to May 09	May 14	166,666	–	–	–	**166,666**
1.26	Jul 07 to July 09	Jul 14	55,000	–	–	(55,000)	**–**
1.14	Aug 07	Aug 14	1,935,466	–	–	(373,527)	**1,561,939**
1.14	Aug 07 to Aug 09	Aug 14	266,666	–	–	–	**266,666**
1.23	Oct 07 to Oct 09	Oct 14	403,333	–	–	(16,670)	**386,663**
1.65	Mar 08 to Mar 10	Mar 15	256,666	–	–	(16,668)	**239,998**
1.50	Mar 08 to Mar 10	Mar 15	11,666,666	–	–	(4,000,000)	**7,666,666**
1.56	Apr 08 to Apr 10	Apr 15	55,833	–	–	–	**55,833**
1.68	Jun 08 to Jun 10	Jun 15	11,666	–	–	–	**11,666**
1.83	Aug 08 to Aug 10	Aug 15	1,043,250	–	–	(125,444)	**917,806**
1.83	Aug 08 to Aug 10	Aug 15	1,051,000	–	–	(82,405)	**968,595**
1.89	Sep 08 to Sep 10	Sep 15	666,666	–	–	–	**666,666**
1.89	Sep 08 to Sep 10	Sep 15	16,666	–	–	–	**16,666**
1.65	Oct 08 to Oct 10	Oct 15	66,666	–	–	–	**66,666**
1.68	Dec 08 to Dec 10	Dec 15	36,666	–	–	–	**36,666**
2.19	Mar 09 to Mar 11	Mar 16	–	13,333	–	–	**13,333**
			26,929,681	13,333	(234,817)	(8,176,508)	**18,531,689**
Weighted average exercise price of options			£5.29	£2.19	£1.32	£5.75	**£5.14**

1 Exercise prices and numbers of all options outstanding at the beginning of the year and movements up to 30 June 2006 have been adjusted to reflect the one-for-three basis of the Scheme of Arrangement that was implemented on that date.

2 Options exercised in the year includes 14,597 options exercised subsequent to the the Scheme of Arrangement (refer note 6).

NOTES TO THE ANNUAL ACCOUNTS
CONTINUED

COLT Savings-Related Share Option Scheme

The COLT Savings-Related Share Option Scheme (the "SAYE Scheme") was adopted on 17 June 1997 and operates for the benefit of all eligible employees. The SAYE Scheme allows for the grant of options in respect of ordinary shares linked to a building society or bank sharesave contract for a term of three years with monthly contributions from employees of an amount between £5 and £250 (or the local currency equivalent). Options can be exercised at the end of the three year period at a subscription price set at the beginning of the contract which, under UK Inland Revenue rules, cannot be less than 80% of the middle-market quotation of an ordinary share on the three days immediately prior to the date of grant. No performance conditions are attached to the Scheme. The exercise of share options was satisfied by the issue of new shares.

Details of grants made under the SAYE Scheme are set out below:

Date of grant	Adjusted exercise price (£)[1]	Date of vesting	Adjusted outstanding at 31 Dec 2005[1]	Granted in the year	Adjusted exercised in the year[1,2]	Adjusted lapsed in the year[1]	**Outstanding at 31 Dec 06**
December 2001	4.845	Mar 05	24,679	–	–	(24,679)	**–**
December 2002	1.20	Mar 06	3,750,994	–	(3,407,666)	(343,328)	**–**
December 2003[3]	3.081	Mar 08	17,173	–	–	(9,751)	**7,422**
December 2003	2.985	Mar 07	164,357	–	–	(63,456)	**100,901**
December 2004[3]	1.29	Mar 09	67,443	–	–	(4)	**67,439**
December 2004	1.395	Mar 08	1,072,770	–	(3,517)	(320,954)	**748,299**
December 2005[3]	1.71	Mar 10	80,272	–	–	(11)	**80,261**
December 2005	1.74	Mar 09	1,252,647	–	–	(284,954)	**967,693**
December 2006[3]	1.41	Mar 11	–	92,971	–	–	**92,971**
December 2006	1.43	Mar 10	–	1,175,623	–	–	**1,175,623**
			6,430,335	1,268,594	(3,411,183)	(1,047,137)	**3,240,609**
Weighted average exercise price of options			£1.41	£1.43	£1.20	£1.62	**£1.57**

1 Exercise prices and numbers of all options outstanding at the beginning of the year and movements up to 30 June 2006 have been adjusted to reflect the one-for-three basis of the Scheme of Arrangement that was implemented on that date.
2 Of the options exercised in the year, 3,517 were early exercises.
3 Each option holder entered into a four year savings contract.

COLT Deferred Bonus Plan

The COLT Deferred Bonus Plan (the "Deferred Bonus Plan") was adopted on 25 May 2000. Under the Deferred Bonus Plan, selected employees are invited to defer all or a proportion of their annual cash bonus. Shares are purchased on behalf of participating employees using the deferred portion of the annual cash bonus and held for three years. At the end of the three year holding period the Company matches every two purchased shares with one free share, subject to certain performance conditions being met.

Details of grants made under the Deferred Bonus Plan are set out below:

Date of grant	Date of vesting	Adjusted outstanding at 31 Dec 05[1]	Adjusted granted in the year[1]	Exercised in the year	Adjusted lapsed in the year[1]	**Outstanding at 31 Dec 06**
Feb 04	Feb 07	24,333	–	–	(6,492)	**17,841**
Aug 04	Aug 07	83,333	–	–	(83,333)	**–**
Oct 04	Oct 07	16,666	–	–	–	**16,666**
Mar 05	Mar 08	14,538	–	–	(14,538)	**–**
Apr 06	Apr 09	–	6,529	–	–	**6,529**
		138,870	6,529	–	(104,363)	**41,036**

1 The number of deferred bonus plan share grants outstanding at the beginning of the year and movements up to 30 June 2006 have been adjusted to reflect the one-for-three basis of the Scheme of Arrangement that was implemented on that date.

On 22 March 1999 an Employee Benefit Trust ("EBT") was established, and on 31 December 2006 it held 70,460 shares (2005: 70,460). These shares can be used to satisfy the Company's obligations under the Deferred Bonus Plan. As at 31 December 2006, no additional provision for risk and charge in respect of the potential purchase of free shares has been recognised as the performance conditions have not been met.

8 Legal reserve

In accordance with Luxembourg law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders. No amounts have been transferred to a legal reserve during the current or prior periods as the Company has not yet made a profit.

9 Amounts owed to affiliated undertakings

All amounts owed to affiliated undertakings are non-interest bearing and due and payable within one year.

10 Other administration expenses

Other administration expenses include administrative services provided by COLT Telecom Group Ltd totalling €1,177,530. The remaining costs comprise professional fees, travel costs and other miscellaneous items.

11 Exceptional re-organisation costs

The exceptional costs relate to expenditure incurred in respect of the Group restructuring which did not qualify as formation expenses.

12 Other taxes

The Company qualifies as a billionaire 1929 holding company in accordance with the law of 31 July 1929. As such it is exempt from corporation tax but instead pays a special income tax which is calculated on distributed dividends, interest on securities and remuneration paid to Directors'. The amount payable in respect of this tax was €24,000.

13 Related party transactions

The Company has entered into an agreement with Fidelity for company secretarial and registrar services for a charge of €54,000 per annum.

14 Subsequent events

There were no significant events subsequent to the balance sheet date and up to the date of this report.

Exceed Together

COLT Telecom Group S.A.
Société Anonyme

Kansallis House
Place de l'Etoile
L-1479
Luxembourg

R.C.S. Luxembourg: B 115679