



Société anonyme. Share capital: €12,000,000

Registered office: 8, rue de la Ville l'Evêque – 75008 Paris

Registered in Paris. Registration no. 342 376 332

MANAGEMENT REPORT – SIX MONTHS TO JUNE 30, 3007

1.1 KEY CONSOLIDATED FINANCIAL DATA

(in € millions)	Six months to June 30, 2007	Six months to June 30, 2006	Year ended December 31, 2006
INCOME STATEMENT			
Revenues	574.1	439.1	950.3
Operating income and expense, net.....	(472.7)	351.9	(765.1)
Profit from ordinary activities	101.4	87.2	185.2
Other operating income and expense, net.....	-	-	(3.0)
Operating profit	101.4	87.2	182.2
Financial income and expense, net	(2.3)	(0.3)	(3.9)
Corporate income tax	(34.1)	(29.9)	(61.7)
Profit for the period before results of discontinued operations/operations held for sale	65.0	56.9	14.2
Profit from discontinued operations	13.9	1.7	7.3
Profit for the period	78.9	58.6	123.9
Earnings before interest, tax, depreciation and amortization (EBITDA)	205.6	150.5	331.6
BALANCE SHEET			
Non-current assets	702.3	510.0	632.1
Current assets	366.1	481.9	405.5
<i>Of which cash and cash equivalents.....</i>	<i>248.8</i>	<i>366.4</i>	<i>279.5</i>
Total assets.....	1,068.4	992.0	1,037.6
Total equity.....	446.9	319.7	382.7
Non-current liabilities.....	351.4	320.3	345.0
Current liabilities.....	270.1	352.0	309.9
Total equity and liabilities.....	1,068.4	992.0	1,037.6
CASH FLOWS			
Net cash generated from operating activities....	130.6	124.4	281.2
Net cash used in investing activities.....	(174.6)	(123.8)	(286.5)
Net cash (used in) generated from financing activities	(4.6)	310.6	232.1
Net change in cash and cash equivalents.....	(48.7)	311.2	226.9
Net cash and cash equivalents at period-end	227.6	360.6	276.3

1.2 MANAGEMENT REPORT

1.2.1 Overview

The Group's operations are made up of two business segments defined based on operating criteria:

- The Broadband segment, which includes Internet service provider operations (marketed under Free and related brands), hosting services (the Online, BookMyName and Dedibox brands), call center operations (Centrapel and Total Call), Wimax activities (operated by IFW), and operations related to the rollout of the FTTH (fiber-to-the-home) optical fiber network (Free Infrastructure, IRE and Citéfibre).
- The Traditional Telephony segment, which includes switched fixed-line telephony (One.Tel and Iliad Telecom), resale of airtime to operators (Kedra), directory services (mainly the ANNU reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging) and e-commerce operations (Assunet.com).

ADSL broadband and optional value-added services, combined within the Broadband segment, represent the dominant source of revenue, while revenues from the Group's other offerings, combined within the Traditional Telephony segment, are declining.

These segments may change in the future, depending on operating criteria and the development of the Group's businesses.

There were no significant changes in Group structure in first-half 2007. On February 7, 2007 Iliad sold its entire interest in Kertel SA to Proximania. Kertel was no longer considered a strategic business in light of the Group's strategic focus on broadband and high speed broadband.

The business was sold for €20.6 million, including €6 million in vendor finance repayable between June 29 and December 31, 2007.

The consolidated financial statements of the Iliad Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable in Europe.

1.2.1.1 Breakdown of revenues

1.2.1.1.1 Broadband revenues

- **Unlimited ADSL broadband offer.** Since October 2002, Free has offered its subscribers unlimited broadband access for €29.99 per month (including VAT). An ADSL modem is supplied free of charge and no charge is made for installation. This unique offer allows subscribers to access the Internet at a speed of at least 2 MB per second and up to 28 MB (observed) in areas where the local loop is unbundled (which depends on whether a subscriber's line is eligible). Subscribers are billed by Free and pay by monthly direct debit. Subscribers who cancel their subscription are charged a termination fee, also paid by direct debit. The fee amounts to €96 (including VAT) less €3 for every month of their subscription period, and covers the cost of activating their line.

