



Société anonyme. Share capital: €12,013,188.97

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, 2008

1.1 KEY CONSOLIDATED FINANCIAL DATA

(in € millions)	Six months to June 30, 2008	Six months to June 30, 2007	Year ended December 31, 2007
INCOME STATEMENT			
Revenues	692.2	574.1	1,212.4
Operating income and expense, net.....	564.2	(472.7)	(998.6)
Profit from ordinary activities	128.0	101.4	213.8
Other operating income and expense, net.....	-	-	(2.0)
Operating profit	128.0	101.4	211.8
Financial income and expense, net	(1.5)	(2.3)	(3.5)
Corporate income tax	(43.5)	(34.1)	(72.0)
Profit for the period.....	82.9	65.0 ¹	150.2
Earnings before interest, tax, depreciation and amortization (EBITDA)	256.9	205.6	443.6
BALANCE SHEET			
Non-current assets	832.6	702.3	771.2
Current assets	418.4	366.1	375.9
<i>Of which cash and cash equivalents</i>	<i>274.4</i>	<i>248.8</i>	<i>234.8</i>
Assets held for sale ¹	11.0	-	8.1
Total assets.....	1,262.0	1,068.4	1,155.2
Total equity.....	594.1	446.9	516.7
Non-current liabilities.....	367.9	351.4	362.5
Current liabilities.....	300.0	270.1	276.0
Total equity and liabilities.....	1,262.0	1,068.4	1,155.2
CASH FLOWS			
Net cash generated from operating activities....	217.8	130.6	317.1
Net cash used in investing activities.....	(171.9)	(174.6)	(351.8)
Net cash used in financing activities	(3.4)	(4.6)	(18.6)
Net change in cash and cash equivalents.....	42.5	(48.7)	(53.2)
Net cash and cash equivalents at period-end....	265.5	227.6	223.1

¹ Profit for the six months to June 30, 2007 does not include profit from discontinued operations amounting to €13.9 million.

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 (Online, BookMyName and Dedibox brands), call center operations (Centrapel and Total Call), Wimax activities (IFW), and operations related to the rollout of the FTTH (fiber-to-the-home) optical fiber network (Free Infrastructure, IRE, Immobilière Iliad 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. In the six months to June 30, 2008, the Broadband segment represented more than 98% of Group revenues excluding inter-segment sales.

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

The consolidated financial statements of the Iliad Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union at the balance sheet date.

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), with use of an ADSL modem and without installation fees. This unique offer allows subscribers to access the Internet at a speed of at least 2 MB per second and up to 28 MB (observed) in areas where the local loop is unbundled (which depends on whether a subscriber's line is eligible). In March 2008, Free began offering new subscribers in unbundled areas access to the Internet at a speed of up to 22 MB per second (depending on whether a subscriber's line is eligible). Subscribers are billed by Free and pay €29.99 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 (non-unbundled 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 (excluding short numbers and special numbers), Reunion island,

Guadeloupe, and 70 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 with the Free preselection service, the subscriber authorizes the company to make a preselection request to France Télécom 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 2008. Revenues generated by pay TV channels are included within the revenues of the Broadband segment. Subscribers to Canal+ Group channels are billed directly by the Canal+ Group, which pays a commission to Free. Since July 31, 2007 all Free Haut Débit broadband subscribers (in unbundled and non-unbundled areas and subject to line eligibility) can access a selection of TV channels from Free's portal.
- **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 spanning Canalplay, i-concerts, TF1 vision, M6 television and vodéo.tv. 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 €5.99 a month, subscribers with the basic Free Home Vidéo package have unlimited 24/7 access to a selection of more than 50 films and 100 TV series episodes that are renewed each week. In January 2008, this offering was rounded out to include Free Home Vidéo Intégrale, a new service giving subscribers unlimited access to a full range of content including movies, TV series, music programs, family shows and HD broadcasts for €9.99 a month.
- **Modem offering and migration to the fully unbundled service.** Since June 2004, Free Haut Débit broadband subscribers can request migration from partially to fully unbundled access. The migration fee is €90 (including VAT), less a discount per month of the prior subscription period.
- **"Pay-as-you-go" access.** For this no-subscription dial-up offer, the customer pays the price of the phone call invoiced by France Télécom. Customers dial the Free access number (08 60 92 20 00) from any fixed line in France, and the call is charged by France Télécom at the local Internet rate. Revenues from the "Pay-as-you-go" offer are therefore directly related to the time customers spend online and to the fee passed on to Free by France Télécom. Free invoices France Télécom on a monthly basis. The customer pays France Télécom 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 France Télécom to Free as the operator of an interconnected network amounts to €0.0227 excluding VAT per minute of use (rate at December 31, 2007). The amount per minute is

calculated by France Télécom and is approved by the French telecommunications and postal regulator (Arcep).

