



A limited liability corporation with a share capital of €12,000,000
 Registered office: 8, rue de la Ville l'Evêque – 75008 Paris, France
 Companies and Trade Register of Paris No. 342 376 332

MANAGEMENT REPORT – SIX MONTHS TO JUNE 30, 2005

1.1 KEY CONSOLIDATED FINANCIAL DATA

(in € thousands)	Six months to June 30, 2005	Six months to June 30, 2004	Year ended December 31, 2004
STATEMENT OF INCOME			
Revenues.....	337,832	221,949	491,446
Operating expenses.....	(298,622)	(197,768)	(435,780)
Profit from ordinary activities.....	39,210	24,181	55,666
Other operating income and expense, net.....	0	0	2,556
Operating profit.....	39,210	24,181	58,222
Financial income and expense, net.....	(2,278)	(266)	2,677
Corporate income tax.....	(12,805)	(8,500)	(20,181)
Profit for the period.....	24,127	15,415	40,718
Diluted earnings per share (in €).....	0.44	0.28	0.75
EBITDA.....	94,916	46,412	112,818
BALANCE SHEET			
Non-current assets.....	346,104	199,080	283,501
Current assets.....	137,748	155,002	143,278
Of which cash and cash equivalents.....	21,293	61,547	30,485
Total assets.....	483,852	354,082	426,779
Total equity.....	203,499	157,043	178,477
Non-current liabilities.....	10,673	14,457	10,916
Current liabilities.....	269,680	182,582	237,386
Total equity and liabilities.....	483,852	354,082	426,779
CASH FLOWS			
Net cash generated from operating activities.....	96,822	34,793	99,825
Net cash used in investing activities.....	(128,440)	(72,312)	(171,365)
Net cash generated from financing activities.....	20,637	80,683	83,959
Net change in cash and cash equivalents.....	(10,981)	43,164	12,420
Cash and cash equivalents at end of period....	12,112	53,838	23,093

1.2 FIRST-HALF MANAGEMENT REPORT

1.2.1 Overview

The Group's operations are made up of three business segments:

- The Internet segment, which includes Internet service provider operations (under Free and related brands) and hosting services (the brands Online and BookMyName);
- The Telephony segment, which includes fixed-line telephony (One.Tel and Iliad Telecom), prepaid phone cards (Kertel) and resale of minutes to operators (Kedra);
- Other Services, which include directory services (mainly the ANNU reverse look-up directory accessible by Minitel, telephone, Internet and SMS text messaging) and e-commerce operations (Société.com and Assunet.com).

These business segments may change in the future, based on the development of Group operations and according to operating criteria.

The consolidated financial statements of the Iliad Group have been prepared for the first time in accordance with IAS/IFRS. Group Management has therefore elected to present interim financial data as required by the national reporting rules and prepared on the basis of IAS/IFRS recognition and measurement principles. A report summarizing the impact of the transition to IFRS is available on the Iliad website.

1.2.1.1 Breakdown of revenues

1.2.1.1.1 Internet revenues

- **“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 the fee passed on to Free by France Telecom. Free invoices France Telecom on a monthly basis. The customer pays France Telecom a connection charge of €0.10 (including tax) and a flat rate of €0.02 per minute (including tax), excluding special offers, 24 hours per day, seven days per week. The fee passed on by France Telecom to Free as the operator of an interconnected network amounts to €0.0231 before tax per minute of use (rate at June 30, 2005). The amount per minute is calculated by France Telecom and approved by the French Telecommunications Regulatory Authority (ARCEP).
- **The “50-hour” plan.** Under the “50-hour plan” launched in April 2001, the customer is entitled to 50 hours of dial-up Internet access per month for a flat fee of €14.94 (including tax). The customer 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 customer at the beginning of the following month but are recognized in revenue for the current month.
- **Unlimited ADSL broadband offer.** Since October 2002, Free has been offering its customers unlimited broadband access for €29.99 per month (including tax), including use of an ADSL modem and without installation fees. This unique offer allows customers to access the Internet at a speed of at least 2 MB per second and up to 20 MB (observed) in areas where the local

loop is unbundled (which depends on whether a subscriber's line is eligible). Free invoices customers by direct debit for their €29.99 monthly subscription. Customers who cancel their subscription are invoiced and charged a termination fee that decreases by €3 for every month of their subscription period, from a maximum of €96 (including tax).