Television services, which are taxed at the reduced VAT rate of 5.5%, represent 56% of the Freebox subscription fee.

- **Telephony via ADSL.** Since August 2003 (unbundled areas) and March 2004 (nonunbundled areas), subscribers to the Free Haut Débit broadband service who are equipped with a Freebox

modem have also been offered a telephony service. Under this service, telephone calls made through the Freebox to another Freebox subscriber or to any number in mainland France (standard France Telecom fixed lines, excluding short numbers and special numbers), the Reunion islands, Guadeloupe, and 46 foreign countries are completely free. Revenues generated by calls to French mobile phones and to international numbers not included in the package, as well as revenues generated by incoming calls to Freebox subscribers, are included within the revenues of the Broadband segment.

- **Free's preselection offer.** Since June 2005, Free Haut Débit broadband subscribers have been able to apply for a preselection offering where they have not opted for full unbundling. By signing up for the Free preselection service, the subscriber authorizes the company to make a preselection request to France Telecom so that all calls made from the designated fixed line can be transferred to and billed by Free (excluding special numbers). This enables the subscriber to benefit from Free's rates on all local, national and international calls, as well as on calls to mobile phones.
- **Television via ADSL.** Since December 2003, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a television service with more than 257 channels, including 144 free channels as of June 2007. Revenues generated by pay TV channels are included within the revenues of the Broadband segment. Since November 2004, the Canal+ Group channels have also been available via the Freebox. These offers are billed directly by the Canal+ Group, which pays a commission to Free.
- **Video on demand (VoD) via ADSL.** Since December 2005, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a video on demand service operated jointly with the Canal+ Group. This service enables subscribers to access a catalog of movies 24 hours a day, 7 days a week, and view them on their television. The movies - which are ordered using the Freebox remote control - include DVD player features and may be viewed for a period of 24 hours. The price of the movies, which starts from €0.99, is invoiced directly on the subscriber's Free Haut Débit bill.
- **Subscription-based video on demand (S-VoD) via ADSL.** Since June 2007, subscribers to broadband Internet via the Freebox (in unbundled areas and subject to line eligibility) have been offered a subscription-based video on demand service for movies and TV series. For €5.99 a month, subscribers have unlimited 24/7 access to a selection of more than 50 films and 100 TV series that are renewed every week.
- **Migration to the fully unbundled service and modem replacement offer.** Since June 2004, Free Haut Débit broadband subscribers can request migration from partially to fully unbundled access. The migration fee is €90 (including VAT), less a discount per month of the subscription period. In addition, since September 2004, subscribers who have Sagem modems can receive a Freebox modem in return for a €60 administrative fee for people who have held a subscription for less than one year and €30 for those who have been subscribers for between 12 and 24 months, while subscribers with a Freebox modem can receive an upgraded version in return for a €90, €60, or €30 administrative fee depending on the length of time they have held a subscription.
- **"Pay-as-you-go" access.** For this no-subscription dial-up offer, the customer pays the price of the phone call invoiced by France Telecom. Customers dial the Free access number (08 60 92 20 00) from any fixed line in France, and the call is charged by France Telecom at the local Internet rate. Revenues from the "Pay-as-you-go" offer are therefore directly related to the time customers spend online and to revenue share passed on to Free by France Telecom. Free invoices France Telecom on a monthly basis. The customer pays France Telecom a connection charge of €0.106 (including VAT) and a flat rate of €0.02 per minute (including VAT), applicable 24/7, excluding special offers. The share of airtime revenue passed on by

- **The "50-hour" plan.** Under the "50-hour plan", the subscriber is entitled to 50 hours of dial-up Internet access per month for a flat fee of €14.94 (including VAT). The subscriber connects to the Internet by dialing a toll-free number (08 68 92 20 00). The subscription fee is paid directly to Free by direct debit at the beginning of each month. Any additional dial-up time and charges for incomplete months are invoiced by Free at the local Internet rate. They are debited to the subscriber at the beginning of the following month but are recognized in revenue for the current month.
- **Hosting services.** Hosting services revenues are generated through the sale of both dedicated and non-dedicated hosting solutions. Non-dedicated hosting services are invoiced at a flat annual rate by domain name or by site. The dedicated server offering, which is targeted at SMEs and individuals, provides broadband Internet access for multimedia applications at a flat fee of €29.99 per month, excluding VAT.
- **Marketing of domain names and selling of advertising space** on Free's portal.
- **Other Broadband** revenues corresponding mainly to the sale of switched traffic to the Traditional Telephony segment and the sale of WiFi cards and related equipment.