- **The "50-hour" plan.** Under the "50-hour plan", the subscriber is entitled to 50 hours of dial-up Internet access per month for a flat fee of €14.94 (including 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.** Revenues for this business 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 from €29.99 per month, excluding VAT.
- **Marketing of domain names and selling of advertising space** on Free's portal.
- Revenues from **other Broadband activities** 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 Télécom 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 Télécom on the user's telephone bill, and part of the fee is passed on by France Télécom to the company running the service. For ANNU, the fee passed on by France Télécom 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 service (subscribers on an unbundled line)

Free's ADSL offer involves two types of service:

- 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

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

Under Option 1, direct costs per subscriber and per month, as mentioned in the basic unbundling offer, were as follows at June 30, 2008:

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

Since April 2007, Free has used France Télécom's optical fiber leasing offering to unbundle dispatchers. The lease payments are not set as part of the unbundling offering but are negotiated between France Télécom and Free. This additional expense is not included in the operating costs set out above.

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

The access cost structure under Option 5 has been simplified since October 1, 2005 and is no longer directly related to the bit rate concerned or the type of connection node. For the DSL Access offer, the monthly subscription fee had been set at €12.90 since January 1, 2008. At July 1, 2008, the applicable price was reduced to €11.40. The monthly fee for France Télécom's DSL Access Only service available since September 1, 2006 fell from €21.50 to €20 as of January 1, 2008. At July 1, 2008, the applicable price was cut to €18.50.

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.

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

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 upfront 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 Télécom 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 totaled around €240 per subscriber in first-half 2008. At June 30, 2008, the cost of the Freebox HD modems incorporating power line communication (PLC) technology was around €180. The costs (logistics and shipping, access to France Télécom's unbundling services, and the Freebox modems and DSLAMs) are depreciated over three years from the date of subscriber installation. Fees invoiced by France Télécom 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. Only the cost of access to France Télécom's unbundling services is capitalized and depreciated over three years as the ADSL modems provided under this option are Freebox version 4, which are already in the process of being depreciated. Since January 1, 2008, the fees billed by France Télécom for access to the DSL Access Only service have been €54 per subscriber without Internet access and €17 per subscriber with access through an existing operator, compared with the previous fees of €66 and €24 respectively. Fees billed by France Télécom for the DSL Access service are €49 per subscriber without Internet access.

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 subsidiaries Free Infrastructure, IRE and Immobilière Iliad.

This network is being rolled out in four phases:

- acquiring premises to house optical nodes (ONs);
- laying fiber optic cable between the ONs 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 acquires its ONs through its two subsidiaries IRE and Immobilière Iliad. Most of the premises purchased are held by IRE and a large proportion is financed through 12-year leases. Immobilière Iliad has, however, acquired a number of sites in its own name.

The Group is currently focusing on phase two, 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, amortization and employee benefits (EBITDA)

EBITDA is one of the Group's key performance indicators and is used throughout this Management Report. It corresponds to profit from ordinary activities before depreciation/amortization and employee benefits expense (non-cash remuneration costs arising from stock options granted to employees).

1.2.2 Highlights of first-half 2008

The first six months of 2008 saw an improvement in the Group's performance indicators, including the unbundling rate, ARPU, and the take-up rate of optional value-added services.

The Group's solid operating performance resulted in robust organic growth and a rise in margins.

The ADSL business generated €75 million in cash in the first half of 2008, allowing the Group to (i) finance the total amount of its investments in optical fiber (€32 million) and (ii) strengthen its cash position by €42.5 million.

1.2.3 Comparison of results for first-half 2008 and first-half 2007

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. In all, inter-segment transactions amounted to €13.4 million in first-half 2008 and €13.6 million in first-half 2007.

Broadband operations now represent 98.8% of revenues and 98.5% of operating profit. An analysis of the business and the associated earnings is provided in the Broadband section of this report.