Since January 1, 2004, the portion of television services included in the Freebox subscription – which is taxed at the reduced VAT rate of 5.5% – has been set at 56%.

- **Telephony via ADSL.** Since August 2003 (unbundled areas) and March 2004 (non unbundled areas), a telephony service has been offered as part of subscriptions to high speed broadband access using the Freebox modem. Telephone calls made through the Freebox to another Freebox subscriber or to any standard France Telecom line in mainland France (excluding short numbers and special numbers) are completely free. Revenues generated by calls to French mobile phones and to international numbers, as well as revenues generated by incoming calls to Freebox subscribers, are included within the revenues of the Internet segment.
- **Television via ADSL.** Since December 2003, subscribers to broadband Internet via the Freebox, in unbundled areas, have been offered a television service with more than 222 channels, including 95 free channels as of June 2005. Revenues generated by pay-per-view channels are included within the revenues of the Internet segment. These revenues are subject to 5.5% VAT. Since November 2004, the Canal+ Group channels have likewise been available via Freebox. These offers are billed directly by the Canal+ Group, which pays a commission to Free.
- **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. Customers are invoiced a fee for this migration that decreases in line with the duration of their subscription period, from a maximum of €90 (including tax). 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. At the same time, 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.
- **Hosting services.** Revenues from the hosting of websites are invoiced at a flat annual rate by domain name or by site.
- **Marketing of domain names and selling of advertising space** on Free's portal.
- **Other revenues** corresponding mainly to the sale of switched time to the Telephony segment.

1.2.1.1.2 Telephony revenues

Telephony segment revenues are mainly attributable to One.Tel and Kertel and break down as follows:

- **One.Tel's** offer is a no-subscription carrier preselection offer. By signing up with One.Tel, the customer authorizes the company to make a preselection request to France Telecom so that all calls made from the designated fixed line are transferred to and are 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. Since Iliad took over One.Tel, customers have been strongly encouraged to pay by direct debit in order

to reduce the risk of non-payment. As of June 30, 2005, over 87% of customers had signed up for this payment method, compared to 84% at December 31, 2004.

- **Kertel**'s revenues are generated by the use of telephone services. They are recognized as the phone cards are used, but also include what is known as "breakage", i.e. the unused amount remaining on cards when they reach their expiration date.

1.2.1.1.3 Revenues from Other Services

Revenues from the "Other Services" segment mainly come 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 €36.15 per hour. Fee payments are received every other month.

Société.com's e-commerce revenues come from online sales of documents or subscriptions and, to a lesser extent, from advertising. Assunet, an online insurance broker, derives its revenues from commissions on sales of insurance policies to private individuals and to Group companies.

1.2.1.2 Operating costs for 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 services:

- 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 the incumbent operator. Where subscribers opt for the fully unbundled service, they no longer have a commercial link 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, 2005:

Operating costs of Option 1 (partial unbundling)

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

Operating costs of Option 1 (full unbundling)

- Rental of the copper pair: €10.50¹
- Copper tie cable (average): €1.32

¹ Rental of the copper pair in the fully unbundled offer will decrease to €9.50 per month per subscriber as from June 2005.

Under Option 5, for a subscription that is sold at the same price, costs per subscriber and per month are as follows:

<u>Operating costs of Option 5</u>	Until February 28, 2005	From March 1, 2005
• IP-ADSL CO > 20,000 subscribers (512 Kbps):	€13.00	€13.00
• IP-ADSL CO < 20,000 subscribers (512 Kbps):	€15.50	€15.50
• IP-ADSL CO > 20,000 subscribers (1,024 Kbps):	€13.00	€13.00
• IP-ADSL CO < 20,000 subscribers (1,024 Kbps):	€18.00	€17.00
• IP-ADSL CO > 20,000 subscribers (2,048 Kbps):	€13.00	€13.00
• IP-ADSL CO < 20,000 subscribers (2,048 Kbps):	€20.00	€17.00
• IP-ADSL CO > 20,000 subscribers (Max IP):	-	€13.00
• IP-ADSL CO < 20,000 subscribers (Max IP):	-	€17.00

The additional costs of the IP transit service vary depending on the bit rate used by Option 5 subscribers. Option 1 gross margin and EBITDA margin are significantly higher than Option 5 margins. Free's objective is therefore to maximize the proportion of its subscribers registered under Option 1 by migrating its Option 5 subscribers to Option 1 or, when technically feasible, by directly making an Option 1 offer available to new customers living in an area where the local loop has been unbundled.