1.2.1.1.2 Traditional Telephony revenues

Traditional Telephony segment revenues break down as follows:

- **Revenues generated by One.Tel.** One.Tel's offer is a no-subscription carrier preselection service. By signing up with One.Tel, the subscriber authorizes the company to make a preselection request to France Telecom so that all calls made from the designated fixed line can be transferred to and billed by One.Tel (excluding special numbers). This enables the customer to benefit from One.Tel's rates on all local, national and international calls, as well as on calls to mobile phones, including the €0.01 per minute offer for all local and national calls. At the end of each month, the total cost of calls is calculated for each customer and invoiced for payment within two weeks.
- **Revenues from ANNU,** the reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging. Minitel access to this service is billed directly by France Telecom on the user's telephone bill, and part of the fee is passed on by France Telecom to the company running the service. For ANNU, the fee passed on by France Telecom amounts to €36.93 per hour. Fee payments are received every other month.
- **Revenues generated by Assunet** – an online insurance broker – from sales of insurance policies to private individuals and Group companies.
- **Revenues from Iliad Telecom's** carrier preselection service for companies.

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

Free's ADSL offer involves two types of service:

- Option 5 (subscribers not on an unbundled line), representing a France Telecom wholesale offer marketed by Free.

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

Under Option 1, direct costs per subscriber and per month, as mentioned in the basic unbundling offer, were as follows at June 30, 2007:

Operating costs under Option 1 (partial unbundling)

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

Operating costs under Option 1 (full unbundling)

- Rental of the copper pair: €9.30
- Copper tie cable (average): €1.32

Under Option 5, for a subscription sold at the same price, monthly costs per subscriber are made up of access costs and IP transit service costs.

The access cost structure under Option 5 has been simplified since October 1, 2005 and is no longer directly related to the bit rate or the type of connection node. For the DSL Access offer, the monthly subscription fee has been set at €13.30 since September 1, 2006. A new service - DSL Access Only - has been offered by France Telecom since September 1, 2006 for a €21.50 monthly fee per single VC access.

IP transit service costs vary depending on the bit rate used by all Option 5 subscribers. The service's price structure was changed on June 7, 2007.

The new price terms are as follows:

- Usage fee per Mbps €75.10
- Access fee €3.90

These fees have been applied retroactively from January 1, 2007.

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

1.2.1.3 Capital expenditure and depreciation

1.2.1.3.1 Broadband

The Group has rolled out a telecommunications network in mainland France. Most of the underlying optical fiber for this network was obtained under IRU (Indefeasible Right of Use) contracts with terms

ranging from 10 to 25 years, that involve a single up-front payment when the fiber is made available. These IRU contracts are recognized as property, plant and equipment and are depreciated over the life of the contract.

Just as operating costs differ significantly between Option 1 and Option 5, so do levels of capital expenditure.

Under Option 1, the Group is required to provide Freebox modems and Freebox DSLAMs and to pay fees to France Telecom for access to unbundling services (which are also known as cabling costs or access fees). In addition, it incurs logistics and modem shipping costs. The cost of these four items came to about €270 per subscriber in first-half 2007. The costs (logistics and shipping, access to France Telecom's unbundling services and the Freebox modems and DSLAMs) are depreciated over three years from the date of subscriber installation.

Fees invoiced by France Telecom for access to unbundling services are €50 per subscriber for full unbundling and €55 for partial unbundling.

Under Option 5, total capital expenditure is lower, ranging from €125 to €136 per subscriber. The cost of access to France Telecom unbundling services and of the ADSL modem or Freebox modem provided to the subscriber is depreciated over three years. During the first half of 2007, new subscribers on non unbundled lines were issued with the Freebox v4. Fees invoiced by France Telecom for access to the DSL Access Only service are €66 per subscriber without Internet access and €24 per subscriber with access through an existing operator.

