



## **ILIAD : LEADER OF LOCAL LOOP UNBUNDLING IN FRANCE H104 PRE-TAX EARNINGS UP 103.6% TO € 24 MILLION (H104 EBITDA INCREASES BY 106.5%)**

During the first half of 2004, Iliad demonstrated its renewed ability to deliver profitable growth, reaffirmed its leadership in the French broadband market and improved further its profitability ratios.

- Consolidated revenues increased 77.2% to € 221.9 million.
- H104 EBITDA was € 45.6 million, compared to € 22.1 million in H103.
- Pre-tax earnings were € 24.0 million, compared to € 11.8 million in H103.
- Consolidated net income was € 15.5 million, up 46.0% as compared to the previous year (with income tax of 35.4%). Earnings per share were € 0.29.

Over the 6 month period ending June 30, 2004, Iliad has achieved strong operating performance as evidenced by:

- The Group's ADSL market share grew to 16.9% as of June 30, 2004 from 15.0% as of December 31, in a highly competitive environment.
- Free's triple-play ADSL package (in unbundled areas) and dual-play ADSL package (in non unbundled areas) remain attractively priced at a unique € 29.99 per month.
- The total number of ADSL subscribers was 768,000 as of June 30, 2004 of which 355,000 were unbundled and 330,000 equipped with a Freebox modem.
- One.Tel's subscriber base increased to 328,000 at the end of June from 215,000 at the end of December, a 53% increase. Customer acquisition should slow down during H2 2004 in order to reach the Telephony sector EBITDA target.
- Kertel sold 3.9 million prepaid cards over the period.

With a constant focus on customer satisfaction, Iliad has also pursued its strategy of service and technological innovation. Free's ADSL offering<sup>1</sup> in unbundled areas is the only full triple-play service in France, with the following key features :

- 6 Mbps of download speed;
- Toll-free local and national calls to any fixed line in metropolitan France;
- Over 110 TV channels in digital quality and stereo sound, 42 of which are paying channels.

In light of these strong fundamentals, Iliad's management has upgraded its two key targets announced at the IPO:

- The 1 million ADSL subscriber mark should be reached during the first half 2005 vs. at the end of 2005 previously announced.
- Based on signed IRU agreements, the percentage of unbundled customers should be above 70% by June 2005 vs. a target of 60% at the end of 2005 previously.

<sup>1</sup> Depends on copper line characteristics

### Consolidated Income Statement

(in € '000)	Jun. 30 2004	Jun. 30 2003	Var. (%)
<b>Revenues</b>	<b>221,949</b>	<b>125,269</b>	<b>77.2</b>
Other operating income	30,509	15,607	95.5
Operating expenses (excl. Depreciation)	206,851	118,791	74.1
<b>EBITDA<sup>2</sup></b>	<b>45,607</b>	<b>22,085</b>	<b>106.5</b>
Depreciation	21,449	6,292	240.9
<b>EBIT</b>	<b>24,158</b>	<b>15,793</b>	<b>53.0</b>
Net interest expenses	(264)	(278)	5.0
Exceptional items	163	(3,625)	NM
Amortization of goodwill	66	104	(36.5)
<b>Pre tax income</b>	<b>23,991</b>	<b>11,786</b>	<b>103.6</b>
Corporate income tax	8,500	1,179	620.9
<b>Net income</b>	<b>15,491</b>	<b>10,607</b>	<b>46.0</b>

- The 77.2% consolidated revenue growth was fuelled by (i) continuous ADSL subscriber growth (ii) increased subscription to One.Tel's service pursuant to intense marketing efforts and (iii) strong Kertel sales (accounted over a full six months).
- 106.5% EBITDA growth. It is worth noting that EBITDA progressed significantly in the Internet sector (up 219.2% at €35.1 million). Internet sector EBITDA margin<sup>3</sup> progressed to 24.7% in 1H04 vs. 14.1% in 1H03 and 17.4% in 2H03. This performance further validates the rationale of unbundling the local loop and the benefits to Iliad of operating its own network. On the other hand, the EBITDA margin of the telephony sector decreased to 11.0% in 1H04 vs. 21.8% in 1H03 and 17.7% in 2H03. This level was impacted, as expected, by increased marketing expenses at One.Tel during the first part of the year. Iliad reiterates its objective to at least maintain its telephony sector EBITDA at the 2003 level.
- 53.0% EBIT growth to € 24.2 million. Iliad was able to significantly increase its EBIT level despite depreciation charges increasing by 241% to € 21.4 million.
- Pre tax income increased by 103.6% to € 24.0 million.
- Net income increased to € 15.5 million despite a full income tax charge at 35.43%.