(in € millions)	Six months to June 30, 2008	Six months to June 30, 2007	% change
Revenues	692.2	574.1	20.6%
Purchases used in production	(339.1)	(293.8)	15.4%
Gross profit	353.1	280.3	26.0%
Payroll costs	(27.4)	(24.4)	12.3%
External charges	(38.9)	(31.2)	24.7%
Taxes other than on income	(11.9)	(5.4)	120.4%
Additions to provisions	(9.1)	(2.9)	-
Other income and expenses from operations, net	(8.9)	(9.9)	(10.1)%
EBITDA	256.9	206.5	24.4%
Employee benefits expense	(2.5)	(0.9)	177.8%
Depreciation and amortization	(126.4)	(104.2)	21.3%
Profit from ordinary activities	128.0	101.4	26.2%
Other operating income and expense, net	-	-	-
Operating profit	128.0	101.4	26.2%
Financial income and expense, net	(1.5)	(2.3)	34.8%
Corporate income tax	(43.6)	(34.1)	27.9%
Profit for the period	82.9	65.0	27.5%

1.2.3.1.1 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 Télécom and Freebox brands.
- Hosting and domain-name creation services, operated under the Online and Dedibox brands.
- Call center operations, carried out by Centrapel and Total Call.
- Optical fiber operations.
- Wimax activities operated by IFW.

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

(in € millions)	Six months to June 30, 2008	Six months to June 30, 2007	% change
Revenues	684.1	561.0	22.0%
Purchases used in production	(338.7)	(291.2)	16.3%
Gross profit	345.4	269.8	28.0%
Payroll costs	(25.0)	(22.3)	12.1%
External charges	(36.5)	(28.1)	29.9%
Taxes other than on income	(11.6)	(4.9)	136.7%
Additions to provisions	(9.1)	(2.9)	-
Other income and expenses from operations, net	(8.8)	(9.6)	(8.3%)
EBITDA	254.4	202.1	25.9%
Employee benefits expense	(2.1)	(0.7)	-
Depreciation and amortization	(126.3)	(104.0)	21.4%
Profit from ordinary activities	126.0	97.4	29.4%

Revenues

The table below shows the breakdown by category of Broadband revenues for first-half 2008 and 2007, as well as the percentage change between the two periods.

(in € millions)	Six months to June 30, 2008	Six months to June 30, 2007	% change
Broadband revenues (excluding inter-segment sales)	679.6	555.1	22.4%
- <i>ISP revenues (ADSL, Pay-as-you-go, 50-hour plan)</i>	665.3	543.0	22.5%
- <i>Hosting and advertising revenues</i>	8.8	8.2	7.3%
- <i>Other revenues</i>	5.5	4.0	37.5%
Inter-segment sales	4.5	5.9	(23.7%)
Total revenues	684.1	561.0	21.9%

Broadband revenues for first-half 2008 climbed by €123.1 million or 22% compared with the prior-year period, boosted by the success of Free's ADSL broadband offer.

ISP revenues

	Six months to June 30, 2006	Six months to June 30, 2007	Six months to June 30, 2008
Total ADSL subscribers	1,905,000	2,626,000	3,134,000
Unbundled subscribers	1,377,000	2,060,000	2,614,000
Percentage of unbundled subscribers	72.3%	78.4%	83.4%
Share of French residential ADSL market ¹	18.2%	19.5%	19.8%

ISP revenues (Free, Free Télécom and Free Haut Débit), through both the switched telephone network and ADSL, totaled €684.1 million for the six months to June 30, 2008.

The 22.5% surge in ISP revenues reflects the Group's strong organic growth momentum in first-half 2008. This was chiefly powered by:

- **A 19% rise in the subscriber base.** At June 30, 2008, total ADSL subscribers numbered 3,134,000, versus 2,626,000 at June 30, 2007, representing an increase of more than 500,000 subscribers over the period. Free's share of the French ADSL market therefore widened significantly, from 19.5% at June 30, 2007 to 19.8% at June 30, 2008.
- **A 3.7% rise in ARPU, reflecting the increasing use of optional value-added services provided through the Freebox.** Revenues generated by these services in first-half 2008 totaled €168.9 million, versus €120.1 million for the same prior-year period, representing an increase of more than 40%. Optional value-added services now represent almost 25% of Broadband revenues, compared with less than 22% in first-half 2007. This largely reflects the increasing use of video and other value-added services. Stand-alone purchases of video products (VoD and SVoD) in the first six months of 2008 totaled 2,883,000, compared with 1,874,000 in the same year-ago period.

(in € millions)	Six months to June 30, 2007	Six months to June 30, 2008
Revenues from optional value-added services	120.1	168.9
Broadband revenues	561.0	684.1
% of Broadband revenues	21.4%	24.7%

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 €8.8 million in first-half 2008, up from €8.2 million in the prior-year period.

Inter-segment and other revenues

Inter-segment sales 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 lower than in the previous period due to the contraction in Traditional Telephony business volumes.

Gross profit

Broadband gross profit (defined as revenues less purchases used in production) came in 28% higher at €345.4 million in first-half 2008 compared with €269.8 million in first-half 2007, and represented 50.8% of Broadband revenues excluding inter-segment sales (48.6% in first-half 2007).