1.2.1.3.2 Rollout of an FTTH network

To support the rollout of its FTTH (fiber-to-the-home) optical fiber network, the Group is making fresh investments in network infrastructure through its subsidiary Free Infrastructure.

The network is being rolled out in four phases:

- Acquiring premises to house optical nodes (ONs),
- Laying fiber optic cable between the ONTs and buildings,
- Installing optical fiber within those buildings, up to the front door of each business or household,
- Connecting the subscriber to the network.

The Group is currently focusing on phase 1 and 2, which will be handled by its own teams (mainly in Paris), or by subcontractors under fixed price contracts (rest of France).

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

EBITDA is one of the key performance indicators used throughout this Management Report.

1.2.2 **Comparison of results for first-half 2007 and first-half 2006**

The following comments are based on the consolidated financial statements for the six-month periods ended June 30, 2007 and June 30, 2006. The first-half 2006 financial information has been adjusted to exclude Kertel SA, sold in February 2007, and Société SA, sold in August 2006.

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

Consolidated revenues and operating expenses disclosed in the financial statements do not match the sum of the segment revenues and expenses set out below, due to the elimination of inter-segment

transactions, corresponding to transactions between Group companies belonging to different segments. The bulk of inter-segment transactions consist of billings to the Traditional Telephony segment of telecommunications services provided over the Free network, and of marketing costs billed to Free by Iliad. In all, inter-segment transactions amounted to €13.6 million in first-half 2007 and €27.4 million in the first six months of 2006.

(in € millions)	Six months to June 30, 2007	Six months to June 30, 2006	% change
Revenues	574.1	439.1	30.7
Purchases used in production	(293.8)	(234.2)	25.4
Payroll costs	(25.2)	(17.8)	41.6
External charges	(31.2)	(24.0)	30.0
Taxes other than on income	(5.4)	(4.1)	31.7
Additions to provisions	(2.9)	(2.1)	38.1
Other income and expenses from operations, net	(9.9)	(6.4)	54.7
EBITDA	205.6	150.5	36.6
Depreciation and amortization	(104.2)	(63.3)	64.6
Profit from ordinary activities	101.4	87.2	16.3
Other operating income and expense, net	-	-	-
Operating profit	101.4	87.2	16.3
Financial income and expense, net	(2.3)	(0.3)	-
Corporate income tax	(34.1)	(29.9)	14.0
Profit from discontinued operations	13.9	1.7	-
Profit for the period	78.9	58.6	34.6

Revenues

Revenues for first-half 2007 rose by around 31% compared with the same period in 2006. The increase was mainly attributable to the Broadband segment, led by Internet access and optional value-added services available through the Freebox.

For the six months to June 30, 2007, these optional services represented revenues of €120.1 million, some 65% more than in first-half 2006.

Operating expenses

Excluding depreciation and amortization, operating expenses were 27.9% higher than in first-half 2006, coming in at €368.5 million. However, they declined in relative terms, to 64.2% of consolidated revenues from 65.7%, reflecting the higher proportion of subscribers on unbundled lines during the period and the lower cost of IP transit services.

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

EBITDA rose by a strong 36.6% to €205.6 million in first-half 2007, reflecting (i) new ADSL subscribers signed up directly under Option 1, (ii) migration of Option 5 subscribers to Option 1, and (iii) the contribution of optional value-added services provided through the Freebox.

EBITDA margin increased to 35.8% from 34.3% in first-half 2006.

Operating profit

Operating profit rose to €101.4 million in first-half 2007 from €87.2 million in the prior-year period, representing a 16.3% increase. This performance reflects the combined impact of:

- Higher Broadband margins, spurred by the steadily growing proportion of broadband subscribers on unbundled lines.
- The contribution of optional value-added services provided through the Freebox.

Depreciation and amortization was 64.6% higher than in first-half 2006, primarily reflecting an increase in capital expenditure in the Broadband business due to the rapid expansion of the subscriber base (see section 1.2.2.1.1).