1.2.1.3 Capital expenditures and depreciation

The Group has rolled out a telecommunications network in metropolitan 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.

In addition to capital expenditures on optical fiber during the network roll-out phase, under Option 1 the Group is required to make available a Freebox modem and a Freebox DSLAM and to pay fees to France Telecom for access to unbundling services. The cost of these three items came to about €170 per subscriber in the first half of 2005. The cost of access to France Telecom's unbundling services, as well as the Freebox modems and Freebox DSLAMs is depreciated over three years from the date of customer installation. Since February 2005, fees invoiced by France Telecom for access to unbundling services have been reduced from €78.7 to €50 per subscriber for total unbundling and to €55 for partial unbundling.

Under Option 5, total capital expenditure is lower, amounting to approximately €125 per customer. The cost of access to France Telecom unbundling services and of the ADSL modem or Freebox modem provided to the customer is depreciated over three years.

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

EBITDA (earnings before interest, tax, depreciation and amortization) is one of the key performance indicators used throughout this Management Report.

1.2.2 Comparison of results for the six-month periods ended June 30, 2005 and June 30, 2004

The following comments are based on the consolidated financial statements for the six-month periods ended June 30, 2005 and June 30, 2004.

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 in the section below, due to adjustments for inter-segment transactions. The bulk of these inter-segment transactions corresponds to the resale to the Telephony segment of telecommunications services provided over the network operated by Free, for a total amount of €43.9 million in first-half 2004 and €48.9 million in first-half 2005.

(in € thousands)	Six months to June 30, 2005	Six months to June 30, 2004	% change
Revenues	337,832	221,949	52.2
Purchases used in production	(187,632)	(125,270)	49.8
Payroll costs	(14,673)	(10,544)	39.2
External charges	(30,947)	(34,279)	(9.7)
Taxes other than on income	(2,740)	(1,248)	119.6
Additions to provisions	(3,729)	(2,705)	37.9
Other income and expenses from operations, net	(3,195)	(1,491)	114.3
EBITDA	94,916	46,412	104.5
Depreciation and amortization	(55,706)	(22,231)	150.6
Profit from ordinary activities	39,210	24,181	62.2
Other operating income and expense, net	0	0	NA
Operating profit	39,210	24,181	62.2
Income from cash and cash equivalents	32	375	(91.5)
Finance costs	(698)	(476)	46.6
Other financial income and expense, net	(1,612)	(165)	877.0
Corporate income tax	(12,805)	(8,500)	50.6
Income from companies accounted for by the equity method	0	0	NA
Profit for the period	24,127	15,415	56.5

Revenues

Revenues for the first half of 2005 rose more than 52% compared to the year-earlier period. Growth was driven primarily by increased ISP revenues, particularly ADSL broadband access. The Internet segment accounted for 76% of the Group's revenues – the highest proportion achieved by this segment to date – versus 64% in the six months to June 30, 2004.

Operating expenses

Excluding depreciation and amortization, operating expenses climbed 38% in first-half 2005 to €242.9 million. As mentioned in the Management Report for the year ended December 31, 2004, the Group has crossed the inflection point beyond which the increase in revenues outpaces that in net operating expenses.

Operating profit

Operating profit surged to €39.2 million from €24.2 million. This growth reflected the combined impact of greater profitability in the Internet segment, thanks to the ever-increasing proportion of broadband subscribers on unbundled lines, and improved operating profit generated by the Telephony segment.

In addition, capital expenditure related to equipment for broadband customers and measures to extend the network fueled a near 151% rise in depreciation and amortization expense versus first-half 2004, to €55.7 million. This represented close to 16.5% of the Group's first-half 2005 revenues, compared to 10% in the prior-year period.

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

Group EBITDA totaled €94.9 million for the first half of 2005, up 104.5% on first-half 2004. This jump was mainly the result of signing up new ADSL subscribers directly under Option 1, in addition to migrating existing Option 5 subscribers to Option 1. The Group EBITDA margin improved from 20.9% in first-half 2004 to 28.1% in first-half 2005.

Net financial expense

In the first half of 2005, net financial expense amounted to €2.3 million, corresponding primarily to interest on borrowings and on lease financing obtained by Free, as well as to foreign exchange losses on purchases of Freebox components made in U.S. dollars.

Profit for the period

Profit for the period amounted to €24.1 million in the first half of 2005, up from €15.4 million in first-half 2004. The income tax charge for the six months to June 30, 2005 totaled €12.8 million, versus €8.5 million one year earlier.