### Group Balance Sheet and Cash Flow

(in € '000)	Jun. 30 2004	Dec. 31 2003
Fixed assets	188,518	124,344
Other Current Assets	103,909	85,202
Cash & Equivalents	61,590	11,357
<b>Total assets</b>	<b>354,017</b>	<b>220,903</b>
Shareholders' equity	156,957	55,227
Provisions for contingencies and charges	4,256	6,745
Borrowings	22,435	20,877
Other liabilities	170,369	138,054
<b>Total liabilities and shareholders' equity</b>	<b>354,017</b>	<b>220,903</b>

<sup>2</sup> corresponds to "REAA" in France, EBIT plus depreciation of tangible and intangible assets only

<sup>3</sup> excl. inter-segment revenues

(in € '000)	Jun. 30 2004	Dec. 31 2003
<b>CASH FLOWS:</b>		
Net cash provided (used) by operating activities	48,966	91,410
Net cash used by investing activities	(86,582)	(97,300)
Net cash provided (used) by financing activities	80,826	1,843
Change in cash and cash equivalents	43,210	(4,047)

The Group's balance sheet has been significantly strengthened by the capital increase of January 2004. As of June 30, 2004, the Group's debt-to-equity ratio stood at 0.14 with cash and cash equivalents on the balance sheet of € 61.6 million.

As per the IPO's Use of Proceeds description, capital raised at the IPO was essentially dedicated to accelerating the unbundling of the local loop by (i) migrating Option 5 customers to Option 1 (ULL) and (ii) expanding Iliad's fiber optic network capillarity. The latter was achieved through the signing of a number of IRU agreements during the first half of 2004 with total associated capex of € 60 million. Capital expenditures for the period were at € 87.0 million.

### **Key Developments in 2004**

By delivering constant innovations, Iliad has demonstrated its commitment to remain the most aggressive player in the French broadband market. This continuous commitment is best illustrated by the following key actions :

- **Freebox for every new ADSL subscriber<sup>4</sup>.** On March 18, Free announced that every new ADSL subscriber would receive the Freebox modem, whether the service is provisioned on Option 1 or Option 5. With this modem, every customer obtains broadband Internet access as well as free local and national fixed line phone calls and attractively priced calls to mobile and international destinations.
- **60,000 viewers of the French Tennis Open on Freebox.** On June 3, France Television announced that 60,000 households used TV over ADSL to watch Roland Garros tennis matches. For the first time ever, all the matches were accessible on 7 different channels of the Freebox, allowing viewers to enjoy live, uninterrupted feeds of their favorite players.
- **Total unbundling now a reality.** Since mid-June, Free has offered to its new subscribers the option to choose full unbundling. By doing so, the customers forego the payment of the France Télécom monthly subscription.
- **Wi-Fi and router enabled Freebox modem.** On July 7, the wi-fi port on V3 Freebox modems was enabled, allowing customers to establish high-speed wireless connection at no additional monthly cost. Wi-fi cards are sold on Free's website for 27 euros.
- **€ 60 million investment in network extension.** On July 16, Iliad announced a significant extension of its fibre-optic network and in particular that over 600 France Télécom central offices would be connected to its network by May 2005.
- **6 Mbps Internet access for unbundled (Option 1) customers<sup>3</sup>.** On August 24, Free announced a significant increase to 6 Mbps download speed for all its unbundled customers. The monthly fee remained set at € 29.99.
- **78,000 viewers of the Olympics on Freebox.** Over 78,000 households watched the 60 hour of daily live programming offered on 5 different dedicated channels.

<sup>3</sup> Subject to technical characteristics of copper line

In the fast growing French broadband market, Iliad's strategy has been to focus on a few well-defined objectives:

- Service innovation
- High bandwidth
- Simple offer structure
- Best quality-to-price ratio

Following these simple principles, the Group has been able to reinforce its market share quarter after quarter and to become the leading alternative ADSL operator in France. As explained at the time of the IPO, management believes that 2003, 2004 and 2005 are key years in the ADSL land grab and that it is uniquely positioned to be at the forefront of that battle, thanks to its proprietary network and Freebox technology.