Financial income and expense, net

In first-half 2007, net financial expense amounted to €2.3 million, corresponding mainly to interest on the “Océane” convertible/ bonds issued on June 29, 2006. Interest paid on these bonds represented €3.7 million, and the aggregate expense recognized under IFRS – reflecting the effective interest rate – came to €6.9 million.

Interest expense was partially offset by U.S. dollar foreign exchange gains and income from short-term investments.

Profit for the period

Profit for the period came to €78.9 million, up from €58.6 million in first-half 2006, representing a period-on-period increase of more than 34.6%. This figure includes the €13.9 million net-of-tax gain from the February 7, 2007 sale of Kertel SA. Income tax expense amounted to €34.1 million, compared with €29.9 million in first-half 2006.

1.2.2.1.1 Analysis of results for the Broadband segment

The Broadband segment includes the following operations:

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

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

(in € millions)	Six months to June 30, 2007	Six months to June 30, 2006	% change
Revenues	561.0	410.8	36.6
Purchases used in production	(291.2)	(222.7)	30.8
Payroll costs	(22.9)	(15.7)	45.9
External charges	(28.1)	(19.4)	44.8
Taxes other than on income	(4.9)	(3.6)	36.1
Additions to provisions	(2.9)	(2.6)	11.5
Other income and expenses from operations, net	(9.6)	(6.4)	50.0
EBITDA	201.5	140.3	43.6
Depreciation and amortization	104.0	62.9	65.3
Profit from ordinary activities	97.4	77.4	25.8

Revenues

The table below shows the breakdown by category of Broadband revenues for first-half 2007 and 2006, as well as the percentage change between the two periods.

(in € millions)	Six months to June 30, 2007	Six months to June 30, 2006	% change
ISP revenues (<i>ADSL, Pay-as-you-go, 50-hour plan</i>)	542.9	377.4	43.9
Hosting and advertising revenues	8.2	6.2	32.2
Inter-segment and other revenues	9.9	27.2	(63.6)
Total revenues	561.0	410.8	36.6

Broadband revenues for first-half 2007 grew by €150 million or approximately 37% compared with the prior-year period, led by the development of Free's ADSL broadband offer.

ISP revenues

	Six months to June 30, 2006	Year ended December 31, 2006	Six months to June 30, 2007
Total ADSL subscribers	1,905,000	2,278,000	2,626,000
Unbundled subscribers	1,377,000	1,730,000	2,060,000
Percentage of unbundled subscribers	72.3%	75.9%	78.4%
Share of French residential ADSL market ¹	18.2%	19.0%	19.7%

¹ Source: Iliad, and France Telecom for 2006 and 2007

ISP revenues (Free, Free Telecom and Free Haut Débit), through both the switched telephone network and ADSL, totaled €543 million for the six months ended June 30, 2007, an increase of 43.9% over the prior-year period. The main growth factors were as follows:

- **The continuing success of the broadband offer.** The number of ADSL subscribers rose by nearly 38% over the past twelve months, to 2,626,000 at June 30, 2007 from 1,905,000 at June 30, 2006. Subscriber acquisition accelerated sharply in the first half of 2007, with Free signing up 25.5% of new ADSL subscribers in France.
- **Increasing use of optional value-added services provided through the Freebox.** In first-half 2007, revenues from these services totaled €120.1 million, up from €73.5 million in the first six months of 2006.

Take-up of the "Pay-as-you-go" and "50-hour plan" dial-up offers continued to decline in favor of broadband offerings during the first half of 2007. The related revenues came in 45% lower than in the same period of 2006 and represented just 1.3% of Broadband revenues.

Hosting and advertising revenues

The marketing of domain names in France, value-added hosting services and the sale of advertising space on Free's portal generated hosting and advertising revenues of almost €8.2 million in first-half 2007, up from €6.2 million in the prior-year period.

Inter-segment and other revenues

Inter-segment and other revenues correspond to airtime on Free's directly-operated network billed to the Traditional Telephony segment, and to sales of WiFi cards and related items. These revenues were significantly lower than in the prior-year period due to the contraction in Traditional Telephony business volumes.