1.2.2.1.1 Analysis of results for the Internet segment

The Internet 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 BookMyName brands.

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

(in € thousands)	Six months to June 30, 2005	Six months to June 30, 2004	% change
Revenues	292,742	173,018	69.2
Purchases used in production	(177,207)	(115,169)	53.9
Payroll costs	(11,807)	(7,733)	52.7
External charges	(12,644)	(10,939)	15.6
Taxes other than on income	(2,235)	(872)	156.3
Additions to provisions	(3,045)	(1,811)	68.1
Other income and expenses from operations, net	(2,882)	(565)	410.0
EBITDA	82,923	35,930	130.8
Depreciation and amortization	(55,168)	(21,152)	160.8
Profit from ordinary activities	27,754	14,777	87.8

Revenues

The table below shows the breakdown by category of consolidated revenues for the Internet segment for the six-month periods ended June 30, 2005 and June 30, 2004, as well as the percentage change between these two periods.

(in € thousands)	Six months to June 30, 2005	Six months to June 30, 2004	% change
ISP revenues (<i>Pay-as-you-go, 50-hour plan, ADSL</i>)	251,409	138,343	81.7
Hosting and advertising revenues	5,809	3,157	84.0
Inter-segment and other revenues	35,524	31,518	12.7
Total revenues	292,742	173,018	69.2

Internet segment revenues for first-half 2005 grew by €119.7 million or 69% compared to first-half 2004, mainly due to the success of Free's ADSL broadband offer.

ISP revenues

	Year ended December 31, 2003	Six months to June 30, 2004	Year ended December 31, 2004	Six months to June 30, 2005
ADSL subscribers	485,000	768,000	1,064,000	1,316,000
of which customers on unbundled lines	163,000	355,000	566,000	883,000
Percentage of unbundled line customers	33.6%	46.2%	53.2%	67.1%
Share of French residential ADSL market ¹	15.0%	16.8%	17.4%	17.8%

ISP revenues (Free, Free Telecom and Free haut débit), through both the switched telephone network and ADSL, totaled €251.4 million for the six months ended June 30, 2005.

Revenue growth in the ISP business resulted from the following factors:

- **Continuing success of the broadband offer.** At June 30, 2005, broadband customers numbered 1,316,000, against 768,000 at June 30, 2004, reflecting a 71.4% increase.
- **Increased use of the new paying services available through the Freebox (telephony and television).** In the first half of 2005, revenues related to these services totaled nearly €27.5 million. At June 30, 2005, users of Free's telephony services, via Freebox, numbered over 1.1 million, while its pay-per-view television subscribers totaled over 130,000. This take-up rate has propelled Free to the position of European leader in broadband telephony and television services.
- **Decline in the take up of "pay-as-you-go" and "50-hour plan" dial-up offers, reflecting the increase for broadband offers.** Call minutes generated by the pay-as-you-go offer declined almost 33% to around 600 million minutes from some 900 million minutes in first-half 2004. As regards the 50-hour plan, the number of subscribers declined to approximately 100,000 in first-half 2005, from 143,500 in the corresponding prior-year period.

Hosting and advertising revenues

The marketing of domain names in France, value-added hosting services and the sale of advertising space (including the sale of sponsored links as part of a partnership with Google) on Free's portal generated hosting and advertising revenues of over €5.8 million in first-half 2005, up from €3.1 million in first-half 2004.

Inter-segment and other revenues

Inter-segment and other revenues correspond primarily to the resale to the Telephony segment of call minutes on Free's directly-operated network. These revenues were on a par with the first half of 2004, reflecting stable revenues in the Telephony segment.

¹ Source: France Telecom and ARCEP for June 30, 2005 data

Purchases used in production and external charges

Purchases used in production and external charges were 50.5% higher in first-half 2005 than in the year-earlier period. Purchases used in production for the Internet segment are rising at a slower pace than revenues, as a result of the unbundling strategy adopted by the Group. The key factors causing operating expenses to fall as a proportion of revenues are as follows:

- The rising proportion of Option 1 ADSL subscribers among total broadband customers, reaching 67.1% at June 30, 2005, up from 53.2% at December 31, 2004.
- The overall decline in costs of Option 5 subscriptions (see paragraph 1.2.1.2), offset by the opportunity offered to subscribers of increasing their available bandwidth to the maximum bandwidth of 10Mbps, thereby raising Free's costs of IP transit.