The 2.2 point increase in gross profit reflects:

- **The positive impact** of the rise in the unbundling rate on the back of strong sales momentum and the launch of 350 new connection nodes in the first half of the year. In the first six months of 2008, the number of France Télécom sites connected with optical fiber expanded from 1,500 to 1,850 and the number of unbundled lines rose significantly from 2,060,000 at June 30, 2007 to 2,614,000.
- **The fall in regulated costs**, in particular due to the decrease in IP transit and wholesale costs.
- **The relative fall in telephone interconnection charges.**
- **Growth in optional value-added services** mentioned above.

Payroll costs

Payroll costs excluding employee benefits represented 3.7% of Broadband revenues excluding inter-segment sales for first-half 2008, down 0.3 point on first-half 2007. In the six months to June 30, 2008, the Group improved its ability to handle subscribers' technical problems by recruiting more than 300 employees for its call centers. Call center employees (including part-time staff) therefore increased from 2,275 in December 2007 to 2,576 in June 2008.

As a result of this focus on customer service, payroll costs outstripped revenues from incoming calls.

External charges

External charges totaled €36.5 million for the first six months of 2008, versus €28.1 million in the same year-ago period. In first-half 2008, the Group stepped up its marketing efforts to take advantage of the continuing high churn rates of its competitors. However, marketing expenses over the period remained stable as a percentage of revenues.

Changes in provisions

Additions to provisions amounted to €9.1 million in first-half 2008, and primarily corresponded to provisions for doubtful customer accounts.

Taxes other than on income

Taxes other than on income amounted to €11.6 million in the six months to June 30, 2008, versus €4.9 million in first-half 2007. This increase reflects the adoption of contributions to the *Compte de Soutien à l'Industrie des Programmes audiovisuels* ("COSIP") support fund as from January 1, 2008.

Other income and expenses from operations, net

This item represented a net expense of €8.8 million, compared with a net expense of €9.6 million in first-half 2007.

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

EBITDA

Broadband EBITDA surged 25.9% to €254.4 million compared to the prior-year period. EBITDA margin, excluding inter-segment sales, inched up one percentage point to 37.4% from 36.4% in the same period of 2007. Several factors explain this increase:

- i) The positive impact of gross profit as described above.
- ii) The absorption of fixed costs by fast-paced business growth, offset by the negative impact of the "COSIP" fund since January 1, 2008.

Profit from ordinary activities

Depreciation and amortization expense for the Broadband segment amounted to €126.3 million, up 21.4% compared with first-half 2007. However, depreciation and amortization expense grew at a slower pace than revenues in the first half of 2008 due to:

- The decline in the cost of Freebox HD modems. Despite the introduction of PLC technology at the beginning of 2008, the price of Freebox HD modems fell by €30 between first-half 2007 and 2008.
- A slowdown in ADSL market growth in France. Free won 230,000 new subscribers in the first six months of 2008, versus 348,000 in the same year-ago period.
- The fall in access fees to the France Télécom service (see section 1.2.1.3.1).

Profit from ordinary activities rose by €28.6 million to €126.0 million in the six months to June 30, 2008, representing 18.5% of first-half 2008 revenues (excluding inter-segment sales) versus 17.5% in the first six months of 2007. The higher margin was due to the factors described above.

1.2.3.1.2 Key figures for the Traditional Telephony segment

The Traditional Telephony segment now represents only 1.2% of the Iliad Group's consolidated revenues excluding inter-segment sales, and 1.5% of its operating profit, due to:

- The decrease in revenues generated by Kedra as a result of the end of indirect interconnections.
- To a lesser extent, the lower number of One.tel subscribers.

(in € millions)	Six months to June 30, 2008	Six months to June 30, 2007	% change
Revenues	21.5	26.7	(19.5%)
Gross profit	17.8	19.2	(7.3%)
EBITDA	2.5	4.4	(43.2%)
Profit from ordinary activities	2.0	3.9	(48.7%)

1.2.4 Liquidity and investment expenditure

(in € millions)	Six months to June 30, 2008	Six months to June 30, 2007
Net cash generated from operating activities.....	217.8	130.6
Net cash used in investing activities.....	(171.9)	(174.6)
Net cash used in financing activities.....	(3.4)	(4.6)
Net change in cash and cash equivalents.....	42.5	(48.7)
Net cash and cash equivalents at period-end.....	265.5	227.6

Net cash generated from operating activities jumped 66.8% on the prior-year period to €217.8 million. The total includes payment of the balance of 2007 income tax and 2008 income tax prepayments for some €44.7 million, and also reflects a €9.1 million improvement in working capital.