Purchases used in production and external charges

Purchases used in production and external charges totaled €319 million in first-half 2007, 32% higher than in the prior-year period. Broadband gross profit (defined as revenues less purchases used in production and external charges) came to €241.7 million, representing 43.5% of revenues, excluding inter-segment sales, compared with 43.4% in first-half 2006.

Gross margin for the period remained stable, reflecting:

- **The positive impact of** (i) the greater number of France Telecom sites connected with optical fiber, providing scope to increase the number of subscribers with access to broadband connections through the unbundling of the local loop (Option 1), and (ii) the fact that average gross profit per unbundled subscriber held firm at over €20 per month.

In the first six months of 2007, the number of France Telecom sites connected with optical fiber expanded from over 908 to 1,116 and the number of unbundled lines rose significantly from 1,730,000 to 2,060,000, of which around 66% were fully unbundled.

- **The negative impact of higher external charges**, attributable to new logistics expenses and increased marketing expenditure.

Free spent 42% more on marketing in first-half 2007 compared to first-half 2006, intensifying its advertising presence to step up the pace of subscriber acquisition in a market where competitors'

churn is high. However, the marketing cost per subscriber nevertheless remained close to €50¹ in first-half 2007.

Payroll costs

Payroll costs represented 4.1% of revenues, excluding inter-segment sales, on a par with first-half 2006. The technical problems experienced by Free's subscribers continued to be managed efficiently during first-half 2007, with average queuing time of 1 minute 3 seconds for fully unbundled subscribers and 1 minute 45 seconds for partially unbundled subscribers.

The rise in payroll costs in absolute terms was once again due to hiring at the Group's call centers, especially at Total Call. Centrapel and Total Call's payroll costs climbed to above €18 million in the six months ended June 30, 2007.

The average number of call center employees (including part-time workers) totaled 1,728 in first-half 2007 compared with 1,316 in the prior-year period. As a result of this focus on customer service, payroll costs outstripped revenues from incoming calls.

Payroll costs include employee stock option expense (see section 1.2.4).

Additions to provisions

Additions to provisions amounted to €2.9 million in first-half 2007, and corresponded primarily to provisions for doubtful customer accounts. The net cost of customer credit risks remained low, reflecting the impact of the collection drive launched by the debt recovery department, which led to an overall drop in the number of doubtful debts.

Other income and expenses from operations, net

This item represented a net expense of €9.6 million, versus €6.4 million in first-half 2006.

The total includes royalties, bad debts (net of provision reversals), and gains and losses on asset disposals.

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

Broadband EBITDA surged by 43.6% compared to the prior-year period, to €201.5 million in first-half 2007. EBITDA margin, excluding inter-segment sales, inched up to 36.3% from 36.1% in the same period of 2006, reflecting the Group's drive to contain costs while growing the business.

Profit from ordinary activities

Depreciation and amortization for the Broadband segment totaled €104 million, up 65.3% on first-half 2006. Several factors explain this increase:

- **The sharp rise in the number of subscribers on unbundled lines.** Between first-half 2006 and first-half 2007, the number of subscribers on unbundled lines rose by 683,000.
- **The introduction of the Freebox HD at the end of April 2006:** The Freebox HD costs three times more than the previous version.

¹ Source: SECODIP

Profit from ordinary activities rose by €20 million to €97.4 million, representing 17.6% of first-half 2007 revenues (excluding inter-segment sales) versus 19.9% in the first six months of 2006. The lower margin was due to the factors described above.

1.2.2.1.2 Analysis of results for the Traditional Telephony segment

The Traditional Telephony segment includes the following operations:

- Fixed-line telephony operations under the One.Tel and Iliad Telecom brands.
- Telephony services provided to operators by Kedra.
- Reverse look-up directory services, Iliad's historic business, marketed under the 3617 ANNU and Annu.com names, accessible via Minitel, telephone, Internet and SMS text messaging.
- E-commerce operations of Assunet.com, an online insurance broker.
- Holding company activities.