Payroll costs

The rise in payroll costs in the Internet segment was a direct result of the recruitments carried out at Centrapel to enhance Free's customer service. Centrapel's payroll costs rose to over €10 million in the first half of 2005, reflecting an increase in the company's average number of employees (including part-time workers) from 517 in 2004 to 805 in first-half 2005. This staff increase has enabled Free to markedly improve customer service levels, particularly by significantly reducing Hotline queues. At the same time, however, it caused payroll costs to outstrip revenues generated from incoming calls.

Additions to provisions

Additions to provisions topped €3 million in first-half 2005, and primarily corresponded to provisions for doubtful customer accounts. In percentage of revenue terms, this figure was on a par with first-half 2004.

Other income and expenses from operations, net

This item represented a net expense of over €2.8 million in first-half 2005, a more than five-fold increase on the comparable prior-year period. The total includes royalties and expenses relating to audiovisual content, as well as proceeds from asset disposals.

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

Internet segment EBITDA for first-half 2005 was up almost 131% on the prior-year figure. Excluding inter-segment transactions, the EBITDA margin for the Internet segment rose to 31.9% from 25.3%. This performance was the result of the greater number of France Telecom sites connected with optical fiber, which made it possible to increase the number of subscribers having access to broadband connections through the unbundling of the local loop (Option 1).

In first-half 2005, the number of connected France Telecom sites rose from over 410 to more than 570. The number of unbundled lines leapt to 883,000 at June 30, 2005, from 566,000 at December 31, 2004. This high number of Option 1 subscribers demonstrates the validity of the Group's strategy of encouraging migration from Option 5 to Option 1, as well as Management forecasts of cash flow trends.

Depreciation and amortization for the Internet segment totaled over €55.2 million, up more than 160% on first-half 2004.

Profit from ordinary activities for the six months to June 30, 2005 came to €27.8 million, representing a €13 million increase compared to the first half of 2004.

1.2.2.1.2 Analysis of results for the Telephony segment

The Telephony segment includes the following operations:

- Fixed-line telephony and prepaid phone card operations under the One.Tel and Kertel brands;
- Telephony services provided to operators by Kedra.

(in € thousands)	Six months to June 30, 2005	Six months to June 30, 2004	% change
Revenues	84,344	79,024	6.7
Purchases used in production	(52,105)	(45,845)	13.7
Payroll costs	(1,278)	(1,522)	(16.0)
External charges	(18,314)	(21,534)	(15.0)
Taxes other than on income	(386)	(247)	56.3
Additions to provisions	(684)	(889)	(23.1)
Other income and expenses from operations, net	228	(428)	(153.3)
EBITDA	11,805	8,560	37.9
Depreciation and amortization	(410)	(955)	(57.1)
Profit from ordinary activities	11,395	7,606	49.8

Revenues

The table below shows the breakdown by category of consolidated revenues for the Telephony segment for the six-month periods ended June 30, 2005 and June 30, 2004, as well as the percentage change between these two periods.

(in € thousands)	Six months to June 30, 2005	Six months to June 30, 2004	% change
Fixed telephony and prepaid phone card revenues	59,981	60,071	(0.1)
Revenues from services to operators and inter-segment sales	24,363	18,953	28.5
Total revenues	84,344	79,024	6.7

First-half 2005 revenues for the Telephony segment rose by more than €5.3 million, or 6.7%, compared to the corresponding prior-year period.

Fixed telephony and prepaid phone card revenues

Revenues from fixed telephony and prepaid phone cards, generated primarily by One.Tel and Kertel, amounted to almost €60 million for the six months ended June 30, 2005, on a par with first-half 2004. This performance stemmed primarily from the combination of the following three factors:

- **A leveling-out of the number of One.Tel customers during the first half of 2005.** Against a backdrop of contained marketing costs and growing take-up of broadband voice offerings, One.Tel has seen the number of invoiced customers increase from 328,000 at June 30, 2004 to 335,000 in December 2004 and subsequently fall back to 328,000 in June 2005.
- **A 9% contraction in average revenue per user (ARPU) versus second-half 2004.**
- **Unchanged contribution from Kertel.** During first-half 2005, Kertel sold 3.6 million prepaid and top-up telephone cards – the same amount as for first-half 2004.