Acquisitions of property, plant and equipment and intangible assets (net of disposal proceeds) came to €167.9 million in the first half of 2008, breaking down as follows:

- €121.7 million in ADSL-related **development expenditure** (including Freebox modems and DSLAMs, access fees to the France Télécom service and portability service fees). These investments are down almost 22% on first-half 2007, due to the slowdown in new subscriptions, the fall in Freebox costs, fewer subscriber transfers and a decline in portability costs.
- €21.4 million in **ADSL-related network expenditure** (including IRU contracts, France Télécom co-location rooms, civil engineering work and transmission equipment).

– €32 million in **FTTH optical fiber network expenditure**. The majority of premises used to house optical nodes (ONs) have been acquired under finance leases with Genefim, a subsidiary of Société Générale, and some network equipment has been acquired under leases with Cisco Capital (see section 1.2.5).

The ADSL business generated cash totaling €74.7 million in the first half of 2008, allowing the Group to (i) finance the total amount of its investments in optical fiber (€32 million) and (ii) strengthen its cash position by €42.5 million. At June 30, 2008, the Group has cash totaling €265.5 million.

1.2.5 Group indebtedness

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

At June 30, 2008, the Group had access to a confirmed syndicated credit line representing a maximum amount of €220 million, available until June 2011. No drawdowns had been made under this facility at June 30, 2008.

At the same date, the Group had €16.3 million in obligations under real estate finance leases entered into with Genefim to acquire ONs, up almost €3.3 million from December 31, 2007. During the first six months of 2008, the Group entered into FTTH equipment leasing contracts with Cisco for €2.5 million.

The Group's gross debt totaled €349.9 million at June 30, 2008, down €5.5 million compared with December 31, 2007. At the same date, the Group's net debt was €75.5 million, a fall of €45.1 million on end-2007.

1.2.6 Ownership structure at June 30, 2008

At June 30, 2008, Iliad's share capital was composed of 54,415,017 ordinary shares, breaking down as follows:

- Executive Management: 39,043,982 shares, or 71.8% of the share capital.
- Public: 15,371,035 shares, or 28.3% of the share capital.

At June 30, 2008, there were five 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	145,967
Options	December 20, 2005	€48.44	December 20, 2009	217,310
Options	December 20, 2005	€48.44	December 20, 2010	217,309
Options	June 14, 2007	€74.62	June 13, 2012	162,455
Options	August 30, 2007	€68.17	August 30, 2012	703,960
			Total	1,492,199

1.3 ADDITIONAL INFORMATION

1.3.1 Objectives

Based on its results for the first six months of 2008, the Group is confident that it will meet its annual objectives as set out below:

- 3.25 million Broadband subscribers by December 31, 2008 (excluding Alice) and 5 million subscribers at end 2011 (including Alice).
- An unbundled subscriber rate of 84% by the end of 2008 (excluding Alice).
- Free cash flow from ADSL activities well in excess of €100 million in 2008 (excluding Alice).
- 70% of Paris covered horizontally by the Group's optical fiber project in the second half of 2009.

1.3.2 Events after the balance sheet date

On July 31st, 2008, the Group announced the successful conclusion of its debt syndication of € 1,200 million, supported by 12 financial institutions. The facilities have a tenor of 5 years and consist of a term loan and a revolving loan. They will be used to finance the acquisition of Liberty Surf Group SAS and to refinance and increase the existing €220 million facility.

On August 26th 2008, Iliad has completed the acquisition of 100% of Liberty Surf Group SAS from Telecom Italia. Liberty Surf Group SAS primarily operates internet service provider activities in France, marketed under the Alice brand.

The price paid for this acquisition is € 775 million and may still be subject to limited downward adjustments. This price reflects:

- The value of the business, which boasts a portfolio of about 850,000 active subscribers;
- The value of loss carry-forwards, generating tax savings for Iliad, an early estimate of which was put at € 350 million;
- Cash and cash equivalents in Liberty Surf Group SAS' balance sheet estimated at € 15 million.

With this transaction, Iliad confirms its position as the leading alternative operator in the French ADSL market, with around 4 million subscribers and a market share estimated at 25.5%.

1.3.3 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, this represents the total number of customers identified by their individual "phone lines" who have signed up for Free's ADSL service excluding those 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.

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

Free cash flows represent EBITDA less investments made in connection with property, plant and equipment and intangible assets acquired for the Group's ADSL operations.

FTTH (fiber-to-the-home) is data delivery technology that directly connects subscribers' homes to an optical node.