(in € millions)	Six months to June 30, 2007	Six months to June 30, 2006	% change
Revenues	26.7	55.7	(52.1)
Purchases used in production	(7.5)	(31.5)	(76.2)
Payroll costs	(2.3)	(2.1)	9.5
External charges	(11.9)	(12.0)	(0.8)
Taxes other than on income	(0.5)	(0.5)	-
Additions to provisions	(0.1)	0.6	-
Other income and expenses from operations, net	(0.3)	0.0	-
EBITDA	4.1	10.2	(59.8)
Depreciation and amortization	(0.2)	(0.4)	(50.0)
Profit from ordinary activities	3.9	9.8	(60.2)

Revenues

The table below shows the breakdown by category of Traditional Telephony revenues for first-half 2007 and 2006, as well as the percentage change between the two periods. To facilitate comparisons, the first-half 2006 figures have been adjusted to exclude Société SA, sold in August 2006, and Kertel SA, sold in February 2007.

(in € millions)	Six months to June 30, 2007	Six months to June 30, 2006	% change
Fixed telephony	16.6	34.3	(51.6)
Inter-segment and other revenues	10.1	21.4	(52.8)
Total revenues	26.7	55.7	(52.1)

Between June 30, 2006 and June 30, 2007 Traditional Telephony revenues declined by €29.0 million, reflecting the significant decline in the Group's fixed telephony business. The business represented less than 5% of the Group's revenues in first-half 2007 versus around 13% in the first six months of 2006.

Fixed telephony

Fixed telephony revenues, generated primarily by One.Tel, amounted to €16.6 million for the six months ended June 30, 2007.

The decline from first-half 2006 stemmed primarily from the combination of the following three factors:

- **A 77% fall in Kedra's revenue for the period**, due to increased use of a "direct" interconnection mode to route calls between operators.
- **Contraction of the One.Tel customer base.** With the withdrawal of marketing budgets and growing take-up of ADSL telephony offerings, the number of invoiced customers decreased from 220,000 at end-December 2006 to 194,000 at June 30, 2007.
- **A 2.9% decline in average revenue per user (ARPU) between December 2006 and June 2007** to €9.9 per subscriber per month.

Inter-segment and other revenues

Inter-segment and other revenues fell significantly to €10.1 million, reflecting a 37.4% period-on-period drop in fees from the ANNU reverse look-up directory service and lower sales to third-party operators by Kedra.

Purchases used in production and external charges

Purchases used in production and external charges amounted to €19.4 million, down 55.4% from first-half 2006.

The decrease mainly concerned Kedra and One.Tel and was in line with the fall in revenues.

Payroll costs

Payroll costs remained virtually flat at €2.3 million.

Payroll costs include employee stock option expense (see section 1.2.4).

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

In first-half 2007, Traditional Telephony EBITDA contracted in comparison with the prior-year period, to €4.1 million. EBITDA margin, excluding inter-segment sales, stood at 21.6%, compared with 27.0% in first-half 2006.

Profit from ordinary activities came to €3.9 million.

1.2.3 Liquidity and capital resources

(in € millions)	Six months to June 30, 2007	Year ended December 31, 2006
Net cash generated from operating activities	130.6	281.2
Net cash used in investing activities	(174.6)	(286.5)
Net cash (used in) generated from financing activities.	(4.6)	232.1
Net change in cash and cash equivalents	(48.7)	226.9
Net cash and cash equivalents at period-end.....	227.6	276.3

Net cash and cash equivalents contracted by €49 million in the first half of 2007.

Net cash generated from operating activities came to €130.6 million. The total includes payment of the balance of 2006 income tax and 2007 income tax prepayments for some €55 million, as well as a €22 million unfavorable change in working capital requirement due to faster settlement of amounts due to France Telecom. Trade payables fell from €137 million at December 31, 2006 to €119 million at June 30, 2007.

Acquisitions of property, plant and equipment and intangible assets (net of disposal proceeds) came to €193.8 million in the first half of 2007, breaking down as follows:

- €156.3 million worth of development expenditure and subscriber base management costs (including Freebox modems and DSLAMs, access fees to the France Telecom service and portability service fees). This was more than in first-half 2006, reflecting both the higher cost of the Freebox HD launched in April 2006 and a record number of new subscribers signed up in first-half 2007. The total also includes €46.4 million in access fees paid to France Telecom, of which around €24 million is attributable to new subscribers. The rest corresponds to France Telecom migration, subscriber transfer and portability service fees.
- €28.9 million in network expenditure (including IRU contracts, France Telecom co-location rooms, civil engineering work and transmission equipment).
- €4.3 million in other expenditure (Dedibox, IFW, computer equipment, etc.).
- €5.9 million in FTTH optical fiber network expenditure. It must be stated that civil engineering works are paid on a long term basis. In addition, some €3.2 million was spent on acquiring premises to house optical nodes (ONs) under finance leases with Genefim, a subsidiary of Société Générale.