Revenues from services to operators and inter-segment sales

The increase in revenues from services to operators and inter-segment sales was mainly attributable to a greater volume of transactions with the Internet segment, and with Free in particular, which centralizes all purchases of minutes by the Group.

Purchases used in production and external charges

Purchases used in production and external charges increased 3% on first-half 2004, whereas revenues rose by 6.7%.

This faster increase in revenues compared to expenses was primarily attributable to a significant decrease in One.Tel marketing costs, which was partly offset by a rise in traffic costs relating to Kertel.

Payroll costs

The reduction in payroll costs in the Telephony segment reflects the economies of scale that can be achieved in alternative fixed-line telephony operations.

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

The Telephony segment's EBITDA totaled €11.8 million in first-half 2005, up on the comparable prior-year period. The EBITDA margin, excluding inter-segment sales, came to 16.3%, higher than the 11.8% reported in first-half 2004, but down on the second-half 2004 figure.

Profit from ordinary activities advanced to €11.4 million.

1.2.2.1.3 Analysis of results for the Other Services segment

The Other Services segment includes:

- Reverse look-up directory services, one of Iliad's historic businesses, marketed under the 3617 ANNU and Annu.com names, accessible via Minitel, telephone, Internet and SMS text messaging;
- E-commerce operations, including Assunet.com, an online insurance broker, and Société.com, an online provider of financial information;

- Holding structure activities.

(in € thousands)	Six months to June 30, 2005	Six months to June 30, 2004	% change
Revenues	9,699	13,858	(30.0)
Purchases used in production			
Payroll costs	(39)	(27)	44.4
External charges	(1,588)	(1,289)	23.2
Taxes other than on income	(7,224)	(9,987)	(27.7)
Additions to provisions	(119)	(130)	(8.5)
Other income and expenses from operations, net	0	(5)	(100.0)
	(541)	(498)	8.6
EBITDA	188	1,923	(90.2)
Depreciation and amortization	(127)	(124)	2.4
Profit from ordinary activities	61	1,799	(96.6)

Revenues

Overall revenues from Other Services contracted by 30% in first-half 2005 compared with the corresponding prior-year period.

Directory services revenues decreased by over 30%, reflecting the fall-off in this business.

Purchases used in production and external charges

The decrease in purchases used in production mainly reflected changes in the allocation of headquarters costs and lower marketing expenditure re-invoiced to other Group entities, in particular One.Tel.

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

Due to the overall decline in revenues for the segment, Other Services reported EBITDA of €0.2 million in first-half 2005 and profit from ordinary activities came in at just above breakeven.

1.2.3 Liquidity and capital resources

(in € thousands)

	<u>Six</u> <u>months to</u> <u>June 30,</u> <u>2005</u>	<u>Year</u> <u>ended</u> <u>Dec. 31,</u> <u>2004</u>
CASH FLOWS:		
Net cash generated from operating activities ...	96,822	99,826
Net cash used in investing activities.....	(128,440)	(171,366)
Net cash generated from financing activities ...	20,637	83,960
Net change in cash and cash equivalents.....	(10,981)	12,420
Cash and cash equivalents at end of period.....	12,112	23,093

A number of changes have been made to the presentation of the cash flow statement, following adoption of IFRS. In addition, the Group has elected to use the recommended method in accounting for cash flow relating to suppliers, which consists in separating suppliers of goods and services from suppliers of fixed assets. Consequently, accounts payable to suppliers of fixed assets are no longer included in changes in working capital requirement. In addition, acquisitions of fixed assets are now recorded in the cash flow statement only at payment.

Changes during the period reflect the following factors:

- Cash generated from operating activities in the first half of 2005 represented 98% of the figure for full-year 2004.
- Cash outflows on acquisitions of fixed assets totaled €132 million in first-half 2005, against €176 million in full-year 2004. This reflects capital expenditure levels for the two periods, totaling €122 million and €217 million respectively.

Another factor to be noted in relation to cashflows is that additional DSLAMs had to be manufactured during the period to respond to the extension of unbundled areas, with the number of installed units rising to nearly 1,200 ADSL 2+ DSLAMs at June 30, 2005, from 419 at December 31, 2004. Aside from Freebox modems and DSLAMs, optical fiber makes up the bulk of acquisitions of fixed assets, which broke down as follows in the first half of 2005:

- Acquisitions related to growth operations (including Freebox modems and DSLAMs, and access fees to the France Telecom service), corresponding to €84.7 million.
- Acquisitions relating to the network (including IRU contracts, France Telecom collocation rooms, civil engineering work, and transmission equipment), corresponding to €35.4 million.