### **ADSL Customer Base in 2003 and 2004**

	Dec. 31, 2002	June 30, 2003	Dec. 31, 2003	June 30, 2004
ADSL Subscribers	99,100	275,630	485,000	768,000
Unbundled Subscribers	3,300	45,850	163,000	355,000
Unbundled Subscribers as % of Total	3.3%	16.6%	33.6%	46.2%
Residential ADSL Market Share	7.2%	13.3%	15.0%	16.8%

### **Financials per sector**

<b>Internet Sector (in € '000)</b>	<b>Jun. 30 2004</b>	<b>Jun. 30 2003</b>	<b>Variation %</b>
<b>Net revenues</b>	<b>173,018</b>	<b>88,725</b>	<b>95.0</b>
Other operating revenues	29,297	15,286	91.7
Purchases used in production and other operating expenses	156,583	86,545	80.9
Payroll costs	7,955	3,773	110.8
Taxes other than on income	861	443	94.6
Additions to provisions	1,847	2,265	(18.5)
<b>EBITDA</b>	<b>35,069</b>	<b>10,985</b>	<b>219.2</b>
Depreciation and amortization	20,738	5,812	256.8
<b>Operating income</b>	<b>14,331</b>	<b>5,173</b>	<b>177.0</b>

<b>(in € '000)</b>	<b>Jun. 30 2004</b>	<b>Jun. 30 2003</b>	<b>Variation %</b>
ISP revenues ( <i>Pay-as-you-go, 50-hour plan, ADSL</i> )	138,343	75,247	83.9
Hosting and advertising revenues	3,157	2,567	23.0
Inter-segment and other revenues	31,517	10,911	188.9
<b>Total revenues</b>	<b>173,018</b>	<b>88,725</b>	<b>95.0</b>

<b>Telephony Sector (in € '000)</b>	<b>Jun. 30 2004</b>	<b>Jun. 30 2003</b>	<b>Variation %</b>
<b>Net revenues</b>	<b>79,024</b>	<b>38,035</b>	<b>107.8</b>
Other operating revenues	1,189	311	282.3
Purchases used in production and other operating expenses	68,701	27,333	151.3
Payroll costs	1,504	1,571	(4.3)
Taxes other than on income	242	246	(1.6)
Additions to provisions	1,139	896	27.1
<b>EBITDA</b>	<b>8,627</b>	<b>8,300</b>	<b>3.9</b>
Depreciation and amortization	568	357	59.1
<b>Operating income</b>	<b>8,059</b>	<b>7,943</b>	<b>1.5</b>

(in € '000)	Jun. 30 2004	Jun. 30 2003	Variation %
Fixed telephony and prepaid phone card revenues	60,071	29,685	101.1
Revenues from services to operators	18,953	8,170	132.0
<b>Total revenues</b>	<b>79,024</b>	<b>38,035</b>	<b>107.7</b>

Other Activities (in € '000)	Jun. 30 2004	Jun. 30 2003	Variation %
<b>Net revenues</b>	<b>13,858</b>	<b>12,652</b>	<b>9.5</b>
Other operating revenues	23	10	130.0
Purchases used in production and other operating expenses	10,666	8,606	23.9
Payroll costs	1,162	1,125	3.3
Taxes other than on income	137	131	4.6
Additions to provisions	5	0	NM
<b>EBITDA</b>	<b>1,911</b>	<b>2,800</b>	<b>(31.8)</b>
Depreciation and amortization	143	123	16.3
<b>Operating income</b>	<b>1,768</b>	<b>2,677</b>	<b>(34.0)</b>

*Iliad is a leading player in the French telecommunications and Internet access industry via its subsidiaries Free (the second largest ISP and a licensed network operator), One.Tel (a fixed telephony provider) and Kertel (the leading alternative prepaid cards provider). Founded in 1991, the Group employs over 650 people. Iliad is listed on Euronext Paris under the ticker ILD.*

Exchange : **Euronext Paris**

Market place : **1er Marché**

Ticker : **ILD**

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Member of SBF 250 Index and Next 150

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