In the first half of 2007, the Group made the following FTTH investments:

- 16 ONs were acquired and are being set up while purchase orders were signed on 16 ONs,
- Allowing coverage for a total of 972,000 homes.

1.2.4 Ownership structure at June 30, 2007

At June 30, 2007, Iliad's share capital was composed of 54,151,550 ordinary shares, held as follows:

- Executive Management: 39,835,389 shares, or 73.6% of the share capital
- Public: 14,316,161 shares, or 26.4% of the share capital

At June 30, 2007 there were four Iliad stock option plans in place. The plans' main characteristics are as follows:

	Grant date	Exercise price	Exercise date	Number of shares to be issued on exercise of options
Options	January 20, 2004	€16.30	January 20, 2008	409,434
Options	December 20, 2005	€48.44	December 20, 2009	247,852
Options	December 20, 2005	€48.44	December 20, 2010	247,851
Options	June 14, 2007	€74.62	June 13, 2012	162,455
			Total	1,067,592

1.2.5 Group indebtedness

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

As explained above, at the end of June 2006 Iliad issued "Océane" bonds convertible into new shares or exchangeable for existing shares. The net proceeds from the issue – which matures in January 2012 – amounted to €326 million.

At June 30, 2007, the Group had confirmed credit lines of a maximum of €245 million, none of which had been drawn down. The longest maturity under these credit lines is until June 2011.

1.3 ADDITIONAL INFORMATION

1.3.1 Subsequent events

On July 30, 2007 Iliad applied for France's fourth mobile phone license.

The call for bids provides for three phases:

- A qualification phase at the end of which the French Telecommunications Regulator (ARCEP) will reject bids that are not in line with the specifications.
- A selection phase at the end of which ARCEP will announce the bidder with the highest score before February 29, 2008.
- A specifications-drafting phase. The specifications will set out the commitments of the successful bidder as well as the financial terms decided by the Government, and the license will be issued on March 31, 2008 at the latest.

The call for bids stipulates that the operator chosen by ARCEP will have the right to withdraw the bid at any time until the license is granted.

On July 31, 2007, Iliad acquired approximately €2.2 million worth of real estate under a master finance lease with Genefim. The premises will be used to house ONTs for FTTH network deployment.

Since July 31, 2007, Free's ADSL subscribers have all had access to a selection of TV channels from Free's portal.

1.3.2 Glossary

In light of the discrepancies between operators' definitions concerning ADSL, Iliad wishes to reiterate the definitions it has been using since the inception of its services.

Total ADSL Subscribers at the end of a period correspond to the total number of customers identified by their individual phone lines who have signed up for Free's ADSL service, excluding customers recorded as having requested the termination of their subscription.

Net Adds consists of the difference between Total ADSL Subscribers at the end of two different periods.

Unbundled Subscribers are ADSL subscribers who have signed up for Free's ADSL service on a Central Office unbundled by Free.

DSL Access for Single Virtual Circuits (VC) can be provided with RE-ADSL, standard ADSL or ADSL 2+ technologies using an ATM connection performing at the VC level between the modem installed at the subscriber's premises and a France Telecom DSLAM.

Broadband ARPU (Average Revenue Per User) represents revenues from the fixed price package and value-added services (excluding non-recurring revenues, e.g. migration from one offer to another or subscription termination fees), divided by the total number of ADSL subscribers invoiced for the period.

DSL Access Only is a France Telecom offer providing third-party operators with access to local copper loops without switched telephone network service. Commonly known as naked ADSL, the service allows third-party operators to offer Internet access, VoIP, TV on ADSL and other services to broadband subscribers without a telephone subscription, especially to those not located in unbundled zones.