On June 9, 2005, Iliad paid out a dividend of €0.04 per share, representing a total payout of €2.2 million. It had previously paid out an interim dividend of €0.075 per share, on December 19, 2004.

On June 30, 2005, Iliad purchased the Free shares issued on the exercise of founders' share subscription warrants (BSPCE) by Free employees, for a net amount of approximately €0.9 million.

1.2.4 Ownership structure at June 30, 2005

At June 30, 2005, Iliad's capital was composed of 54,151,550 ordinary shares, breaking down as follows:

- Executive Management: 41,468,141 shares, or 76.6% of capital stock
- Public: 12,683,409 shares or 23.4% of capital stock

During the first half of 2005, 699,320 options entitling their holders to the same number of Iliad shares were exercised and the shares were immediately sold on the market. At June 30, 2005, unexercised options corresponded to options to purchase 444,132 new Iliad shares. These options may be exercised from February 2008.

1.2.5 Off-balance sheet commitments

The table below analyzes the Group's commitments under non-cancelable leases at June 30, 2005 by type of asset and by maturity. For further information, see the notes to the consolidated financial statements.

(in € thousands)

Type of leased assets	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Beyond 5 years	Total
Real estate	4,716	4,560	4,436	4,385	617	1,542	20,256
Vehicles	289	195	80	/	/	/	564
Equipment	917	550	179	/	/	/	1,646
Other	591	396	353	323	242	1,049	2,954
Total	6,513	5,701	5,049	4,708	859	2,591	25,420

1.2.6 Group indebtedness

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

Outstanding borrowings and obligations under finance leases totaled €3.9 million at June 30, 2005.

At June 30, 2005, the Group had confirmed credit lines of €70 million, available until November 2008, €30 million of which had been drawn down.

1.3 ADDITIONAL INFORMATION

1.3.1 Subsequent events

No material events have occurred since the balance sheet date.

1.4 STATUTORY AUDITORS' REPORT ON THE LIMITED REVIEW OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2005

This is a free translation into English of the Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

ILIAD S.A.

8, rue de La Ville L'Evêque
75008 PARIS

To the shareholders,

In our capacity as Statutory Auditors of the Company and as required by Article L 232-7 of the French Commercial Code, we have performed a limited review of the accompanying interim consolidated financial statements of Iliad S.A. and its subsidiaries for the period from January 1 to June 30, 2005, and examined the information contained in the interim report.

These interim consolidated financial statements are the responsibility of the Board of Directors. Our responsibility, based on our limited review, is to report our conclusions concerning these financial statements.

As part of the conversion to International Financial Reporting Standards (IFRS) as adopted within the European Union for the preparation of the 2005 consolidated financial statements, the interim consolidated financial statements have been prepared for the first time by applying the principles of recognition and measurement set out in said standards and in compliance with the definition of interim accounts provided in the General Regulations issued by the AMF. They include comparative data for full-year 2004 and first-half 2004 restated according to the same rules.

We conducted our limited review in accordance with the professional standards applicable in France. Those standards require that we perform limited procedures to obtain assurance, below the level resulting from an audit, that the interim consolidated financial statements do not contain any material errors. A limited review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards applicable in France.

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements are not presented fairly, in all material respects, in accordance with the rules governing presentation and disclosure applicable in France and with the principles of recognition and measurement set out in the IFRS that should be adopted within the European Union and applied by the Company for the preparation of the 2005 consolidated financial statements, as detailed in Note 1 to the interim consolidated financial statements.

Without qualifying our conclusions, we draw your attention to Note 1, which explains why the comparative data that will be disclosed in the consolidated financial statements at December 31, 2005, and in the interim consolidated financial statements at June 30, 2006, may differ from the information presented in the accompanying financial statements.

In accordance with professional standards applicable in France, we have also examined the information given in the interim report accompanying the interim consolidated financial statements that were the subject of our limited review.

We have no matters to report concerning the fairness of such information and its consistency with the interim consolidated financial statements.

Paris, September 2, 2005

The Statutory Auditors

PricewaterhouseCoopers Audit

Boissière Expertise Audit

Xavier Cauchois

Tita A. Zeïtoun

1.5 INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2005

See “Comptes consolidés intermédiaires arrêtés au 30 juin 2005”, available under http://www.iliad.fr/en/invest/actu_finance.html